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STRATEGIC PLAN

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PART I. STRATEGIC OVERVIEW

1. Introduction

This plan lays out USAID's strategy over the next five years towards facilitating Albania's transition to a market-oriented democracy. Albania lags considerably in its transition bid relative to other countries in Central and Eastern Europe (CEE). Moreover, its economy is qualitatively different from those of most, if not all, transition economies. In fact, on the development continuum, Albania in many respects more closely resembles a low-income developing country.

The primary challenge of this strategy is to address Albania's transition needs as well as its more basic developmental needs. Additional needs stem from the crisis and anarchy that befell Albania in March-June 1997. In this context, and in contrast to elsewhere in CEE, this strategy does not aim for graduation, but rather assumes that a U.S. assistance program beyond the horizon of this strategic plan will be appropriate.

2. U.S. Foreign Policy Interests

As enunciated in the "Support for East European Democracy" (SEED) Act, from which funding for USAID/Albania derives, the overall goals of USAID are the promotion of a stable democracy and a free market economy, led by a vibrant private sector. These goals are part of larger U.S. foreign policy interests.

In particular, assisting Albania's transition to a market-oriented democracy will enable Albania, in turn, to contribute to stability in a volatile region. While modest, there are some mutual trade and investment gains to be had as well as Albania develops. Finally, a stable, prosperous Albania will be in good position to help with U.S. efforts to combat terrorism, arms proliferation, narcotics trafficking, and international organized crime.

Seven fundamental national interests are identified in the *United States Strategic Plan for International Affairs* (September 1997), and various goals to address these interests are articulated. The U.S. assistance program in Albania addresses four of these national interests, the first two head on: (1) e*conomic prosperity* is pursued through the goal of "promoting broad-based economic growth", and by helping to "open foreign markets to free the flow of goods, services, and capital"; (2) *democracy* through "increasing foreign government adherence to democratic practices and respect for human rights"; (3) *national security* by helping to "ensure that local and regional instabilities do not threaten the security and well-being of the U.S. or its allies"; and (4) *humanitarian response* by helping to "prevent or minimize the human costs of conflict."

3. The Transition Environment

a. Overview

Albania started its transition to a market-oriented democracy from a position of extreme isolation stemming from xenophobia and Stalinist totalitarianism. Relative to most other CEE countries, the demise of communism in Albania came later and was more chaotic. From 1989-1992, the economy may have contracted by fifty percent. Few transition economies (in CEE and the New Independent States) have contracted this extensively, this rapidly.

In Albania's first multi-party election in 1991, the Communists (forming the Socialist Party of Albania (SP)) controlled the outcome, defeating the newly formed Democratic Party (DP) led by Sali Berisha. Fatos Nano became Prime Minister, attempting to govern against a backdrop of general strikes, widespread vandalism, economic collapse, and mass emigration. Continuing unrest led to new elections in April 1992, and an overwhelming victory for Berisha and the DP. Berisha became President, launching a new, free market and pro-Western era. Nano was arrested, and sentenced to 12 years in prison for corruption.

Following the 1992 election, Albania made significant progress in economic reforms which led to impressive macroeconomic performance. Privatization in agriculture and small-scale non-agricultural enterprises was relatively quickly and comprehensively accomplished -- 98% of agricultural land and virtually all small-scale enterprises are private. Almost all prices were decontrolled -- remaining controls and subsidies apply to public transport, rail fares, postal tariffs, electricity, and water supplies. A market-oriented exchange rate prevailed, supported (in the absence of a well-functioning formal banking sector) by an extremely active and responsive informal market. Non-tariff barriers to trade were abolished except for a few on exports, and tariffs were reduced to moderate levels.

From 1993 through 1996, the economy expanded by 8% or more each year, far outpacing performance on this score in even the Northern Tier countries of CEE. Contributing to this robust growth was impressive progress on inflation; Albania's 1993-1996 inflation average of less than 20% was comparable to Northern Tier standards. Albania's inflation was as high as 240% in 1992, and dropped as low as 6% in 1995. As the state-owned industrial sector was collapsing, a vibrant private enterprise sector in agriculture and services flourished. Very active informal markets for finance and foreign exchange also developed. Foreign aid and development cooperation, direct foreign investment, and sizeable remittances from Albanians abroad contributed to these positive economic trends.

However, President Berisha became increasingly viewed as authoritarian, and his unpopularity grew. The defeat of a referendum on a proposed constitution in November 1994 was one indication of widespread dissatisfaction with Berisha and the government.

In May 1996 the DP-led government of Prime Minister Meksi, with strong support from President Berisha, won a controversial second election term in a campaign characterized by bitter attacks on the opposition SP party. The SP, in turn, continued to be led by the imprisoned Nano, who by now was publicly stating that he embraced the general path of reform and alliance with the West. This election was widely perceived as illegitimate, both by domestic and foreign observers. The result sparked rioting in Tirana, repression by DP-loyalists and the police, and hunger strikes and boycotts of Parliament by SP deputies.

Meanwhile, "get-rich-quick" investment pyramid schemes had been expanding rapidly during 1995 and 1996 with at least tacit support of the government. A substantial amount of financial resources in the form of savings and remittances was absorbed by these schemes. They then collapsed in late 1996 and early 1997, initiating a slide into anarchy. Hundreds of thousands of people lost substantial savings. As many as one million weapons were looted from government arsenals and military bases, and armed conflict broke out in March 1997. More than 1,500 people were killed, and the entire prison population of 1,309 escaped. An Italian-led Multinational Protection Force was invited to help restore order.

Elections were successfully held in June 1997 and the SP, under the leadership of Fatos Nano, gained an overwhelming majority of the popular votes and seats in the parliament. The DP, which won only 26% of the vote, became the official opposition. Berisha maintained leadership of the DP, despite his alleged contribution to the ruinous events of the previous year.

The political process since June 1997 has been characterized by violence and instability, with fights, one shooting, and hunger strikes among Parliamentary representatives. Since fall 1997, the opposition DP party has refused to participate in parliament and in the Parliamentary Commission charged in September 1997 with drafting a new constitution. Law and order are still not restored, particularly outside Tirana.

Nevertheless, international support has been significant. Donors met in October 1997 to consider an emergency aid program, and the IMF, the World Bank and the major donors, including USAID, have begun such programs. Moreover, the new government seems to have significant will to reform. Hence, while the challenges to reform in this current climate are many, opportunities exist as well. This is underscored in the analysis below of Albania's progress across the political, economic, and social spectrum.

b. Democratic Reforms

Progress in establishing democracy has to be gauged against the backdrop of the particularly violent and repressive experience with communism between 1945 and 1989, and the absence of any democratic tradition prior to 1945. This has bred a seemingly contradictory mentality among Albanians; while there is little faith in government, many Albanians, nevertheless, still look unrealistically to government to solve their problems.

Albania's transition to democracy has far to go. While substantial gains in democratic freedoms occurred at the outset of the transition for Albania, according to Freedom House, there has since been measurable backsliding in both civil liberties and political rights. In 1996, Albania--alongside Croatia, Georgia, and Kyrgyzstan--ranked fifteenth among the twenty-seven transition economies in its progress towards developing political freedoms and civil liberties according to Freedom House. By this standard, only Bosnia-Herzegovina and Yugoslavia (Serbia & Montenegro) had fewer democratic freedoms than Albania in CEE. 1996 witnessed a deterioration in political rights, highlighted by the flawed May 1996 elections. Deterioration was apparent in 1997 in both political rights (with a largely dysfunctional parliament stemming from violence and opposition boycotts) and civil liberties (in light of the anarchy that prevailed in much of 1997 and, more broadly, the growth of crime and corruption in private and public life).

In its *Nations in Transit 1997* (April 1997) , Freedom House disaggregated democratization trends into five sectors: (a) political process; (b) civil society; (c) media; (d) rule of law; and (e) governance and public administration. By this assessment, media, rule of law, and governance and public administration are least developed in Albania, while political process and civil society are relatively more developed. Still, Albania lags considerably across the board relative to CEE standards, and, in fact, is even below NIS standards.

Albania's democratic institutions are not well developed. The electoral system is multiparty based, but dominated by two competing parties in fact. However, it is politics of conflict; there may be little incentive to compromise, and certainly no ethic of compromise. Substantial election rigging has occurred in at least two general elections.

According to USAID/ENI's *1997 NGO Sustainability Index*, NGO development in Albania lags behind all CEE countries except Serbia and Croatia. Of the five areas identified as important aspects towards NGO sustainability, the lag is particularly evident in terms of the credibility of NGOs in the eyes of the public and in the financial viability of the NGOs. NGOs in Albania are also far behind in organizational capacity.

Nevertheless, comparing NGO development in Albania over time reveals steady progress. Six years ago, the Albanian NGO sector was non-existent. One reason why this sector has progressed as far as it has may be because the more traditional forms of political activism--party politics and trade unionism--have been poorer alternatives for the politically and socially conscious activists. The NGO sector has enjoyed greater political

space, is untainted by the past, receives generous support from international donors, and has been able to accommodate many "chiefs."

At least 300 NGOs have been established since 1991. Most are limited to the capital and major towns. Agricultural, environmental, women's and social welfare NGOs are among the strongest. Most NGOs could not survive currently without international aid. Non-partisanship is a concept not readily applied among the issue-based NGOs and this is reflective of the political polarization in the wider society. There is a general lack of understanding of the role of NGOs in society.

Progress toward successful local governance in CEE and the NIS is measured by USAID/ENI according to five characteristics: (a) legal sustainability; (b) democratic process; (c) financial resources; (d) municipal services; and (e) institutional support. By these measures, Albania scores "low" in each category. Local governments are almost entirely dependent upon central government transfers for revenues; ninety-five percent of local government expenditure is financed by transfers. Most towns and cities do not have the management capacity, revenues or authorities to carry out basic functions of governance. Badly needed infrastructure repairs to provide for adequate delivery of water, electricity, roads and other services are not feasible under the existing legal and financial structure. Large-scale migration to the major cities has underscored the need to rethink institutions and inter-governmental relationships.

Still, some progress in local governance has been made since communism's demise. The September 1992 local elections marked the introduction of a new, Western-style decentralized administrative system in Albania. Legislation in 1996 was drafted to provide a legal basis for local finances and met with European Council approval. The current government is drafting legislation to devolve authority to the local level, using the European Charter of Local-Self Government as guidance for the reform.

Albania's media have vacillated between "not free" from 1988-1990, by Freedom House measures, to "partly free" from 1991-1994, back to "not free" from 1994-1996. 1996 witnessed a sometimes-violent government campaign of persecution of journalists. Virtually all the electronic media remains under state control. The print media is dominated by political party publications which fuel the polarized political discourses.

The current government has made an effort to increase the independence of media. In particular, the president in September 1997 signed a new law on the freedom of the press which repealed the restrictive provisions of legislation from the previous administration.

But tensions and suspicions remain on a couple of scores. The state-owned Albanian Telegraph Agency (ATA) has been under criticism for maintaining in various districts the guarded communications bunkers it inherited from communist times. In addition, hunger strikes by opposition politicians derived from complaints that TV air time was not

being fairly allocated among the parties. These protests in turn led to an agreement that airtime news would be allocated in proportion to the votes achieved in the elections.

Furthermore, several leading newspapers protested the increase in October 1997 of the value added tax (VAT) from 12% to 20%, claiming such a tax would bankrupt the papers. The November protest strike among the newspapers ended after the government made several concessions, including the abolition of the VAT on newspaper advertisement. In any case, many publications continue to face severe financial constraints.

There is no post-communist constitution; a 1991 body of laws serves as a temporary constitution. A referendum on a new constitution held in November 1994 was rejected by 60% of the voters. While developing a new constitution is a priority of the current government, success is far from certain. A parliamentary commission to consist of both major parties and others was established in September 1997. So far, however, the opposition Democratic Party of former President Berisha has refused to participate.

The executive continues to have broad authority and control over the judiciary. Judicial institutions are severely underdeveloped on a number of scores. Judges are paid low salaries and consequently the temptation to accept bribes is high. Accusations of corruption in the judiciary are widespread. Most judges are ill-equipped for the job. Unlike any other country in the region, many judges do not have law degrees. Moreover, judicial ethics are not emphasized; some judges in fact may be unaware of ethical challenges when confronted with them.

The judiciary does not even have current copies of the laws in force in Albania. Bankruptcy cases, for example, have been stalled in no small part because judges do not possess copies of the bankruptcy law. Court administration is inadequate; inadequately trained court clerks and inefficient case and docket management systems are contributing to gridlock. In addition, the physical infrastructure of the courts and judicial system buildings are in an advanced state of disrepair. In 1996, total government expenditures for the judicial system were less than 4% of the total state budget. Much if not most of the allocated funds were never disbursed. The civil unrest of 1997 left a large number of courts completely destroyed.

Not surprisingly, public opinion of the judicial system is very low. One survey revealed that less than 12% of those surveyed have strong faith in the judicial system's ability to resolve disputes. Another survey indicated that 80% of the population has no knowledge of the current legislation.

Corruption is pervasive throughout all facets of society. While the absence of a rule of law culture pre-dates communism's demise, clearly the void created from the collapse of the economy and the deterioration in public institutions has exacerbated the situation. Bribes are common among public servants. Fees to organized crime are an unavoidable cost of doing business in the private sector. Weak regulatory and enforcement agencies

have done little to help redress the problems. An important part of this is an ill-equipped and ill-trained police force. Police lack a very basic understanding of the principles needed for an effective civilian police force in a democracy. What is required, among other things, is a sea-change in mentality.

c. Economic Reforms and Performance

According to the EBRD, Albania, alongside Macedonia, has made the least progress in economic policy reforms of the CEE countries. It is ranked sixteenth out of twenty-five transition economies by EBRD's economic policy ratings. Relative to CEE, Albania is furthest behind in large-scale privatization, bank reforms, and investment-related legal reforms (i.e., extensiveness and effectiveness of the rule of law framework as it pertains to the private sector). Progress in small-scale privatization, price liberalization, and trade and foreign exchange reforms is more evident, and is equal to or better than Southern Tier CEE standards.

Many of the relatively easy reforms were undertaken in the initial transition years. Almost all prices were liberalized as was the trade regime, and much progress in privatization--in small firms and in agriculture--took place. Furthermore, most of the key commercial laws were put in place, including those on bankruptcy, banking, foreign investment, competition policy, company law, and relevant securities laws and regulations. A new civil code was also enacted, along with a civil procedure code, and a labor code. The remaining salient gaps in enacting a commercial law framework are collateral and tax law. (Implementation, however, lags considerably).

The economy in some respects responded well to these early reforms. Economic growth was robust from 1993 through 1996 and inflation declined sharply to single digit levels. Exports between 1992 through 1996 grew very rapidly at over 30% annually on average. Northern Tier CEE export growth during this period (while still very high) was closer to 20% annually. Most of this impressive performance was attributed to expansion of small new-start firms and to shifts to higher value production on small farms. Large remittance flows and external assistance more broadly helped fuel this expansion.

Moreover, state-owned industrial enterprises closed and, hence, in contrast to the transition in other countries of the region, did not pose a major fiscal drain on the economy. Restrictive credit ceilings tempered the ability of state banks to provide subsidies to keep the large loss-making state-owned enterprises going.

Albania currently has one of the highest proportions of private sector contribution to GDP (at 75%) of all the transition economies. In Albania's case, this is primarily explained by the collapse of the public enterprise sector and by the rapid growth of new small firms and small-scale agriculture. Privatizing public assets has so far contributed relatively little to this. The collapse of the public enterprise sector is underscored by the

dramatic proportional decline in manufacturing and mining in the economy. In 1989, industry constituted 40% of GDP; in 1995, it was less than 12%.

Failure to make sufficient progress in financial sector reforms ultimately contributed to the undoing of some of the early economic progress in Albania's transition. Informal financial markets flourished as the investment pyramid schemes expanded rapidly during 1995 and 1996 and absorbed a substantial proportion of the economy's financial resources. Albania's progress suffered a severe setback when such schemes collapsed in early 1997 and initiated several months of chaos.

The economy in 1997 declined by at least 8%, despite continued growth in agriculture. Inflation increased from 6% in 1995 to 17% in 1996 to over 40% in 1997. The fiscal situation went from bad to worse. Even in the absence of the collapse of the pyramid schemes, Albania's high economic growth of earlier years may have been unsustainable, given the significant imbalances in both the government's fiscal position and in the country's current account. Fiscal deficits as a percent of GDP have been 10% or greater since the transition began; in 1997, the fiscal deficit deteriorated to 17% of GDP. The CEE average in 1997 was closer to a deficit of 4% of GDP. These deficits were linked at least in part to poor policy and election-year politics. Leading up to the May 1996 elections, government expenditures were used to gain political support, and during this period, the government fell out of IMF "favor."

From 1994-1996, Albania ran a current account deficit equal to 11% of GDP. Again, the CEE average has been far below this level, roughly 3%. The external position remains precarious. Foreign exchange reserves are currently at adequate levels, but this has come at the cost of allowing the exchange rate to depreciate by over 40% in the first half of 1997. Foreign aid infusions and other inflows may not be sufficient to meet critical import demands without further significant depreciation of the exchange rate.

By World Bank standards, Albania in 1996 was one of two transition countries out of twenty-five that were severely indebted (that is, with a debt-export ratio that exceeds 220%). Georgia was the other country. By comparison, Bulgaria and Hungary were moderately indebted (with debts more than 132% of exports), and all other CEE countries were below this threshold. Nevertheless, Albania's debt service as a percent of exports is manageable; in 1996, it was roughly 6%, less than one-half the CEE average. A successful debt renegotiation in 1996 substantially lightened Albania's debt burden.

Major reforms remain to be carried out. This includes effective implementation and enforcement of the commercial laws and property rights. This also includes privatization of strategic sectors, including power, telecommunications, transport infrastructure, mines, water resources, oil, and tourism. While relatively few public enterprises remain, they, nevertheless, constitute a large proportion of the value of all the pre-transition public assets. Specifically, all but 3% of the enterprises eligible for privatization remain to be sold, but this group may represent as much as 93% of the total value of the initial eligible

pool. Still, current estimates of what many of these SOEs are worth may be far off-target.

Substantial and critical reforms in the banking sector are needed. As currently configured, the banking sector, with a vibrant informal component and a largely ineffective formal component, is a fundamental constraint. Priorities for reform include the privatization or liquidation of the three state-owned banks, strengthening bank licensing and supervision, and creating a payment system to handle transactions between banks.

Agriculture plays a dominant role in the economy and hence certain reforms in this sector are also very important. This includes the establishment of an effective land market, the promotion of private participation in the development of agro-industry, and the rehabilitation of irrigation and flood control infrastructure. Major constraints include the unavailability of credit, access to inputs, uneconomically-small farms, and increasing natural resource degradation (soil erosion and decreasing soil fertility) that threatens to undermine the productive base of the rural economy.

Many of the important reforms critical to economic development are very fundamental. Services are generally inadequate to support economic growth, and while increased infrastructure investment is needed, equally important is general reform and restructuring of implementing institutions.

The current administration so far seems committed to pushing forward on the many difficult reforms that remain to be done. Moreover, while it may be too early to extrapolate much, the government has likely met or exceeded conditions negotiated with the IMF and World Bank. The government reached agreement on a short-term program with the IMF under the Post-conflict Emergency Facility (PCEF), which paved the way for a successful donors' conference in October, and a "Rehabilitation Credit" with the World Bank, approved in early December 1997. It is currently negotiating a three year Enhanced Structural Adjustment Facility (ESAF) with the IMF. This would signal satisfactory progress so far by the government in dealing with economic aspects of the crisis.

Nevertheless, the capacity to implement reforms over the longer term remains a challenge. The talent in the government is thin and resides largely at the top of the bureaucracies. This is even more acute at the local level. This capacity constraint is compounded by the fact that the current government has had little to no experience in governing, as it did not form a shadow government while out of power. Anecdotal evidence suggests, however, that the government has exceeded donor expectations in how far it has come in its ability to implement the necessary policy reforms.

Recent forecasts of macroeconomic performance show a basis for some optimism. The IMF, in fact, forecasts that 1998 economic growth will be 10%, the fiscal deficit as

percent of GDP, 8%, and inflation, 10%. Some of this reflects recovery from a steep drop in economic activity, some from substantial donor support, and some is predicated on successful implementation of difficult structural reforms.

d. Social Conditions

Albanians started the transition much poorer on average than their counterparts in other CEE countries, and have failed to recover as much of the initial drop in income that occurred in the early transition years relative to those in most other CEE countries. In short, Albanians were worse off before the collapse of communism, and have been harder hit than many after its collapse.

Events of the past year have only served to accentuate these trends. Most Albanian families lost substantial savings in the collapse of the pyramid investment schemes. For many, there was little in the way of a savings prior to the crisis.

By any measure (in dollar or in purchasing power parity terms), average income in Albania is well below incomes in all other CEE countries; less than 25% of the CEE average in fact. 1997 per capita income in Albania in dollar terms was roughly $700. Bulgaria comes closest, with average income of almost $1,000. The Northern Tier CEE average is over $4,000.

Average income in Albania today is only seventy-five percent of what it was in 1989. This is well below Northern Tier CEE standards (where income for several countries has virtually regained pre-transition income levels), and slightly below Southern Tier CEE norms.

Albania has one of the highest poverty rates in CEE. Estimates prior to last year's crisis had as many as one in three Albanians living in poverty. Poverty rates are comparably high in some other Southern Tier countries, such as Bulgaria and Romania, though they are much lower in the Northern Tier CEE countries, where perhaps one in ten persons are considered poor. Rural poverty is notably greater than urban poverty in Albania. Poverty is more prevalent in northern Albania, particularly the northeast, where unemployment has doubled since last year. According to government estimates, about 40% of those in poverty are retired and receiving a monthly income of between $7 and $22. Poverty has likely increased significantly since the 1997 crisis.

Remittances from Albanians working outside Albania are substantial, and no doubt considerably cushion the hardships. Accurate estimates of how much income is coming in the country this way are simply not available. Nevertheless, one estimate addresses this in part: roughly 300,000 Albanians are working abroad. This is substantial; equivalent to about 10% of the domestic population and 20% of the domestic labor force.

From the outset of the transition, unemployment in Albania has remained above the high double-digit CEE unemployment average. Official registered unemployment figures show one in four Albanians unemployed in the early transition years. This rate fell significantly, perhaps as low as 14% in 1995, as robust economic growth resumed. The unemployment rate has since increased given the events over the past year. It should increase further still in the short-term if the government is successful in laying off additional public sector workers. As many as 11,000 presumably redundant public sector workers may be targeted for dismissal. This is about 15% of all government workers. If the dismissals are carried forth, official unemployment would approximate 18% of the labor force.

Actual unemployment is likely higher still. Many of those unemployed presumably don't register as such if there is nothing to be gained in doing so; that is, if government assistance is not forthcoming. As it is, roughly only 20% of the registered unemployed are eligible to receive unemployment benefits.

In this context, assessing long-term unemployment is particularly difficult, since this population includes those whose unemployment benefits have expired. Available data, nevertheless, suggest that long-term unemployment may be particularly troublesome in Albania. In 1993, 16% of Albania's labor force (or 65% of all those unemployed) had been unemployed for more than one year. More recent data are needed to better understand the scope of the problem in Albania today. Trends in other transition economies for which data are available typically show the proportion of long-term unemployed increasing over the transition.

Migration to the major cities is occurring at alarming rates. People are leaving mountain communities to seek jobs and new opportunities, particularly in the Tirana-Durres corridor. This unprecedented growth is outpacing local and central authorities capacity to respond to increased demand for housing and services and channel growth in a constructive manner.

Infant mortality has increased very sharply in Albania since the transition began; by almost 40%. With one other exception (Croatia), infant mortality has been declining in the CEE countries since 1991. Moreover, the infant mortality rate in Albania is far and away the highest in CEE. In 1995, it was close to 43 infant deaths per 1,000 live births in Albania; the CEE average is about 15 deaths per 1,000 births. The EU average is 6.

Life expectancy, however, has not deteriorated in Albania since the transition, as has happened elsewhere. At 73 years, it is above the CEE average. However, if adverse trends in health continue, life expectancy may well decline.

The 1997 crisis both exacerbated demands on the health system (10,000 injuries and continuing violence) while diminishing the capacity of the system to respond, as hospitals and health centers were subjected to damage and looting. The health system is also

vulnerable to problems of fiscal management by the government. There is a widespread perception that health conditions are worsening.

As in almost all other formerly communist countries, school enrollments in Albania at the outset of the transition were fairly high by global standards. Seventy-eight percent of secondary school age children in Albania went to school in 1990, with higher enrollment rates for girls than for boys. This was the CEE average, and compares with 90% in the EU. Anecdotal evidence suggests that primary and secondary school attendance, particularly in the rural areas, has been falling during the transition. Children are pulled from school to help the family make ends meet.

In addition, Albania began the process of transition with a physical infrastructure for education evaluated as among the worst in the world. Educational facilities were subject to vandalism, looting, and destruction in the initial phases of the transition. The teaching force was very unevenly educated, with over 50% of primary and intermediate school teachers having only a secondary school degree. Initial estimates of the impact of last year's crisis indicate damage to school infrastructure, furniture, and equipment on the order of $6 million. Major destruction, estimated at $30 million, was suffered by higher education institutions, particularly the Agricultural University of Tirana.

In general, the relative void created by the collapse of the communist system (and not yet replaced by a rule of law-based, market-oriented democracy) has had a profound and largely detrimental impact on Albania's youth. Many of the young are increasingly exposed to drugs, crime, and violence.

4. Albania as a Developing Country

Albania has many distinct developing country characteristics. It is the only CEE country that is classified by the World Bank as a "low-income economy." Average income in Albania (measured in purchasing power parity terms) is roughly on par with a handful of Sub-Saharan African economies (such as Uganda, Kenya, and Angola), and comparable to some relatively poor Asian economies as well (such as Cambodia and Bangladesh). Only the poorest countries of the world are eligible for the World Bank's soft loan assistance (through its International Development Association or IDA). Albania is one such country, and is expected to remain so for some time to come.

The UNDP's Human Development Index (HDI) provides for a cross-country comparison for a broader look at development. The HDI is based on three indicators: (a) longevity, as measured by life expectancy; (b) educational attainment, as measured by a combination of adult literacy and enrollment ratios; and (c) standard of living, as measured by real GDP per capita. Albania ranks 102 out of 175. All other CEE countries rank anywhere from 35 (Slovenia) to 92 (Latvia). Albania's standing most closely resembles that of the Philippines, Indonesia, and Guyana.

The structure of Albania's economy is primitive even by low-income country standards. Agriculture accounts for well over half of output. The developing country average is closer to 33%; lower if China and India are excluded in that average. Agricultural land in Albania is mostly divided into very small holdings, and, hence, is more equitably distributed than in most developing countries. Albanian industry accounts for roughly 10% of output; in most low-income developing countries, industry is at least 25% of output. Similar to many developing countries, Albania's primary environmental problems are closely linked to agriculture, having to do with land, water, and forests.

Perhaps more fundamental (and more difficult to quantify) is Albania's relatively underdeveloped institutions and infrastructure, and, from that, its limited absorptive capacity for reform. In many instances, and generally across the board, Albania's institutional development much more closely resembles that of developing countries than transition countries.

One salient example is in the financial sector. The formal banking sector is extremely weak and limited; virtually no financial intermediation is carried out by this sector. The informal sector, in contrast (and not unlike other developing countries), is exceptionally important.

Physical infrastructure is limited in scope and is in desperate need of repair. This includes the roads and transport system, telecommunications, electricity and water systems. Growing demand in urban centers is outpacing any improvements to service delivery and investment.

Among the most daunting challenges is the development of public institutions and governance more broadly. The institutional capacity to carry out basic functions of government such as preservation of law and order, definition and protection of property rights and other judicial functions, central banking and fiscal management, and other means to support private sector activity is severely limited. Politics of conflict rather than of compromise is the norm. Moreover, citizens have little or no faith in government which further undermines the ability of institutions to govern and deliver services.

By certain social standards, Albania is more advanced than most low-income developing countries (though, nevertheless, as shown above, far behind other CEE countries). Infant mortality in Albania is very high by CEE standards, though roughly one-half the low-income economies' average (of 86 deaths per 1,000 live births) when China and India are excluded in the averaging. Albania's life expectancy is 73 years. The life expectancy average of the low-income economies is 63; if China and India are excluded from that average, it is 56 years.

Eighty-five percent of adult Albanians are literate. All the other transition economies have literacy rates of 93% or higher. The low-income economies' average is 34%. Virtually all Albanian boys and girls have access to a primary school education. If China

and India are excluded, roughly only two out of three girls of primary school age in the low-income economies are going to school; for boys, it is closer to four out of five.

In important respects, then, Albanians are much more educated and in better health than persons in other low-income countries. What seems to be lacking in the Albanian context is the experience and basic understanding of how a market-oriented democracy works. This includes some very fundamental concepts, such as profit-making, marketing, and techniques of management (such as delegation of authority). Hence, while Albanians have the essential tools to learn, the process of learning is likely, nevertheless, to be a long-term one.

Also, income and assets (particularly land) are much more equitably distributed in Albania than in most low-income societies. Similarly, while poverty in Albania is widespread, it is "shallow" compared to that found in the typical low-income economy. Many of Albania's poor, in other words, are relatively close to the poverty line. This makes poverty alleviation easier; rapid economic growth, based as in the past largely on rapid expansion of agriculture and small labor-intensive non-agricultural enterprises, would significantly decrease the poverty rate.

5. Evolution of USAID's Country Program

The USAID program in Albania began in late 1991 and has evolved in response to changes in the country context and to results, both positive and negative, from USAID efforts. As with the country more generally, there have been some striking accomplishments and also some major shortfalls in results.

Initial interventions were aimed at helping Albania overcome its economic collapse and instability, with a significant focus on humanitarian assistance (in the form of food aid and medicines) and emergency responses (fertilizer and school textbooks). Following successful elections in 1992, the program under the 1993-1996 strategy came to focus predominantly on economic restructuring, particularly in agriculture and also the financial sector and other parts of the private sector. Assistance towards WTO membership was part of this. In democracy building, support was given to the parliament, various citizens groups, higher education, media, and towards legal and judicial reform. Towards social sector reform, hospital partnerships were formed and family planning was a focus.

Over this same period Albania achieved rapid growth, sharply lower inflation, and rapid expansion in private sector activity, especially in agriculture. The flawed elections of May 1996, deteriorating economic management and public sector performance more generally, growing corruption, and the crisis that erupted in 1997 led to expanded and more concerted activities in the area of democracy and governance. With successful elections in June 1997, but continuing instability and propensity for crisis, a $10 million Food For Progress grant program, funded through Pl 480 Title 1 provided balance of

payments support in FY 98, and a similar $10 million ESF program is anticipated for FY99. Economic Restructuring (especially S.O. 1.3, including agriculture, and also S.O. 1.4) remains the largest area of focus in the program. The emphasis on democracy and governance, covering all three SOs, has increased considerably.

Agriculture and Rural Development. Efforts to promote private enterprise development, particularly in agriculture, have been the cornerstone of US assistance to Albania. Within agriculture, there has been a strong focus on agricultural policy, input supply, land tenure, and dairy producers; and a secondary but increasing focus on a number of (green) environmental issues under the rubric of forestry. An outstanding accomplishment has been the development, with USAID support, of a relatively well-functioning private sector network of suppliers of agricultural inputs. This (along with price liberalization and rapid privatization of agricultural land) helped sustain double-digit rates of agricultural growth in 1993-96. This network continued functioning even during the 1997 crisis, as input distribution increased by some 15%, and agricultural production grew by an estimated 3-5%. Progress towards the more difficult task of registering land and creating a functioning land market has been more gradual, but still evident as the numbers of land registration offices and land title certificates issued (600,000 to date) have steadily increased. USAID's assistance in land privatization contributed to a major impact; close to 98% of the land is now in private hands. As in other sectors, however, efforts at discrete privatization (in this case a domestic fertilizer factory) foundered, and one of the two public fertilizer factories simply closed.

Financial Sector. Similarly, in the financial sector there has been more success at encouraging formal private institutions than in reforming public institutions. The number of private banks has expanded, although their operations are limited. The initial capital market development program was recognized as too ambitious and subsequently was scaled back to reflect the realities of Albania. The Albanian American Enterprise Fund was established. As of September 1997, the Fund had committed $3.5 million and disbursed $3.1 million to Albanian clients. It will open a new model bank in 1998. On the public sector side, early USAID efforts to encourage SME lending within the Rural Commercial Bank failed, as the Bank was revealed to be basically insolvent, and has been closed. More generally, the task is now seen as one of restructuring and privatizing the remaining two public banks, while encouraging expansion of private banks. In the informal sector USAID has also joined other donors in supporting the winding down of the pyramid schemes, with the remaining five schemes planned for liquidation by the end of 1998. Emphasis on gender issues has been a focus throughout.

Privatization. Earlier efforts at discrete privatization (the chromium industry; foreign trading companies) were not successful. Public housing was successfully privatized, but not according to market principles. USAID-supported privatization of solid waste disposal in Tirana was successful. More fundamental, as previously mentioned, was the success of land privatization. Where larger-scale enterprises are concerned, there has been more success in closing or limiting production than in privatizing. USAID

assistance to privatization now is focused not so much on discrete enterprises as on the general policy and institutional framework of achieving a transparent privatization process for the remaining strategic and non-strategic sector enterprises. In addition, continued assistance will be provided to the restructuring/privatization of the remaining state banks.

Training. A consistent theme in the USAID program has been training related to specific job skills. Here, there has been some success in institutionalizing training efforts while withdrawing USAID support. This includes the Fultz Technical School, the Training Centers established by the American ORT Federation (under the grant more than 26,000 young adults were trained in skills to enable them to get jobs), the MBA program, and curriculum development in the Agricultural University of Tirana.

Democracy Building and Governance. In the Democracy area, successful elections in 1992 masked the exceptionally weak foundations for democracy, which became more evident in 1994 and 1995. Mission efforts intensified following the flawed elections of May 1996 and the ensuing political crisis. USAID and other donors focused on supporting and monitoring the June/July 1997 national elections, which were deemed "adequate and acceptable under the circumstances" by the OSCE. As the weakness of the foundation for democracy has become more glaring over the past years, the mission has focused not only on the formal framework of laws but on the underpinnings of implementation and adherence to laws. Support for NGOs has been a consistent theme. The presence and activity of NGOs has steadily increased, and they played an important role in surmounting the 1997 crisis. Governance efforts have focussed on improved service delivery, public participation and building management capacity in targeted communities. This has included working on budget analysis and forecasting, solid waste management and contract monitoring, local economic development planning and upgrading informal settlements through community participation and cost-sharing. As relatively new entities, Albanian local governments are challenged to gain the trust and support of citizens. They can do this by effectively addressing citizen concerns for an improved local economic climate, reliable urban services and open decision-making processes. Complimentary USAID assistance programs are focussing in these areas while also working at the central government level on providing local governments with more authorities and access to resources.

Social Sustainability. In the social area, following an initial focus on relief and emergency assistance, USAID has successfully fostered several partnerships between U.S. and Albanian Hospitals and Health Institutions. In addition, health management/administration and improving hospital services, and training family planning health providers in an effort to expand modern concepts, expand use of modern contraceptive methods, and reduce sexually-transmitted diseases.

6. Strategy Overview

There are three questions which must be answered by a strategy: What are the goals? How will these goals be achieved? How will one know if these goals have been achieved?

A. The Goals

Consistent with the U.S. Mission Performance Plan for Albania, the goals of USAID's program in Albania are to help move Albania far enough along the road to becoming a market-oriented economy and a democracy that Albania can complete the journey on both fronts once USAID departs. Since their inception, virtually all the SEED programs of U.S. assistance to Central and Eastern Europe have been envisioned as relatively short-term programs to jump start the countries on their way to political and economic transitions. Albania does not fit this paradigm. Completing the transition in Albania will most likely take much longer. Hence, the goals set out by this strategy have a longer-term horizon for USAID assistance than five years. Broadly then, USAID hopes to facilitate significant progress and momentum in economic and democratic reforms towards a market-oriented democracy in Albania through 2002 and beyond.

B. How to Achieve the Goals

(1) Strategic Principles. How can USAID, in concert with its development partners, have the greatest impact towards achieving these goals? Several principles guide the strategy:

(a) Focus on areas of greatest opportunity and prospect for change. An important part of this focus is aligning USAID priorities with those of the current government. As articulated in its *Reform and Recovery Programme: Current Developments and Priority Needs* (October 1997), there are seven main elements of the Albanian government's strategy for reform and recovery: (1) restoration of law and order (this includes strengthening and restructuring the police force and the Ministry of the Interior, and collecting weapons stolen during the looting of 1997); (2) political normalization and democratization (establishing a more open and responsible political debate, a depoliticized judiciary, an independent media, and an enlightened foreign policy that strives to better integrate Albania with the West and to promote regional collaboration and understanding in the Balkans); (3) reform of state institutions (constitutional and legislative reform, judicial system reform, and reform of public administration); (4) alleviation of poverty and unemployment (reform of the social assistance program, development of rural areas by promoting agricultural growth and the creation of off-farm employment opportunities, and promotion of urban employment opportunities); (5) macroeconomic stabilization (fiscal reform and the strengthening of monetary policy, including a commitment to an independent Bank of Albania); (6) financial sector reform (improved bank supervision by the Bank of Albania and reform of judiciary to help resolve the pyramid schemes); and (7) privatization of strategic sectors (in oil, power, telecommunications, transport infrastructure, mines, water resources and tourism).

An important and obvious sectoral priority of the government is agriculture and, more broadly, rural development. Over 50% of the economy and employment derives from agriculture. The primary objective of government policy in this regard is to support the growth of domestic production and the rational use of natural resources. Government-

defined priorities areas include: (1) repairing and re-equipping infrastructure and facilities damaged during the 1997 uprising; (2) further investment in the rehabilitation of irrigation facilities; and (3) further institutional support for the development of the land market.

(b) Address key constraints and bottlenecks of the transition. In the Albanian context, many key bottlenecks and constraints stem from Albania's unique status of essentially being, at the same time, a transition and a low-income developing country. In essence, Albania is faced with all the challenges confronted by other transition economies in the region, as well as some more typical developing country challenges. The economic and democratic reforms which are relevant throughout the transition economies are likewise important for Albania. However, Albania's relatively underdeveloped status complicates the reform process some.

In particular, Albania's institutions--economic and political; public and private--are much less advanced than in other CEE countries, and hence there is a relatively limited ability within the institutions to absorb change. This means, in many instances, that a focus on basic functions needs to come first, and that, hence, it will likely take longer in Albania vis-a-vis other CEE countries to achieve the desired results from similar objectives.

An additional challenge derives from the pervasive corruption that exists in many of Albania's public and private sectors. To the extent possible, this may need to be addressed head-on.

(c) Focus on USAID's comparative advantage vis-a-vis other development partners, and assure close coordination with them. Currently, donor community commitment is substantial. Roughly $1 billion has been pledged in 1997 for immediate and medium-term financial and technical assistance activities in Albania. Significant balance of payments and budgetary support is also being provided. Overall assistance in Albania may, in fact, be comparable to that which is being provided to the much larger reform-minded countries of Romania and Bulgaria. How the assistance is being applied and where it is to go is still being shaped in ongoing donor dialogue. Much hinges on the outcome of current negotiations between the government and the IMF towards a three-year Enhanced Structural Adjustment Facility (ESAF).

In any event, USAID, of course, cannot concentrate in all areas of need and shouldn't try. Civil service reform, for example, is an area of high priority, but the EU and the World Bank are better positioned to take on the lion's share of donor support in this domain. Similarly, USAID is providing targeted support to fiscal and tax reform, and is proposing a limited involvement in privatization. Both areas are very important, and, again, other donors--the World Bank, EBRD, IMF, and the EU--are substantially involved. In addition, the capacity of the government of Albania to absorb much more assistance in these areas may be limited.

In the energy sector, needs are similarly great. However, since 1992 only $42 million of $187 million in donor commitments to the power sector has been disbursed. Hence, USAID assistance in this area does not seem warranted. In addition, while USAID's direct involvement in the social sectors is relatively small, others donors have made social assistance a major priority. At the Donor Conference in Brussels in October 1997, $100 million in planned activities by various donors in health was identified. The World Bank is expected to contribute heavily to the delivery of essential health services and policy and institutional reforms in the health sector. Roughly $42 million of donor commitment in planned education activities was also identified. Most of this is for physical infrastructure, though the World Bank is involved in basic policy and institutional reform in education as well..

Through its experience in the region, USAID has developed a comparative advantage vis-a-vis its development partners on several fronts. In economic restructuring, an important USAID niche has been in financial sector reform. Within this domain, USAID's expertise in providing technical assistance in banking supervision is widely recognized.

USAID has also developed a comparative advantage throughout CEE in grassroots people-to-people assistance. This includes a focus on working with civil society organizations and local governments and increasingly, helping to pull together local development strategies that link local governments, NGOs, and small businesses.

(d) Focus on sustainability. Assistance efforts need to increasingly concentrate on building self-sustaining local capacity. Albania has far to go in this regard, and creating this capacity will likely take much longer here than elsewhere in CEE. Nevertheless, this will, within the FY 1998-2002 planning period, mean moving beyond direct support to individual entities (firms or NGOs or pilot local governments), and moving towards building the capability of local intermediate support institutions to service these entities. An important objective then--its full attainment likely beyond the scope of this five-year strategy--is to help create Albanian institutions that can carry on with the technical assistance and support to the economic and political reforms that is currently being provided by USAID.

Another key component of sustainability for CEE countries in general has been institutional integration with the West. This has included WTO membership as well as progress towards membership in the EU. For a select few, this has also included OECD and NATO membership. With the exception of WTO membership, the process of formally linking Albania with Western institutions is far off. Nevertheless, current assistance emphases should, at the least, help lay the foundation for meeting these down-the-road targets.

(2) The Strategic Principles Applied. There are four components to the USAID country strategy: (a) programs designed to help restore order and stability in Albania; (b) economic restructuring; (c) democracy building; and (d) social sustainability.

(a) Restoring Stability. USAID is contributing in a modest way to a substantial multidonor effort to restore security. Restoration of law and order is a pre-requisite to progress in economic and political reforms. Among the highest priorities is resolution of the pyramid schemes. The U.S. is contributing and the World Bank is taking the lead in this effort which entails first auditing the various schemes and then administering the remaining assets (in most instances, likely liquidating the schemes and then distributing the proceeds). U.S. assistance is also being provided to help restructure and train Albania's police force. Part of this involves the creation of an internal affairs unit within the police force to fight corruption from within. A training of trainers program will be done to ensure sustainability of effort. Finally, USAID has contributed to a multi-donor balance of payment support fund to help address Albania's large current account deficit and growing import needs in an effort to help stabilize the economy. The police training will likely take five years; the other two efforts are short-term.

(b) Economic restructuring and growth. Highest priority will be given in the medium term to the economic assistance programs of USAID's portfolio. There are two primary thrusts: rural development and financial sector development.

Most of the emphasis in rural development will continue to be in support of agriculture. The focus will build from USAID's experience in the past six years in this sector. The central strategy is to raise returns in the agricultural sector through more efficient production technology, improved access of agricultural inputs (including credit), and higher quality final agricultural products. Promoting agribusiness will be a priority, and this will be achieved in large part through the support to agricultural trade associations. USAID support to agriculture will likely extend beyond the five-year horizon of this strategy.

An emphasis on natural resource management will also be pursued. This focus is intended to help begin to address the legacy of serious environmental degradation and land mismanagement under decades of communist rule and exacerbated since communism's collapse. An ongoing private forestry development project is designed to promote seedling production as a viable private enterprise and to put marginal lands into productive use. A new watershed management project, currently in design stage, will likely focus on erosion control measures, protection of forestry resources, and reforestation. Both emphases address economic as well as environmental concerns, and support USAID's activities in agriculture by helping to improve access to irrigation water and increase livestock production in forest areas.

USAID will also help to address many of the critical needs in financial sector reform. The focus here is to be on strengthening the capacity of the Bank of Albania in bank

licensing and supervision, capital market development (limited for now to developing government securities and currency trading markets), and collateral law (passage and implementation and setting up of a registry). Also part of this strategic emphasis is support to Albania's Ministry of Finance (in reforms in tax, budget, debt, and bank restructuring). Much of this activity will involve close collaboration with the World Bank and others.

USAID is facilitating economic restructuring and growth through other means as well. This includes: (1) a short-term advisor to provide USAID expertise and experience from throughout the region in the privatization of strategic assets (in fashioning the tender process, in the particular); (2) judicial training in commercial law; (3) facilitating credit to private enterprise (through the establishment of an Albanian NGO which will provide credit to micro-enterprises, primarily women, and through capitalization from the Albanian-American Enterprise Fund of the American Bank in Albania); (4) support to the Albanian Center for Economic research, to enhance information and public awareness of the economic reform process); and (5) training and education in business management and computer skills.

The economic restructuring and growth emphases are captured in three strategic objectives: (1) accelerated development and growth of private enterprise; (2) increased environmental management capacity to support sustainable economic growth; and (3) a more competitive and market-responsive private financial sector.

(c) Democracy building. USAID's program to strengthen democratic institutions has three main components: (1) civil society development; (2) rule of law reform; and (3) better local governance. Highest priority within this sector will be developing civil society. Citizen's participation is a critical element in any democracy. USAID's program will continue to focus on developing more effective political parties; help to ensure free and fair elections; further build NGO capabilities and expand their operations more widely throughout the country; strengthen independent media; continue improving the effectiveness of parliament; increase the demand for transparent, accountable decision-making; and help to introduce more participatory instructional practices in the educational system. Albania needs a legal system that provides for enforcement of laws. USAID's program together with lead donors such as the Council of Europe will assist in developing a cadre of more competent legal professionals principally through NGOs, the Magistrates School, and the Police Academy; will promote the independence of the judiciary; and will continue helping citizens understand their right to legal recourse. In the short run, this rule of law area will depend on Albania's will to adopt a new constitution that will provide for a more independent judiciary. Upon adoption of a new constitution, USAID will reassess all aspects of this area and adjust its mix of activities to conform with constitutional provisions. Finally, local government has a key role to play in fostering positive economic and democratic development, but it requires more autonomy and management capacity to be successful. In this regard, USAID will promote the central government to transfer more responsibility and authority to local government; will assist

local government to become more capable in budgeting, planning and managing; will foster local government to provide improved services; will increase the openness of local government; and will help to ensure that local government supports economic development in their communities.

(d) Social sustainability. The is a relatively small part of the portfolio, consisting of three components. Likely direction may be to narrow the scope and focus primarily on family planning down the road. USAID's program will increase family planning activities during the strategy period and will emphasize information dissemination, family planning counselling and improved access and quality of services to a broader client base. Continued assistance will be provided to improving hospital services in Tirana and improving overall health administration and management but, it is expected that these programs will be achieved by the year 2000. In the out-years of the strategy, USAID will continue expanding involvement in primary health care programs over curative care activities.

C. Measures of Success & Graduation Prospects

Given Albania's dual nature of being at the same time a transition economy and a developing country, there would seem to be a good case to begin to phase in DA (sustainable development) funding as SEED (transition) funding begins to phase down. In any event, USAID's job in Albania will not be complete over the five-year horizon of this strategic plan. The following targets are intended to serve as broad guidelines from which to measure whether USAID has accomplished its medium-term goals.

(1) Property rights are well-defined and a functioning land market exists.

(2) An institutional support structure, both public and private, for environmentally sustainable rural economic growth is in place. Environmental degradation in most rural areas is reversed.

(3) A functioning formal banking sector exists. Microenterprise financial support mechanisms in place, both through formal banking sector and complementary (though fiscally sound) alternative institutions.

(4) Significant progress is made towards sustaining reforms through the creation of self-sustaining policy-oriented NGOs in democracy, environment, economic growth and social safety nets.

(5) An independent and professional press and electronic media exist.

(6) The judiciary system is functioning with a core of adequately-trained judges and courts adequately administered. Local capacity to train judges is largely in place.

(7) Progress is made towards the effectiveness of local governance, including revenue-generating capacity and improvement in municipal services and municipal management. Effective decentralization clarifying roles, responsibilities and local government autonomy has occurred .

Again, given Albania's special circumstance with regard to possessing both "transition" and "development" country characteristics, the Mission feels there is a strong justification for introducing Development Assistance funding in the out-years of the Strategic Plan. As SEED assistance monies begin to draw down starting in FY 2001, USAID's program in Albania will more than likely not be able to achieve its strategic objectives. As the Strategic Plan points out in the various SO sections, Albania has much to accomplish, its fledgling democracy has already given us indication of this, its nascent market economy still lacks several elements to ensure long term stability, and its overall stability with regard to the region needs to be consolidated if we intend to declare success and eventual "graduation".

We have included programming options in Section III Resource Requirements, of the Strategic Plan, that outline possible scenarios of combining SEED and DA funding for FY 2001 and FY 2002. We consider that USAID/Albania should begin its transition to a sustainable development mission sooner, rather than later, when SEED monies begin to phase out.

7. Customer Focus

The focus on customers has been a fundamental component of all USAID activities in Albania. USAID/Albania has identified different sets of customers and partners under each of its strategic objectives. Identified customers include potential private sector entrepreneurs; farmers; legal professionals, such as judges, prosecutors, investigators, law professors, and law enforcement officials; health care managers and women of reproductive age; local governments; nascent NGOs; and ordinary citizens.

USAID/Albania uses various methods to obtain feedback from its customers, including regular meetings with key host-country counterparts, informant interviews with assistance providers and recipients, site visits, rapid appraisals, sectoral assessments, formal surveys, and evaluations. In addition, the USAID Director holds monthly meetings with all grantees and contractors. Strategic Objective Team members, which include host-country counterparts, meet at least once a month. Strategic Objective Team leaders are responsible for the coordination of customer feedback and reporting requirements.

Recognizing the role of Women in a democratic society, USAID/Albania addresses women's and gender issues throughout its program activities.

Part II (below) provides an elaboration of USAID/Albania's strategic plan for each of the seven strategic objectives being pursued by the mission. For each strategic objective, we

present an analysis of the major problems and challenges, summary of progress to date for ongoing programs, illustrative program approaches, complementary programs of development partners, and discussion of the sustainability of USAID's efforts.

PART II. PROPOSED STRATEGIC PLAN

STRATEGIC OBJECTIVE 1.3: ACCELERATED DEVELOPMENT AND GROWTH OF PRIVATE ENTERPRISE

1. Problem Analysis

Structural Change since 1990. Albania has long been Europe's least developed economy, a position that was exacerbated after World War II by a policy of extreme isolation and an emphasis on self-sufficiency in production of all national needs. In 1990, with the collapse of the centrally-directed economic system, Albania's production and distribution systems began a process of radical transformation. Most state-owned enterprises were privatized although the largest enterprises remain in state control. Regardless of ownership, most industrial operations ceased to function, including large portions of manufacturing, mining and steel production, and all fertilizer production.

The transformation in rural areas started with the disintegration of production cooperatives, state farms, state forests and pastures. In the breakdown of authority and control by the cooperatives, members unilaterally confiscated equipment, livestock, crops, and land, effecting an immediate mass privatization of collective farms. As a result, the basis for agricultural production changed suddenly from large-scale collective farms to small-holder plots. In the first year, agricultural output declined dramatically, caused by a combination of outright destruction of crops, orchards and infrastructure, shortages of fertilizers, pesticides, fuel and spare parts, and lack of farm management knowledge and experience on the part of most of the new farm operators, and dramatic increases in upland soil erosion. In addition, the breakdown of the state distribution and transport systems seriously hampered marketing of agricultural products.

Since then, dramatic progress has been made in transforming the agricultural economy. In late 1991, the GOA introduced a series of reforms aimed at legalizing the de-facto privatization of collective farms, as well as the commercialization of state farms. In 1992 the value of agricultural output began to recover, by 1993 had returned to the 1989 level, and by 1995 was some 15 percent above the 1989 level. In the first half of 1997, Albania's agriculture provided the livelihood of the major share of the population (around 60 percent) and accounted for over half of GDP and employment. Agriculture dominates the economy at present, even more than before the 1997 crisis.

Strengths in Private Sector Development. Key policy adjustments that contributed to the growth of the agriculture sector include the rapid privatization, price decontrol, and the relatively open trade regime. Price liberalization has been extensive and has been extended to the prices of bread, liquified gas and kerosene. Together, these offered adequate incentives for farmers to increase productivity, mainly through shifts toward a more efficient commodity mix. Increases in livestock production more than offset a

decline in crop production, measured in value terms. Considerable potential remains to improve factor productivity with existing resource levels.

Albania has had adequate capacity to meet its aggregate food needs every year since 1991. Substantial poverty and a weak public safety net place many people under extreme financial stress, but nutritional needs are generally met. The stresses of poverty are particularly widespread and acute in rural areas.

Challenges in Private Sector Development. Despite relative success in agriculture, the sector has not fulfilled its potential in economic transition. Its growth has been inadequate to stem the rapid migration out of rural areas. Returns to agriculture have failed to attract sufficient investment to maintain the capital base. Extensive greenhouses, irrigation systems and fruit orchards that previously facilitated intensive agriculture have not fully recovered from the collapse in 1991. Agricultural growth does not generally reflect improved technology which is needed in response to the extreme shift in farm size and transition to private economic incentives. Despite the progress in privatizing agricultural land, no land market has developed. Obstacles have been the requirement that all land holdings in a village be registered before any can be sold and the absence of clear mechanisms for establishing the legality of land transactions. The level of mechanization is probably below 1990 and the application rate for chemicals remains low. Furthermore, the natural resource base has suffered a shock from privatization and ineffective state management, and poorly informed users meeting short-term objectives threaten long-term soil productivity.

The disintegration of state enterprises in manufacturing, mining and heavy industry apparently created opportunities for private industry, but there has been little attempt by either domestic or foreign investors to enter these areas. The main reasons for this include a nascent judicial system that has yet to implement market economy principles such as the bankruptcy law, competition law, contract law and other commercial related laws. The resulting import dependence for inputs and consumer goods strains the capacity of ports and other transportation infrastructure. This infrastructure, in turn, has deteriorated from low capital investment and deferred maintenance.

The almost complete lack of formal financial intermediation and the competition for investment from fundamentally flawed financial (pyramid) schemes combined with the inexperience of potential entrepreneurs as the main factors constraining investment. Inadequate laws and administrative capacity to protect ownership of land and buildings, and the lack of necessary laws or experience with collateral further inhibit the use of credit. Despite the great need for productive private investment, urban housing has become the principal form of construction.

Private Enterprise Priorities. The Donor Conference in October 1997 established priorities for foreign assistance to the private sector generally and to agriculture specifically. To assure an attractive investment environment, the Conference specified that the most

pressing need is for security against further civil unrest. In response, USAID and other donors have incorporated law enforcement programs as an important post-crisis assistance area. Please refer to sections in our S.O. 2.2 Legal Institutions for further detail. Also necessary for investment to flourish is substantial improvement in the banking sector and other potential providers of financial services. These two aspects are critical, requiring the most immediate donor response. Considerable losses in physical assets were absorbed by private businesses and in the infrastructure that serves business during the 1997 crisis. Repair and replacement of infrastructure was viewed as another donor priority. The agriculture sector typically escaped intensive damage and does not require rebuilding from the 1997 crisis, except for the Agricultural University of Tirana. Within agriculture, additional priorities for donor support were recognized for clarifying land tenure and establishing a land market, providing extension services, and improving natural resource management. For the medium and long term development of the private sector, the Conference recognized the need for donor assistance in legislative reforms. USAID's strategy addresses each of these areas, except the rehabilitation of physical infrastructure.

2. Strategy: The Results Framework

A. Development Hypothesis

Starting from an economy with no private businesses in 1991, Albania has advanced to an economy dominated by the private sector. Nonetheless, the absence of experience in private business and the poor performance of state enterprises has left a legacy of inappropriate institutions and a severe shortage of skills in both the public and private sector. Considerable portions of the public enterprises and assets have been privatized or terminated, but the private sector has not been effective in establishing active markets in most areas of production, distribution, or finance. USAID's strategy is to raise returns in the agricultural sector through more efficient production technology, improved collection of raw products, and higher quality final agricultural products.

B. Critical Assumptions

S.O. 1.3 contributes to political stability through its impact on economic growth and employment, but it contains the critical assumption that a minimum of stability will be maintained.

The other major assumption underlying this strategic objective is that other donors, principally the World Bank, will support the rehabilitation and improvement of physical infrastructure. This support is critical, but is beyond the scope of the USAID program.

C. Causal Linkages (Principal Intermediate Results)

IR 1.3.1. Commercial Business Regime Improved.

Improvements in the commercial business regime are needed before available investment funds are drawn into Albanian markets. Relatively few critical legal reforms are still needed, and these are targeted for USAID assistance. Judicial training on issues relating to commercial law is needed due to inexperience in this area by the present judges and others in the court administration. A broad range of improvements in public administration will be needed, although USAID assistance in S.O. 1.3 will focus on administrative improvements relating to the agricultural sector. Privatization of the large state-owned enterprises is also needed to release inactive assets for productive use or to reduce competition from unprofitable state producers. USAID will implement an initial pilot activity to assist the Ministry of Public Economy and Privatization and the National Agency for Privatization in structuring its privatization strategy and setting up a tender program.

IR 1.3.2. Business Support Services Improved.

Business support services need improvement to enlarge the number of viable entrepreneurs. Business skills will be enhanced through training, research and advisory services. The key problem of inadequate financial services will be addressed in part through this strategic objective by encouraging non-bank lending.

IR 1.3.3. Trade Associations Active in Supporting Private Agriculture

Agricultural trade associations will be developed to provide services including credit, training and improved collection of raw products and distribution of final products.

3. Progress to Date

Commercial Business Regime Improved. Legislation to improve the business environment has frequently been assisted by USAID activities, and some of this legislation, such as the Law on Registration of Immovable Property, has been adopted. USAID activities have helped in drafting laws for soil conservation, for creation of a mediation agency for resolving conflicts over immovable property, for the organization of the land surveyor profession, for the organization of a national mapping agency, for public acquisition of private property, and for fertilizer regulation. USAID assistance on economic policy matters helped liberalize prices for bread, flour and wheat; establish a working group to implement an Action Plan for Land Protection; and develop operational procedures for a newly-formed Land Registration Offices. With USAID assistance, Albania has also been working on seeking membership to the World Trade Association. Albania submitted its application for accession in 1992 and obtained WTO observer status shortly thereafter. In its process for accession, Albania has had two WTO Working

Party meetings and has submitted schedules on domestic support, market access, national treatment, agriculture, services, and other accession criteria regarding its foreign trade regime.

Public administration has benefited from USAID assistance. Results include the opening of 26 land registry offices, with the remaining 8 offices expected to open by March 1998. Related to this accomplishment, there have been 200,000 properties registered out of the 3 million in Albania. Other institutional development in which USAID assistance played a large role includes the establishment of a gene bank, and the fertilizer, seed-testing and soil-testing laboratories. The modernization of agricultural statistics at the Ministry of Agriculture and Food with technical advice from USAID resulted in improved agricultural production surveys that are now taken twice yearly, agro-industry surveys taken four times a year and one household consumption survey. Survey results have lead to better reporting, projections and an understanding of needed inputs. Weekly price reporting is on-going.

Increased advocacy by business groups has been accomplished by several associations supported by USAID that actively participated to support legislative and policy reform. For example, the Meat Processors Association is recommending specific product standards, and health inspection and licensing requirements within their industry. The fertilizer distributors help draft a law on fertilizer regulation. The National Albanian Farmers Union (BKFSh) has received USAID support at its inception and now has 5200 dues-paying members and representation from 25 of 36 districts in Albania The union is helping to draft a revised land tax law

Business Support Services Improved. Business and technical skills have been addressed both by training individuals and by strengthening Albanian training institutions. Long-term training in the United States has been provided for 13 people in agricultural economics or agribusiness, and 45 faculty members at the University of Tirana, but this is not the major approach being taken. Courses in Albania reached 2500 people in agribusiness skills and 2000 on agricultural professional or support skills. An additional 5000 women received training related to dairy operations and 200 men in small ruminants. More than 50 government employees received training related to land registration.

Technical assistance directed at agribusinesses has resulted in the adoption of at least twelve forms of technology that were not previously applied in Albania. Feeding trials sponsored by a USAID activity successfully demonstrated the value of concentrates for dairy producers. USAID-supported technical assistance has also gone to 23 dairy processing plants. Institutional support at the Agricultural University of Tirana developed a curriculum in agricultural economics/agribusiness. Program support at the Tirana Technical School benefited 5000 students in computer applications, English, general accounting and organizational development. USAID's program at the University of

Tirana has provided over 100,000 university textbooks and in 1998 the University will graduate its first students with a Masters in Business Administration.

Financial services have not been emphasized in S.O. 1.3 in the past, but two credit unions serving dairy producers were developed and registered with USAID assistance.

Trade Associations Active in Supporting Private Agriculture. Building trade association was not designated as a broad-based objective of the USAID's Albania program in the past, but several associations were established with USAID assistance, providing an institutional foundation and a knowledge base for USAID's future strategy. With USAID support, the Albanian Fertilizer and Agrochemical Dealers Association was formed and expanded to market over 90 percent of purchased agricultural inputs in Albania. It now relies heavily on its dues and service fees, and expects to become financially independent. This association facilitated the establishment of 10 additional agricultural associations, including horticulture, wheat millers, and edible oil producers, each of which represents over half of Albanian production within these markets. The National Association of Dairy Businesses has grown to 14 branches with USAID assistance. Smaller associations have been assisted among poultry and meat processors. Outside agriculture, USAID supported associations of real estate agents, notaries,and assessors of immovable property

4. Program Approaches

Commercial Business Regime Improved. The legal, policy and regulatory framework will be strengthened through assistance in drafting targeted legislation and in encouraging broad participation in public debate through NGOs that play a constructive advocacy role. A new activity will improve adjudication of commercial law, including training and technical assistance for judges and court administrators. Registration of immovable property is a critical element of the commercial environment that has benefitted from USAID assistance and USAID support will continue until a viable land market is established. USAID-supported technical assistance for the privatization of the remaining large state-owned enterprises (oil, power, telecommunications, transport infrastructure, mines, water resources and tourism) along with the remaining non-strategic sectors will be important in releasing unproductive assets for private industry. This assistance will emphasize drafting new laws, tender procedures, valuation of firms to be privatized, public education, investor awareness and development of a coordinated plan. Depending on lead donors, such as the World Bank in the power sector, and progress from the National Agency for Privatization and Ministry of Public Economy and Privatization in implementing their privatization strategy, USAID could decide to increase its support.

Public administration will be assisted by the above measures and by NGO efforts to improve the processes for certification grading, licensing, taxation and other areas of improvement affecting agriculture. USAID-assisted agricultural NGOs will benefit from the enforcement of quality standards and will therefore be encouraged to support them.

Particular focus will be placed on maintaining appropriate health standards related to food production and processing.

USAID support in assisting Albania to seek World Trade Organization (WTO) membership will continue. The WTO working party on Albania's accession has met twice, but considerable reforms will be required to confirm membership. The Department of Commerce's Commercial Law Development Program (CLDP) will continue providing support and assist Albania's intent to reschedule bilateral negotiations and to push toward a third working party meeting before the end of 1998. It is expected that during 1999 a fourth working party and bilateral meetings will be held and that all formal responses and information needed for accession will be completed. By early 2000, Albania is expected to have completed the process and gain membership to the WTO.

Improvements in the commercial business regime will be supported through the investments made by the Albanian-American Enterprise Funds which will directly raise the level of investment and provide an example for potential foreign investors. The most recent of the 17 investments by the Fund to date include land purchases in industrial and commercially zoned land, and commodity import financing. The Fund will also open the American Bank in Albania in early summer 1997. The bank will operate as a full service bank to Albanian corporate entities and will take deposits from this clientele.

Business Support Services Improved. Business support services will be improved by the continuing Business Administration program at the University of Tirana, the Business Development Center at the Tirana Technical School and by other training programs directed at entrepreneurs, professionals, technical staff and support staff. The agricultural trade associations are also providing services and training to members.

Improvements in the technology applied in agriculture will be promoted through vocational training and the extension-type services to be provided by agricultural trade associations. The forestry activities in S.O. 1.6 will also provide extension-type services in agricultural applications. Tightly focused support in key areas of technology development will continue. Specified areas of economic and agricultural research are likely to remain dependent on USAID assistance for more than five years, given the weak capacity of public research institutions in Albania. The scope of assistance for agricultural research will be limited to answering specific questions rather than extended toward building the capacity of local research institutions more generally. Limited vocational training and support to the universities will continue in close partnership with other donors who will bear the major responsibility for achievements in these areas.

Access to sustainable non-bank credit will be provided through several components of S.O. 1.3. The new and existing trade associations will use financial services as a mechanism for attracting members and financing the associations. USAID-supported

financial services to microentrepreneurs will fulfill a need that the weak financial market does not meet in Albania and will most directly benefit relatively poor households.

Trade Associations Active in Supporting Private Agriculture. The major emerging activity within S.O. 1.3 will support agricultural trade associations oriented toward production, processing and marketing of specified commodities. The type of association targeted by this activity will be based on private agribusinesses, especially processors, and the producers that supply these agribusinesses. The associations will provide services to members, including promotion of the industry, networking and educational opportunities, leadership development, price and weather information, credit, and technical and business advice. Assistance to the trade associations will promote broad-based membership that is representative of the industry, and will encourage eventual self-financing by each association. USAID's efforts to build agricultural trade associations will be consolidated into this activity to promote a consistent approach and to share expertise and experience.

Close coordination with strategic objectives relating to financial markets (S.O. 1.4) and environment (S.O. 1.6) will be important. Investment in agriculture requires improved financial services. Certain non-bank credit programs will be developed within S.O. 1.3, but their success and the level of agricultural investment are likely to be strongly linked to the performance of the banking sector. The environment activities will be largely directed toward raising returns of non-agricultural, natural resource-based productive systems, and thus they share the objectives that are emphasized in S.O. 1.3. Furthermore, the environmental activities are likely to affect agriculture directly by improving the timing and quality of irrigation water, through livestock production in forest areas and through numerous other interactions.

5. Commitment and Capacity of Development Partners

Most of USAID's support for growth of private enterprises has addressed agricultural enterprises. Among the largest donor-supported projects for Albania agriculture is the World Bank's support for rehabilitation of surface irrigation covering 100,000 hectares and the International Fund for Agricultural Development support for small-scale irrigation in certain northern districts. German aid provides significant technical assistance to the dairy and livestock industries and funds replacement of physical infrastructure at the Agricultural University of Tirana, Netherlands assists in pesticide procurement and distribution and Italy assists in vegetable production and marketing. The EU and Netherlands assist with agricultural extension while the FAO and Italy assist in agricultural mechanization.

The Government of Albania, particularly the Ministries of Agriculture and Education, has partnered with USAID on numerous activities in which government institutions were supported, e.g. the two national universities, the Soil Testing and Seed Testing Laboratories, and the Land Registration Office. The central approach by USAID in S.O. 1.3, however, relies on direct contact between implementors and beneficiaries. The

Government of Albania has endorsed this emphasis for private sector development and has demonstrated its support for USAID's approach with several important legislative reforms, such as the price decontrol and trade liberalization cited above.

Other donor activities support rural economic growth without a direct linkage to agriculture. The IBRD and EU Phare have made commitments to further support of land registration and mapping, and both are considering future support for land use monitoring and planning. Donors have established a wide range of mechanisms for rural or agricultural credit.

6. Sustainability

Many of the activities in S.O. 1.3 will be ending soon because they have accomplished their objectives. These objectives include establishing institutions that are either financed from fees or the Government of Albania. Fees should be adequate to support the seed-testing laboratory and soil-testing laboratories. Supplemental government support should be adequate to sustain the land records and agricultural statistics offices. Similarly, support to the private network of fertilizer suppliers will soon be unnecessary as their organization becomes self-sustaining. The various credit programs within S.O. 1.3 are all strongly committed to developing commercially viable financial services.

Most of USAID's emerging activities in S.O. 1.3 were designed to become sustainable. The new major activity is centered on building agricultural trade associations and this is designed so those associations and their key services become self-financing during the period covered in this strategic plan. Similarly, the Albanian-American Enterprise Fund is oriented toward commercially viable investments. Financial assistance to the farmers' union (BKFSh) has already been reduced as the union succeeds in attracting support from local donors to supplement dues. It expects to be financially independent by 2002.

The support for universities has a mixed record on sustainability. The Business Administration program will nationalize its staff by 2000, pursuant to establishing a viable end to donor assistance. The Agricultural University of Tirana, however, suffered extensive physical destruction during the national crisis in 1997. The USAID program in Agricultural economics and agribusiness expects to be fully established in 1998. The Agribusiness Center has not been successful in meeting its costs from client fees.

STRATEGIC OBJECTIVE 1.4: A MORE COMPETITIVE AND MARKET-RESPONSIVE PRIVATE FINANCIAL SECTOR

1. Problem Analysis

Problems of the financial sector have taken on an importance in Albania that is almost unparalleled in other countries. There were no private financial institutions in Albania in 1991, and the state banks were ill-equipped to take on the functions of a central bank or of commercial banks. Further, there was little in the way of a sound credit culture on either the borrowing or the lending side. Weaknesses in the financial sector, on both the public and private sides, were a central cause of the crisis that erupted in 1997.

Savings and Investment: Despite Albania's relatively low national income there has been ample evidence of liquid resources available for investment. Substantial savings had been retained from the years when there were virtually no personal investing opportunities. This was soon supplemented by sizeable remittances resulting from the massive migration of young people to Greece, Italy, and elsewhere in Western Europe. While the magnitudes of these remittances were very uncertain, private transfers in the balance of payments accounts were estimated at $425 million for 1996, equivalent to 16% of GDP. (equal to the share of private investment in GDP) The large flows of funds into the pyramid schemes, construction, and conspicuous gambling have been testimony to the presence of cash reserves. While the collapse of the pyramid schemes has wiped out or redistributed much of the accumulated savings of recent years, there is still evidence (e.g. construction) of substantial supplies of investible funds.

Direct foreign investment amounted to $100 million in 1996. Major constraints on direct foreign investment are the security situation, the rule of law more generally, and poor infrastructure. Italian and Greek investors have opened businesses and entered joint ventures in a wide range of small and medium-sized enterprises. These efforts have taken advantage of the foreign banks operating in Albania. Progress in overcoming the constraints mentioned above would open the door to greatly expanded foreign investment, given Albania's location, educated labor force, and considerable unrealized economic potential. If the large state-owned enterprises are privatized over the next few years, foreign investors would be the likely buyers.

The Financial Sector: Albania's banking system remains at a very rudimentary stage of development, and performs few of the most basic functions essential to a market economy. Financial intermediation is limited at best, and a non-cash payments system, even between banks, does not exist. A credit culture either on the lending side or the borrowing side has yet to develop.

The banking sector is fragmented. Until recently, three insolvent state-owned institutions dominated the formal banking sector, accounting for around 90 per cent of total deposits and assets. Towards the end of 1997, one of these banks was shut down, with deposits

and assets transferred to the Savings Bank. Neither of the remaining two banks holds banking licenses, as they are not in compliance with the licensing criteria adopted in 1996. Asset quality is poor, and it is estimated that upwards of 80 per cent of the loan portfolio is non-performing. Since the crisis, the state-owned banks have essentially limited their business to taking deposits and buying Treasury bills.

The private banking sector has emerged only slowly and on a very limited basis. Six tiny private or joint venture banks have received licenses, several of which began operations only in the past year and a half. These banks are essentially foreign-owned, and to date are focusing on providing services for their foreign clientele. the majority of their business is in foreign currency, and they offer no retail services to the domestic market.

The third leg of the banking sector is the vibrant, unregulated informal market. Even with the collapse of the pyramid schemes, most financial transactions, including the foreign exchange market, take place outside of the banking system, in the street. Though the existence of this market ensures some financing of economic activity, recent experience makes clear that it cannot be depended on to efficiently and reliably translate savings into productive investment and sustainable patterns of growth. Foreign direct investment and trade all depend on financial flows through the banking system. Moreover, an unregulated, non-transparent banking sector is a recipe for further disaster and can be used as a conduit for criminal and other fraudulent activities.

In sum, the Albanian banking sector is at a crossroads; its future structure is not yet clear. If the state banks are successfully privatized, the formal banking sector will be overwhelmingly dominated by foreign banks, which is certain to accelerate structural reform and the emergence of a sound private banking sector that can better support economic growth. If there are substantial delays in privatizing or liquidating the remaining state owned banks, new concerns about banking sector reform may arise, delaying the emergence of a sound private banking sector, to the detriment of sustainable growth.

2. Strategy: Results Framework

A. Transition Hypothesis

As explained above, the challenge facing Albania has been to develop -- largely from scratch or worse -- the fundamental institutions and elements of a well-functioning financial sector. Progress has been slow, reflecting the increasingly obvious weak capacity of public institutions across the board. Thus, the results framework addresses many of the key elements required for a reasonably well functioning financial sector, in ways that will augment institutional capacity.

B. Critical Assumptions

Progress in four other critical areas will need also to take place if the intended results are to be achieved. Thus, there are four critical assumptions:

1. Macroeconomic stability. The financial sector cannot develop in a environment of macroeconomic instability, particularly high and volatile inflation. So, the first critical assumption is that the GOA succeeds in stabilizing the economy. Discussions with the IMF indicate that progress so far has been satisfactory.

2. Functioning Judiciary. Strengthening the judiciary is vital for the proper functioning of the financial sector. A critical assumption is significant progress in developing a judiciary that can enforce laws, particularly as they apply to property rights. Most elements of the commercial law framework are in place, and the remaining gaps are being filled (including within this S.O. the focus on collateral law). The real issue is the lack of implementation and enforcement of the laws extant, owing not only to the historical lack of a rule of law culture in Albania, but also the extremely weak judiciary. This is a basic problem, on which progress needs to be made if the financial sector and other markets are to function reasonably effectively. Both USAID and other donors are engaged on this large and extremely challenging front.

3. Functioning Payments System. The financial sector needs a payments system that can process with reliability and some efficiency both cash and non-cash transfers between banks. From an operational point of view, this is a basic need of the system, and one which needs to be pursued immediately. The IMF and IBRD are undertaking the TA for this. (according to PER).

4. Functioning Accounting System. A common, internationally accepted accounting framework needs to be developed and instituted. For the banking sector, a new Chart of Accounts is in the implementation phase. Reform of enterprise accounting is not as advanced, but is getting under way. Both efforts are being supported with EU Phare assistance.

C. Causal Linkages (Principal Intermediate Results)

IR 1.4.1 A Sound, Regulated and Efficient Banking System Established

A functional financial sector depends first and foremost on effective performance by the Central Bank. The failures of the financial sector -- particularly the dismal performance of the public banks, the expansion and collapse of the pyramid schemes, and the associated failure of an adequate private banking system to emerge -- have been due in part to weak oversight, supervision, and regulation by the Bank of Albania. This reflects problems of both capacity and authority, and political interference. The latter concerns are being addressed by a new law which will reinforce the autonomy of the governor and

other members of the board of supervisors, and limit the capacity of the government to interfere in the Bank's fulfilling its basic functions. To help build a functioning banking system requires a focus on one of the fundamental building blocks, the establishment of a professional bank supervision capacity at the BoA. By enhancing the bank licensing process, the BoA can ensure that all new banks that receive a license have reputable owners and management as well as sound business plans, and that banks that are unable to adhere to laws or prudential regulations will have their licenses revoked.

IR 1.4.2 Ministry of Finance Functioning Effectively

Budgetary policy and management, including the size and financing of the deficit, have major impacts on how well financial markets function in translating savings into productive investment. For some time to come, treasury bills will be the main instrument in the domestic market for financial securities. The size of borrowing requirements, and how well they are managed, will have major impacts on interest rates. Finally, a more diligent tax administration responsive to fomenting economic growth will not only garner more revenues for the state but in turn bring greater benefits to the economy.

IR 1.4.3 Publicly Owned Banks Restructured

Another requisite for a functional financial sector is restructuring of the publicly owned banks. The state banks have failed to intermediate savings, and their failure is to a large extent attributable to their being in the public sector. They need to be privatized or liquidated. Bad loans and the resulting arrears have plagued the state banks since they were created. In part this was due to poor lending practices, but it was also due to an expectation on the part of many of the banks' borrowers that since the loans had come from the public sector, they did not have to be repaid. It will be difficult for private banks oriented towards the domestic market to emerge while the public banks are still active.

IR 1.4.4 Component Capital Market Institutions in Place

The nascent, non-bank portion of the financial sector also needs to be developed. The Tirana Stock Exchange was established in May 1996 as a department of the Bank of Albania. At this point its operations are limited to handling both the primary auctions and the secondary trading of Treasury Securities. Even this market is weak, with only a limited number of participants in the primary market (BoA, state banks, and the state insurance company) and secondary trading on an inside basis limited to these same institutions. The primary goal at this point is to strengthen and expand this market, which entails improving the trading, clearance, and settlement mechanisms, promoting participation by domestic buyers beyond the current public institutions, and promoting foreign participation. With this foundation established, markets for other types of securities can eventually emerge.

IR 1.4.5 Collateral Law Implemented

On the legal side, a key remaining task is passage and implementation of a Collateral Law -- a requisite for stimulating expanded and more productive lending on the basis of secured assets. Part of the implementation challenge is a functioning registry for such assets.

IR 1.4.6 Insolvent Non-Bank Financial Schemes Liquidated

Finally, development of a functional financial sector depends on the final resolution and liquidation of the pyramid schemes. Although no pyramid schemes are now operating (according to the IMF) the recovery, liquidation, and return to depositors of whatever assets remain will be a difficult and lengthy process. These schemes need to resolved and liquidated, and their reemergence needs to be prevented, if functional formal institutions are to emerge.

With progress in these ten areas (four critical assumptions and six intermediate results) the goal of a more competitive and market-responsive private financial sector will almost surely be achieved. Failure to make progress in one or more of these areas would seriously handicap achievement of this objective. In this case, the informal sector would continue to predominate. With large inflows of remittances channeled through the informal sector, Albania was able to achieve rapid growth over the 1993-96 period, particularly in agriculture, construction, trade, and services. However, the experience of the past several years, particularly with the pyramid schemes, suggests that continued reliance on the informal financial sector would not lead to a productive pattern of investment and sustainable growth in Albania.

3. Progress to Date and Illustrative Program Approaches

There has been some progress on the legal and institutional front in creating an enabling environment for well-functioning financial markets. While the crisis represented a major setback, and revealed severe weaknesses in public institutions, it has thereby provided needed impetus for reform. The pyramid schemes are being dismantled, and the public banking sector is shrinking. Though the number of private banks is expanding, their activities are still quite limited to servicing foreign clients. Presently, there is virtually no lending or other financing of productive private sector activity going on in formal financial markets in Albania. The basic sign of progress will be an increase in high quality loans and other financing to the private sector by the formal private financial sector.

Banking System. Where the Bank of Albania (BOA) is concerned, the main approach has been technical assistance. USAID's technical assistance program to the BoA began in 1996 with the arrival of two resident Treasury advisors. The emphasis then was assisting the BOA in licensing newly established commercial banks and to begin professionalizing

the banking supervision department. Since the 1997 crisis, there has been progress on the legal and regulatory front, with a new Chart of Accounts based on international accounting standards. All banks are required to report their latest quarterly financial statements based on this new Chart no later than March 31, 1998. The BoA law has been amended to reestablish the independence of the BoA, strengthening the licensing provisions and enforcement, and closing the loopholes that could lead to a resurgence of the pyramid schemes. There is also a new law on the Bank of Albania and money laundering that has been passed by the parliament, and a new draft Law for the Banking system is in process.

Fiscal Policy. Where the Ministry of Finance is concerned, much ground was lost on the fiscal policy and management side in 1996 and 1997, as the deficit, inflation, and interest rates all increased sharply. The USAID technical assistance to the Ministry of Finance in this area is a relatively new activity. Performance will be judged by progress in tax compliance, revenue collection, a closer relationship between projected and actual budget outcomes, debt management and progress in passing and implementing laws.

Restructuring State Banks. Where restructuring of the public banks is concerned (which is overseen by the Ministry of Finance), this has been an intended USAID result of USAID technical assistance for some time. There was little progress prior to the 1997 crisis. The period since then has witnessed more progress. In December 1997 the state-owned Rural Commercial Bank (RCB) was essentially closed, with liquid assets and deposits transferred to the Savings Bank. The operations of the remaining State Owned Banks are now restricted to deposits and treasury securities. The GOA aims to privatize/liquidate the National Commercial Bank by the end of 1998. The preferred strategy is to find a strategic foreign investor, ideally a Western bank. This strategy is heavily reliant on getting a foreign company to manage that bank and prepare it for resolution. So far, no such company has been found, so the timeframe may not hold. The Savings Bank will take longer to restructure -- the GOA strategy calls for privatization by 2000. Performance will be judged by continued shrinkage of the public banks, declines in the proportion of bad loans that they hold, and progress in passing and implementing legal reforms.

Capital Markets. Where capital market development is concerned, USAID is providing technical assistance to the institutional development of the Tirana Stock Exchange and the Securities Commission. As mentioned above, the first step is seen as developing a secondary market for treasury bills within the stock exchange. There was little interest in such a market prior to and during the crisis. With respect to markets for other securities, citizens can now register the shares in companies they received as part of the voucher privatization, thereby significantly reducing the potential for fraud and abuse in the privatization and capital market formation processes. Given Albania's nascent stage in this area, USAID's effort will be modest but responsive to the current capital markets development.

Collateral Law. Where collateral law is concerned, work has been proceeding with USAID assistance through University of Maryland's IRIS program since September 1996, but with interruptions due to the crisis. The project resumed activities in September 1997. A first draft of the secured transactions law is expected to be ready for review and comment by the business and financial community in April 1998. A local software development company has been engaged to develop software for the central notice system.

Insolvent Financial Schemes. Where pyramid schemes are concerned, this has been a major priority of the government and the donor community, and progress has been pretty much according to schedule. USAID and other donors have joined together to fund external administrators and auditors have been placed in the illegal pyramid scheme companies, and have begun to issue their reports. Findings have confirmed that the remaining five schemes are insolvent and do not have the financial means to pay the debt they have to the creditors. In a recent donors meeting in Brussels on this issue, the GOA was given a clear message to uproot, once and for all, the fraudulent schemes. The second phase of the World Bank lead effort is scheduled to begin shortly and the GOA is expected to begin liquidating these schemes and coming up with procedures to pay back creditors.

The critical factors affecting progress under this S.O. are political will and institutional capacity. Overall, the main approach under this S.O. has been provision of technical assistance (by Treasury Advisors and others) to the institutions that affect progress in the financial sector -- the BoA, the Ministry of Finance, the Tirana Stock Exchange and the Securities Commission. USAID has along with other donors contributed to the World Bank activity focused on resolving the Pyramid schemes. Both the resolution of the pyramid schemes and privatization of the State Banks are high on the list of priorities, and central to credibility of the GOA reform program. There is also support going to the Albanian Center for Economic Research, to enhance information and public awareness required for a functional financial sector, and to provide independent views and information on progress.

4. Commitment and Capacity of Development Partners

The financial sector, and the public institutions on which its sound functioning depend, were at the heart of the 1997 crisis. Accordingly, and as part of the program of action for recovering from the crisis, donors and the government are intensely focused on most of the elements of this results framework, as well as other critical factors (mentioned above in sections 2 and 3). These problems will be pressing enough for a sufficiently long time to ensure concerted donor efforts, and close coordination.

By far the most important lead donor in the banking area is the World Bank. Specifically, they have helped the GOA to design and implement a restructuring/privatization strategy for the State Banks. USAID is complementing their lead and has placed a key banking

advisor to the Ministry of Finance who is owner of the banks. In addition, USAID is also contributing to the World Bank's effort in resolving the remaining pyramid schemes. Their effort will be essential to the success of closing down these schemes and providing for the beginnings of transparency in the financial system. In the capital markets arena, the British Know-How Fund has been key in supporting the regulatory framework for the key institutions needed for capital markets development, such as the Tirana Stock Exchange and the Albanian Securities Commission. USAID has worked collaboratively with the Know How Fund and is helping these two institutions to enforce and implement the regulations and laws.

A number of donors are active in credit schemes, which will support development of the financial sector generally. Donors have established a wide range of mechanisms for rural or agricultural credit. Some of this has been inactive due to the problems of administering it through the now defunct Rural Commercial Bank. Various active non-bank credit schemes separately target agribusinesses and small and medium agricultural enterprises. Largest of these are the Foundation for Enterprise Finance and Development, which is supported by KfW, and the SME foundation, supported by EU Phare and UNDP. The EBRD is currently establishing two new facilities, providing $24 million, to assist in financing small and medium sized enterprises. EBRD is also developing a $10 million fund for venture capital. The International Finance Corporation (IFC) has recently begun operations in Albania and will be developing their investment strategy for Albania The IFC will also be an important catalyst for private and financial sector development.

5. Sustainability

The financial sector in Albania provides ample evidence for characterizing Albania as a relatively least developed country. Most of the activities and results within this S.O. have to do with addressing severe capacity constraints in institutions that are fundamental to the sound functioning of the financial sector, while eliminating the institutions (state banks, pyramid schemes) that have actively undermined the financial sector. The first task will take considerable time and effort. The latter task should be sustainably accomplished well before the end of the strategy period. Success by the end of the strategy period would be a major positive accomplishment, that would still leave Albania with a relatively underdeveloped (but hopefully functional) financial sector. At the same time, success in terms of the results anticipated here would mean that the institutional foundations for further progress would have been established.

STRATEGIC OBJECTIVE 1.6: INCREASED ENVIRONMENTAL MANAGEMENT CAPACITY TO PROMOTE SUSTAINED ECONOMIC GROWTH

I. Problem Analysis

About 60% of Albania's population depends for its livelihood on agriculture and use of rural pasture and forest land. The recent World Bank report, *Albania: Recovery Program, Agriculture* maintains that, "Against the backdrop of recent unrest in Albania, the relative importance of agriculture is likely to increase markedly in terms of its capacity to absorb shocks in the overall economy, as an income and employment safety net, and as a major contributor to food security." However, the condition of natural resources has declined over the past 50 years and shows signs of continued and even accelerated deterioration at this juncture.

Before 1946, Albania's population of approximately one million was more concentrated in the rural areas. Traditional law and land use patterns, and the lower population levels, meant that land was utilized in a fairly sustainable manner.

The Communist regime changed radically the relative areas and utilization of natural resources. In the mid-1960s, as part of a drive for food self-sufficiency, around 260,000 ha. of forest and 400,000 ha. of pasture were "opened" to make agricultural land. Much of this "new" land was ill-suited for agricultural production (steep slope, fragile soils) and eventually became degraded and even abandoned. During this time, natural resources were pumped for production beyond their capacity; forests were harvested at twice their annual allowable cut.

At present, Albania's human population is more than triple what it was 50 years ago. The number of small ruminants (sheep and goats), which was strictly controlled by the Communist regime, has increased from about 2.1 million in the end of the 1980s to about 3.4 million today. The Government undertook a massive privatization of agricultural land, converting some 550 large scale agricultural cooperatives into around 450,000 small-size family farms. Meanwhile virtually all forests and pastures have remained state-owned, although the Government suffers a severe lack of resources to manage them, and has thus far found it difficult to decentralize or privatize much of them.

Discouraged by the unabated decline of resources, the rural population has turned increasingly back to its traditional land use patterns and laws. While traditional approaches fostered sustainable land use in their time, they are sometimes insufficient now because of increased pressure on declining resources and socio-economic factors. In this case, new methods for management of natural resources need to be designed, and the capacity of local government and villagers to handle them needs to be strengthened.

Major shifts in the natural resource base occurred over the past 50 years. Of a total 2,875,000 ha. land surface in Albania, the areas covered by forestry and pasture before 1946 were 48% and 29.5% respectively, compared to 36% and 14% at present. Much of the forest and pasture was lost because the Government converted it to agricultural land; however, that land often had steeper slopes and fragile soils which deteriorated under agriculture.

· **Forest** - Land classified as forest up until 1944 constituted about 1,390,000 ha., whereas that amount at present is 1,044,640 ha.. However, the more dramatic change has come in the quality of forest land. Total oak forest decreased from 408,000 ha. (1953) to 330,000 (1994); of the remaining oak forests, 75% have been over-harvested for timber and deteriorated into coppice forest good for only fuelwood and fodder. In turn, over-used coppice forest turned into hills covered with scrub and bushes (still classified as forest). Presently, 76% of the total "forest" area is classified as having low productivity; 13% has medium productivity; and only 11% enjoys high productivity. Grazing of livestock in these areas has limited regeneration of trees and reduced the incremental growth of coppice and shrub. Furthermore, the loss of ground vegetation has triggered a cycle of soil erosion and further decline in vegetation.

· **Pasture** - While records from 1950 number Albania's pastures at 849,000 ha., pasture land at present amounts to 406,000 ha.. According to the "Silvo-Pastoral Management" study supported by USAID's Albania Private Forestry Development Program (APFDP), the grazing capacity of pastures has declined: "When pastures were state-owned, neither the state nor the cooperatives utilized good management methods. During the Transition period the situation has worsened because of grazing overcharge, lack of any technical planning for grazing, and non-implementation of legal control." As a result, vegetation has not regenerated, and pasture land has deteriorated.

· **Agriculture land** - Of the 770,000 ha. of agricultural land targeted for privatization in 1991-1992, some 110,000 ha. were "refused" by farmers, due to poor land quality, tenure disputes, and a host of other interrelated problems. Despite repeated attempts, the Government did not succeed in inducing farmers to take title to the majority of this land. Moreover, surveys conducted by APFDP in 1996 revealed that an estimated equal amount of agriculture land had not been reported to the Land Commissions in 1991-92 and hence was also "non-divided". These "refused" and "non-divided" lands constitute some of the most seriously threatened areas; farmers do indeed use them, but lacking title and expected by law to use them only for agriculture, they exploit them on an unsustainable low-input, quick-return basis.

· **Erosion** - While about a quarter of land is highly disposed to erosion (Celo 1997), the rate of erosion has now intensified because of natural resource deterioration. Albania is estimated to be losing soil to erosion at a nationally averaged rate of 2.5 to 3 mm per year, or more than 20 tons/ha/yr (Bockheim, 1997) and ranging up to 90 tons/ha/yr (Celo, 1997) and even 185 tons/ha/yr (USAID, 1997). Soil losses greater than 11 tons/ha/yr

will result in decreased soil productivity (Brady, 1984). Increasing soil erosion is having several damaging effects on the Albanian economy. To begin with, most of the 600 small irrigation reservoirs are located upland, near eroded areas; 15-20% are already *severely* affected by erosion. Moreover, agricultural productivity has declined, as topsoil is lost and as irrigation capacity diminishes with siltation of canals. Finally, siltation of drainage canals has increased the incidence of flooding up to even five or six times what it was before; a World Bank report maintains that 40,000 ha. are now estimated to be at risk.

One can identify *six underlying causes of natural resource deterioration in Albania. First*, worsening and uncertain economic situations have prompted the rural population to grab quick returns; for example in 1997 with the collapse of the pyramid schemes and the ensuing economic breakdown, families vied with each other to cut trees and harvest other resources, knowing the Government had no control and fearing that somebody else would take them. *Second*, unresolved land tenure uncertainties have given rise to suboptimal use of land, as mentioned earlier in this section. *Third*, natural resource policies constrain effective management. The difficulties in changing land classification have already been mentioned. Inappropriate and inaccurate land classification methods, upon which land taxes are figured, have discouraged ex-owners from seeking title for fear of suffering unreasonable taxation. Lack of criteria for implementing policies (e.g., which 100 ha. of forest should be restituted to ex-owners of more than 100 ha.; roles and responsibilities of officials in transferring state forest to local communities; next steps to induce privatization of refused and non-divided land) has lead to non-implementation. *Fourth*, Government institutions have become even weaker and resource-poor during the past seven years, and yet they still have official responsibility for administering virtually all forest, pasture and refused/non-divided lands. The new Government has stressed its intention to devolve responsibilities to the local level, and yet local government lacks the requisite legal mandate, resources, experience, and power to collect and retain revenues. *Fifth*, there has not been a long-sighted, strategic approach for planning and management of natural resources. The technicians have viewed agriculture, forestry, pasture and other natural resources as compartmentalized operations, even though operations in one sector (e.g., halving of pasture land) affected others (e.g., increased grazing and lopping in forests). *Sixth*, training and management in natural resource fields has focused largely on boosting production capacity. Modern concepts of multiple use and sustainability are still not part of academic disciplines.

2. Strategy; the Results Framework

A. Transition Hypothesis

Because nearly two thirds of Albanians rely on agriculture, forest and pasture land for their livelihood, it is essential to arrest the ongoing degradation of the natural resource base. Improved and sustainable management of the resource base will not only generate

income for rural Albanians, but can yield important economic benefits in tourism and nature conservation.

B. Critical Assumption: Political Stability

The assumption of political stability implies certain conditions required for effective natural resource management. First of all, the Government must possess enough consensus and control that people are willing to invest time and money in resource development and take a long-term view. Twice in the past eight years, civil disorder has prompted people to plunder forests in a scramble to take for themselves because otherwise somebody else would get the trees in a time of unusual economic uncertainty.

Second, the Government's goals, priorities and policies must be transparent, predictable, and credible. If the Government abandons its initial commitment to move toward a predictable and consistent policy framework that assigns appropriate economic values to natural resources, for example, the capacity to manage the environment will be undercut -- the Government does not have anywhere near the budget to manage, and local government, private individuals and NGOs have to actively take charge for sustainability. Moreover, if Government appointees are changed too often, the ensuing brain drain and inconsistency disarm management capacity.

C. Causal Linkages (Principle Intermediate Results)

IR 1.6.1 Increased local and private participation in natural resources management

Because of land tenure uncertainties and disenfranchisement (no mandate, no resources) at the local level, natural resources have often not been managed in a sustainable manner. Despite its verbal support for decentralization and privatization, the Government has done little to actually let go of its control and ownership and has viewed villagers as antagonists. Yet rural Albanians have a rich pre-1946 tradition for sustainable management of resources by communities, and a manifest will to improve current conditions, if only these can be harnessed. The Government has to identify those natural resources which can be managed at least as well or better by communities and private individuals -- and not only let go of them, but help strengthen local capacity.

IR 1.6.2 Increased use of environmentally friendly, sustainable natural resource technology

During the Communist era, natural resources were exploited to meet short-term production goals, without assessment of economic viability and environmental sustainability. Each resource was treated in a compartmentalized manner, and there was little strategic planning. In fact, the Albanian curricula for natural resource specialists did not include “economics” in the modern sense as including sustainable development, watershed management, and “environmental science”; these are only just beginning to penetrate the

current university curricula. In order to achieve effective environmental management, natural resources must be used in a sustainable, integrated manner. Production and income generation objectives have to balance with environmental and conservation objectives. Soil erosion in upstream areas must diminish, so that irrigation and drainage canals downstream function properly. When forests are protected or closed, alternative ways to provide fuel and fodder must be found. Technology packages which achieve these goals are beginning to be introduced; their success and dissemination is vital to sustained economic development.

IR 1.6.3 Increased public advocacy of sound environmental practices

Currently, villagers express dismay that the condition of their land deteriorated so markedly over the past decades, and has continued to decline at sometimes accelerated rates. However, they feel that they do not have any means for redressing the situation, partly because the Government does not yet feel too responsive to public pressure, partly because channels for advocacy are only initially starting through NGOs and have yet to really address environmental issues on a broad scale, and partly because villagers lack the sense of a *right* to hold the Government accountable. Yet, public support and pressure for improved resource management, in the end, represents a critical tool for motivating responsible environmental management, even in the face of changing politics and Government appointees.

3. Program Approaches

A. Experience to date. To date, the chief experience with natural resource management on a broader level has come out of the *Albanian Private Forestry Development Program (APFDP).* While the design of APFDP laid key emphasis on privatization of forests, it became clear that privatization would play a lesser role because Albania's main pre-Communist tradition was for village-based forest management, and because Albania has restricted the restitution of forest land to pre-1946 owners with official title (at most, accounting for only 5% of forest area). Instead, communities and the new Government alike both support an emphasis on returning massive areas of forests near villages according to tradition. Thus, APFDP has looked more to the institutions and policies critical to decentralization. APFDP has facilitated the transfer of state-owned forest land for local management, focussing on Lezhe District.

Beyond that, APFDP has become involved in management of related resources. In 1996, it supported surveys of “refused lands” which, although agricultural, were transferred to the Directorate General of Forests and Pastures for administration and which often were former forest land more appropriate for afforestation. These surveys uncovered a host of complex land management and policy issues, which affect forestry and natural resource management generally. Similar results came out of the APFDP “Silvopastoral Management Study”, which documented how Government policies to decrease pasture land but increase livestock have contributed to deforestation.

Under the *Land Market Action Program (LMAP)*, USAID has supported the mapping and registration of property. Although mainly focussed on agriculture, the LMAP has addressed forestry and pasture policy and operational issues as well, and has a mandate to begin registering these resources in the near future. LMAP has offered to assist watershed management activities through aerial photography, mapping and registration in watersheds targeted under APFDP and the proposed watershed management project. Collaboration on tenure-related policy issues will also be important.

B. Adoption of a New Strategic Objective. The accumulated USAID experience in natural resource assistance has shown that the green environment in Albania has deteriorated markedly, and the Government has not as yet been able to arrest the downward turn. In USAID's "Measuring the Environmental Transition in Eastern Europe and the Newly Independent States" report of January 1998, Albania ranks the lowest with regard to environmental policy, legal and regulatory framework, ranks second lowest in institutional strength and commitment and environmental trade, finance and investment. Clearly, given Albania's predominately agrarian economy, it's critical that addressing the country's need for environmental management capacity is essential for economic growth and development. USAID/Albania therefore proposes to adopt the new ENI strategic objective for "Increased Environmental Management Capacity to Promote Sustained Economic Development". Furthermore, since the problems being experienced in different sectors are interrelated, the new S.O. 1.6 would allow them to be addressed in a comprehensive manner. Finally, the Government has now shown itself more receptive to comprehensive resource planning and attention to the environment; therefore the timing of the new S.O. is propitious. The new Government has embarked on short-, medium- and long-term strategic planning exercises, and USAID has participated in some strategy development. The new *Strategy for Agricultural Development in Albania* of March 1998 takes a more comprehensive view, as with its forest policy objective of "Maintaining of the entirety of forests and pastures and biodiversity; multifunctional and sustainable management of produce and services in order to meet present and future demands of the society."

C. Future Operations. In operational terms, USAID proposes four interventions in support of S.O. 1.6. First, the APFDP's midterm review team recommended extending the project for two years and adding selected soil conservation and other resource management activities, which could serve both as a pilot attempt to enter into natural resource management and establish demonstration areas. This would be done in conjunction with APFDP ongoing work on transfer of state-owned forest and pasture for local level management and agroforestry improvements on refused and non-divided land. It would entail funds for TA and support for public works, e.g., construction of check dams, or reforestation for soil stabilization. In addition, APFDP would continue addressing the policy constraints by pursuing policy-oriented assistance in such areas as development of a national strategy that would determine national local authority for allocation and management of natural resources; developing policies that define national

level resource tenure and use; and continued emphasis on promoting policies that decentralize the management of natural resources.

The second intervention will be a full-scale project on "Sustainable Watershed management". In November 1997, a pre-design team worked in Albania to investigate the scope of watershed and soil conservation problems and to suggest effective points for USAID assistance. Although the Soils Research Institute has compiled some figures on erosion, the modern concept of watershed management is as yet largely unfamiliar in Albania, and there has been no significant donor intervention in the area to date. Therefore the first phase of the project will involve: (a) a comprehensive baseline assessment of natural resource conditions in all 12 watersheds; (b) the selection of high-need, potentially high-impact areas for initial assistance; (c) preparation of components for institutional support of watershed management, including training and policy reform; and (d) community organization work in the sites chosen for field work, to accurately respond to socio-economic factors (e.g., land tenure uncertainties, social conflicts, capacity of local government, and needs and use patterns for natural resources). This effort is planned to be coordinated and implemented through the USDA Forest Service, International Forestry Program under the Global Bureau Forest Resources Management Project.

The third intervention will be the establishment of forestry extension support links between the U.S. Forest Service (FS) and a U.S. university(s) on one hand, and the Agricultural University of Tirana (AUT) on the other hand, through the "Forestry Extension, Education and Private Enterprise Project". In 1997, the FS developed a proposal to field two to three short term TDYs per year, to complement the technical support currently rendered by GTZ and the agricultural extension training provided through an existing Agricultural extension training program. Until this time, there has been no formal forestry extension service, although APFDP has supported small scale public and private extension activities. However, given the stepped-up transfer of state-owned forest and pasture lands for local level management which GOA and USAID already embarked on, as well as the new initiatives in watershed management, AUT must look towards training foresters who can furnish requisite extension support. The assistance provided by FS and university faculty will include: development of an institutional framework for forestry extension (including AUT, GOA land management agencies, research institutes related to forestry and pastures, local government and NGOs).

Also, in complement to the interventions described above, a three-year Integrated Pest Management (IPM) activity for olive, tomato and cucumber production will be implemented in collaboration with the Albanian Ministry of Agriculture and Food, the Agricultural University of Tirana (AUT) and other Albanian institutions. These particular crops have been focussed because presently, crop losses are very high. In addition, although pesticide use has recently dropped due to the weak economic position of farmers, it will likely rise again after farmers are more able to purchase inputs. Therefore, this is a strategic time to replace the pesticide-minded orientation of farmers

with an IPM approach that will optimize crop production while minimizing damage to human health and environment. The core intervention will include collaborative socio-economic and biological research on IPM, development of policy recommendations to encourage IPM and other sustainable agricultural technologies, training of Albanian scientists on IPM, and development of training materials for Albanian farmers in collaboration with local institutions. Whenever possible, research will be conducted on-farm and will involve farmer organizations and pertinent private sector entities. Attention to gender issues and to institutionalization of IPM in Albania will be high priorities in all activities.

4. Commitment and Capacity of Development Partners

The key development partner in strengthening environmental management capacity is the Ministry of Agriculture and Food (MOAF). Although the new coalition has stated its determination to privatize and decentralize, central Government has in reality continued to keep a tight hold on natural resources. Not only does the Government lack the resources and skills to effectively administer these resources, but the resources which are adjacent to communities are in fact more effectively managed at the local level. USAID has pushed for decentralization through a number of its programs, and should continue to support the policy and institutional reforms necessary (for example, adoption of a revised "Public Property Administration" law enabling local government to own property, adjudicate resource issues, collect/retain/expend revenues, etc.)

However, at the same time it steps back from local level administration, the Government must move into an overall environmental role. It has to act more aggressively to plan and balance natural resource management on a macro level. This means *developing strategies; *building environmental considerations into strategies for economic growth to ensure sustainability of both economic progress and environmental quality; *determining which forest areas should be earmarked for large-scale production, for small scale enterprise use, for community management to meet subsistence and income generation needs, for tourism, for rehabilitation because of severe degradation/erosion/downstream siltation, for protection of biodiversity, etc. Private and community-level managers do not have the necessary "big picture" overview -- or interests -- to balance resource management; that has to be the Government's job. Through APFDP and other initiatives, USAID has supported strategic planning. APFDP co-organized the Forest Strategy Workshop with Directorate General for Forestry and Pastures in December 1997 and has arranged for follow-up specialist assistance in Spring 1998. USAID will become even more actively involved in 1998.

The Institute for Soil Studies under MOAF has responsibility for classification of land types, studies on soil quality and erosion, and other activities which will make this Institute the leading partner for the Watershed Management Project. Considerable technical expertise exists among its staff; however, up-to-date concepts of watershed

management and community organization need to be inculcated during the coming months.

The World Bank, through its "Albania Forestry Project", has been a key development partner in the forestry sector, particularly in terms of policy and institutional reform. USAID will develop closer ties with the Bank's "Irrigation Project" to identify the key areas suffering siltation from soil erosion and collaborate on protecting the upstream watersheds.

APFDP has coordinated policy and training initiatives with GTZ, which is active in supporting the Forest Faculty at AUT in such areas as forest policy and extension curriculum. In the future, USAID will encourage AUT to introduce into its curricula environmental subjects and watershed management to build a broader base of skills supportive of "Increased Environmental Management Capacity".

5. Sustainability

The chief progress under Strategic Objective 1.6 has been through the APFDP, which was until now assigned to Strategic Objective 1.3. Because APFDP has changed its focus over the past two years to deal increasingly with forest and pasture sustainability, and because the Government has collaborated with APFDP on strategic planning and resource policy, steps have been already taken toward building environmental management capacity on the national level. In its demonstration plots and in work at the local level with forest transfer and management, APFDP has begun to develop approaches toward sustainable use of forest and pasture land. However these are only preliminary steps. The institutional capacity and commitment needed for broad level environmental management by central Government have yet to be established, and comprehensive watershed management work in Albania has not yet begun.

During the next five years, USAID expects to take major steps towards building national capacity as well as replicable local models. However, experience in other countries implies that it takes more than five years to develop the capacity to manage the environment on a totally self-sustaining basis. This may be so especially in Albania, where environmental issues and watershed management are still relatively unknown and where, at the same time, the problems of soil erosion and degradation of natural resources are immense and difficult to get a grip on. Therefore, USAID expects that further efforts beyond the strategy period will be essential to achieving full sustainability.

STRATEGIC OBJECTIVE 2.1: INCREASED, BETTER-INFORMED CITIZENS PARTICIPATION IN POLITICAL AND ECONOMIC DECISION-MAKING

1. Problem Analysis

Electoral process: International observers concluded that Albania's June 1997, Parliamentary elections were "acceptable given prevailing circumstances". However, election observers identified numerous problems including inaccuracies in voters lists, inadequate voter education, poor ballot box security and intimidation of election workers, high numbers of invalid ballots, and slow transmission of results to the Central Election Commission. To varying degrees, these problems and related concerns about manipulated election results have characterized Albania's elections since the first elections of March 1992. While the Central Election Commission has been established as a permanent entity, further improvements in its authority and procedures are needed to reinforce its independence from political influence.

Political party development: Albania's political party structure, consisting of two principal parties and a handful of minor parties, have little orientation to representing their constituents or involving them in party affairs. Public outreach events that communicate views on issues and invite recommendations on party platforms are the exception. Campaign planning is rudimentary, with insufficient attention given to organization, tactics and targeting voter groups. Female candidates have been an afterthought in campaign planning. Worse yet for Albania's fledgling democracy, there is no concept of a "loyal opposition". The Democratic Party, ousted from office in early 1997 by public demonstrations and subsequent elections, has refused to occupy its seats in Parliament. Its leader is most vocal in vilifying the incumbent Socialist Party and calling for action to remove the Socialists.

Parliamentary operations: In the early years of Albania's democracy, members of Parliament had little concept of transparency, i.e., communicating Parliamentary actions and opening. Parliamentary sessions to the public . While increased transparency is gradually becoming an accepted value, systematic procedures and public information channels are only now being developed. Despite efforts by donors such as USAID in building up a parliamentary library and training representatives, parliamentary deliberations are also constrained by poor legislative drafting skills, inadequate access to reference materials, and insufficient staff support.

NGO Development: Prior to commencement of the USAID-financed Democracy Network Programs (DemNet) in late 1995, the Albanian NGO sector was characterized by its nascent stage of development and weakness. Long totalitarian rule had virtually destroyed voluntary associational life at all levels of society. Often NGOs were viewed with suspicion because of coerced use of mass organizations under the dictatorship. A few capable NGOs came into existence after 1992, but the majority are small and weak,

operating with few paid staff and temporary facilities. Few understand the concept of policy advocacy, and none have been able to provide an oversight or watchdog function vis-a-vis governmental institutions.

Despite DemNet's considerable progress over the past two years, the NGO sector in Albania is still emergent and fragile. There is broad consensus that NGOs have inadequate financial and organizational resources, and limited understanding of the role and function of NGOs in a civil society. There are several NGO umbrella groups and an NGO forum has been established; however these groups are still formative, lack a sophisticated understanding of constituency building, and suffer from the jealousies and turf battles characteristic of a new NGO sector competing for limited resources. As noted in the overview, USAID/ENI's NGO sustainability index places Albania's civil society development behind all CEE countries except Serbia and Croatia.

Relations with the previous Democratic Party government were antagonistic with sporadic attempts to control the activities of the NGO sector through proposed intrusive legislation and proposed enactment of a restrictive licensing law. The prevailing Albanian NGO legal framework is problematic but workable in the short run. A 1994 civil code sets forth basic provisions governing NGOs that are not fundamentally antagonistic to the growth of the sector. Work now proceeds on revised NGO legislation, with increased GOA openness to participation by representatives of NGO interests in the drafting process.

Independent, professional media: A number of private radio and TV stations have been established in the past six months and media outlets, in general, have enjoyed increased freedom and government tolerance. Nevertheless Albania's independent media face serious constraints on professional development. The weakened economy is responsible for strains on media arising from increased taxes, loss of advertising revenue, and shortage of capital for facility upgrading. The May 1997 radio and television law that explicitly authorized private broadcast media contains troublesome provisions on licensing and program content. A recent assessment concluded "that the quality of journalism is generally poor and Albanians are not being provided enough news and information for them to make informed economic and political decisions." Underlying problems relate to lack of familiarity with sound business practices, the inadequate knowledge base of recent journalism graduates from the University of Tirana, lack of professional integrity, and weak professional associations. For most Tirana radio stations, survival is the paramount concern.

Democracy-oriented education: The success of democratic reforms, including adoption of a constitution, an improved electoral system, and a more active role for NGOs in public affairs, depends largely on people's understanding of their rights and responsibilities arising from the reforms. The knowledge base is understandably still very thin in Albania and civic education efforts must accompany each major democratic reform. More fundamentally, the Albanian education system with its emphasis on lectures and rote-learning does not encourage the independent critical thinking, problem solving,

and tolerance of idea sharing that help prepare young people for an informed, activist role in a democratic society and market economy. Profound changes in instructional style, teacher training and curricula are needed to encourage the adoption of democratic values and behavior at the primary and secondary school level.

Combatting Corruption: Corruption, generally considered to be endemic in government and business affairs, threatens to be a corrosive influence on Albania's efforts to strengthen democratic governance. In part, corruption flourishes because of weaknesses in those democratic institutions and processes that normally encourage people's participation in public affairs: underdeveloped civil society organizations, inconsistent media coverage, and lack of institutionalized means to monitor and redress corrupt practices.

2. Strategy: The Results Framework

A. Transition Hypothesis

Citizen's participation is a critical element in any democracy. Following the fall of the hard-line communist regime in Albania,, there is not only widespread interest in participating in the political process, but also a great need for basic education of the citizens on their rights and responsibilities. Within any democracy, it is imperative that people themselves work to safeguard their rights, to demand efficient functioning of government institutions, and to ensure effective representation of their interests.

B. Critical Assumptions

1. Commitment to democratic reforms. It is assumed that successive governments of Albania remain committed to democratic institutions and processes that encourage widespread participation. Electoral problems during the mid-1990's and GOA maneuvers to circumscribe NGO and media operations in 1996-97 were causes for concern. The current environment is much improved for citizen participation, and work on a draft constitution and modified local government authorities while slow are encouraging developments.

2. Free flow of ideas. It is also assumed that Albanian citizens feel enfranchised and are willing to voice their opinions as part of the political process. Fear of retribution or apathy could stifle the potential role of citizens' participation. This assumption will be monitored by international and human rights organizations, supplemented by periodic USAID-financed opinion surveys.

C. Causal Linkages (Principal Intermediate Results)

IR 2.1.1. More Effective Political Parties.

Political parties in Albania tend to be hierarchical, top-down organizations rather than avenues of political participation for their membership. USAID's program will promote more democratic party operations with greater emphasis on building grass-roots support, soliciting voter views, and campaigning on the basis of a well-defined platform.

IR 2.1.2. Free and Fair Elections.

A pattern of poorly managed and disputed elections will inevitably lead to voter apathy and, worse yet, distrust and lack of support for the party that gains office. Given Albania's unfamiliarity with proper electoral processes, external assistance is needed for every aspect from promulgating fair election laws to promoting balloting procedures that safeguard against fraud, all buttressed by voter education. USAID's assistance to election administration and monitoring is a critical part of a multi-donor effort.

IR 2.1.3. NGOs Participating in Political, Social, and Economic Decision-making.

In operation only a few years, some Albanian NGOs have been surprisingly effective in representing people's interests, influencing public policy, and shaping legislation. The NGO base is still relatively weak, however, and most organizations struggle with organizational, management, and financial problems. USAID's program will further build NGO capabilities, expand NGO operations more widely throughout the country, and help establish an Albanian resource center to provide leadership and technical/ training support to the NGO community.

IR 2.1.4. Independent Media Strengthened.

Independent broadcast media have arisen only in the past two years. The coverage, quality, and reliability of reporting by all media outlets, both print and electronic, do not effectively serve the information needs of Albanian citizens. USAID's program will help broadcast media to improve business management, upgrade journalism standards, and strengthen a newly-formed association.

IR 2.1.5. Improved Effectiveness of Parliament.

Albanian members of Parliament have little experience with maintaining constituent relations, establishing channels of public communication, and in general representing the electorate. USAID assistance will help professionalize Parliamentary operations and increase its openness to public participation through open sessions, meetings with constituents, and public information about the legislative agenda.

IR 2.1.6. Increased Demand for Transparent, Accountable Decision-making.

Pervasive corruption, an anathema to committed citizens' participation, breeds cynicism and loss of confidence in government institutions. USAID's program will work with

selected NGOs to help citizens realize they have a right to information on government operations, mobilize public concern about corruption, focus attention on corrupt practices, and press government offices to take corrective action. This NGO "transparency initiative" will complement activities in other strategic objectives to strengthen the rule of law, regulate financial institutions, and upgrade media coverage.

IR 2.1.7. More Participatory Instructional Practices Adopted in the Educational System.

Instructional methods in primary and secondary schools discourage independent thought and ill-prepare Albanian youth for an activist, participatory role in a democratic society and market economy. USAID's program will support pedagogical reforms leading to greater pupil participation in the teaching-learning process and emphasis on learning skills, problem solving, and critical thinking as well as greater community involvement in education.

3. Progress to Date and Program Approaches

A. Free and fair elections. Past USAID-financed assistance focussed on preparations for the 1996 parliamentary and local elections and, following the civil insurrection of 1997, the June 1997 parliamentary elections. Substantial improvements resulted from assistance to the Central Election Commission (CEC) prior to the 1996 local elections and multiparty round tables which promoted electoral management reforms. USAID also provided 100 U.S. observers to the OSCE-led (Organization for Security and Cooperation in Europe) international election monitoring program for the 1997 elections. Throughout, USAID-financed grantees have worked closely with the Albanian Society for Democratic Culture (SDC) to provide voter education, recruit and train election monitors, monitor media coverage, and monitor election day procedures. Particularly successful was the SDC's media coverage which is credited with inducing state broadcast media to change election coverage from a pronounced ruling party bias to more even-handed treatment. In addition to the generally acceptable election of June 1997, other harbingers of an improved electoral process are the permanent agency status of the CEC, creation of a core group of trained election officials and poll workers, and drafting work on a new constitution.

Building on these early achievements, USAID's future program will give priority to the following activities:

- capacity building of the Central Election Commission, encompassing management training, development of internal policies and procedures, and coordination of responsibilities with regional and local election commissions;

- legal and regulatory reform, first in constitutional drafting followed by improvement of national election laws;

- development of voter registration procedures including issuance of voter ID cards;

- improvement of the balloting process including ballot forms, ballot tabulation and invalidation procedures;

- development of training programs for electoral officials; and

- development of improved programs for voter education and outreach.

B. More effective political organizations (Parliament and political parties). A USAID-financed grantee has focussed on strengthening political organizations since 1994. Priorities with Parliament have been to improve operating procedures to enhance transparency by providing information on legislation and strengthening constituency links. A 1995 workshop series led to the first public hearing of a parliamentary commission. The program has begun publication of a parliamentary directory on membership and structure and a parliamentary monitor on the content and status of draft legislation. More recent developments include a November 1997 conference on parliamentary reform and initiation of parliamentary training to encourage improvements in rules and procedures.

Assistance to Parliament during the strategy period will continue to emphasize procedural reform, improved constituent relations, and increased public information. Priorities will include rules for plenary sessions, establishment of a public relations office, and increasing the number of public hearings and meetings with Parliamentary committees. Capacity-building will be supported through improved staff support, enlarging the parliamentary library, developing research capabilities, and enhancing legislative drafting skills.

Since 1994, a USAID-financed grantee has trained over 1,000 Albanian political party leaders, members, and supporters on party organization, campaign tactics, member recruitment, etc. Improved party tactics first appeared in 1996 and 1997 elections, including use of survey research, door-to-door voter contact programs, and production of candidate brochures and posters. Genuine change in party operations is just beginning, however.

Given the political turmoil of 1997, continuing hostility between Albania's two major parties, and a long interval to the next elections, further assistance to political parties is temporarily on a back burner. As prospects improve for further progress, the assistance efforts will increasingly be focussed at the local levels with emphasis on local organization, grassroots support, non-election year activities, candidate recruitment and development, campaigning on the basis of issues and party platform, and increased use of survey research. Training sessions will be extended to Albania's five main geographic regions with intensified work in a model city in each region and subsequent dissemination of successful experience to other cities.

C. Improved NGO participation in public policy. To date the USAID-financed Democracy Network Program (DemNet) has provided an integrated package of technical assistance and training supported by financial grants to strengthen the capacity of Albanian NGOs.

Public policy-oriented activities have concentrated on four priority sectors: democracy, environment, economy, and social safety net. The program has assisted 33 NGOs with 45 grants and provided training and technical assistance to over 600 NGO representatives. DemNet's primary training focus in the first two years was on building policy analysis, formulation, implementation, and advocacy skills and establishing partnerships between government and NGOs. Targeting selected grantees, DemNet provided training to strengthen overall institutional capabilities, financial management and project implementation.

The Albanian NGO community has made important strides over the past two years. Some Tirana-based NGOs have broadened their geographic base. These include a national farmers union which established extension branches in northern Albania and the Albanian Youth Council which opened centers in five university cities. Locally-based NGOs are also addressing social, economic, political and environmental issues at a community level. A core group of NGOs has begun to participate in the formulation of public policies and engage in substantive policy dialogue with national and local government authorities on topics ranging from environmental policies to a comprehensive law on reproductive health. Other NGO grantees serving a government watchdog function have brought government institutions into compliance with human rights standards, minority rights standards, and election law requirements related to unbiased media coverage. A DemNet-organized NGO Advocacy Coalition successfully diverted an unwise draft law on government licensing of NGO services. Now the Coalition, with the support of the USAID-financed grantee organization, is working with the drafting committee on NGO legislation that will be better-aligned with government, NGO and community needs for social and employment services.

USAID's program during the strategy period will continue to strengthen the policy advocacy skills and organizational capabilities of NGOs. The DemNet program will help build the capabilities of an National NGO Resource Center that will provide technical support and training to Albanian NGOs and help sustain the momentum of NGO development after USAID assistance concludes. Other priorities during the strategy period will be to develop a comprehensive training program for NGO leadership and increase emphasis on NGO strengthening outside Tirana, in part through mentoring arrangements with Tirana NGOs.

D. Independent media strengthened. The political turmoil of March 1997, followed by a period of inactivity by the principal USAID support organization, essentially stalled progress in media strengthening. The future program is based on a media assessment report prepared in December 1997. Assistance will be focused on private broadcast media, which offer the best prospects for success. Upgrading print media is more problematic because of problems concerning financial viability, access to printing facilities, and political bias of the two rival journalist associations. Assistance to private broadcast media will center initially on contributing to the draft of a new electronic media law, in particular to ensure safeguards against government influence. A related effort will support

organizational development of a new association of independent radio operators, including its role in lobbying for improved media legislation. USAID-financed advisors and training will help upgrade technical and business management skills of private radio and television stations while parallel efforts help to modernize the curriculum and course content of Tirana University's Faculty of Journalism.

E. More participatory instructional methods in the educational system. Voter education has been a key component of USAID's program to increase prospects for free and fair elections and will continue to receive major emphasis in future electoral efforts. Other civic education programs will be mobilized to increase people's understanding of and participation in other democratic reforms such as more representative parties and more transparent Parliamentary procedures. Introduction of democratic teaching-learning techniques in the school system will be a new USAID initiative, to be defined more fully by an assessment/design team in April 1998. Based on similar programs in other countries, the program will focus on improved teacher education curriculum, pre-and in-service teacher training, classroom supervision, democratic management practices and greater community involvement.

F. Increased public demand for transparent, accountable decision-making. A special non-governmental organization program is planned to address public awareness about the impact of corruption on the economic well-being of individuals and the need to focus public disapproval on corruption. Public appreciation must be deepened to the point where society pushes government to move forward with its reform agenda and monitors implementation. The program will seek to (a) address corruption awareness throughout society, (b) transform that awareness into an advocacy role in which society keeps the issue at the forefront and presses government to implement reforms to decrease corruption, and (c) rely on periodic reviews by panels of internationally-recognized experts (or similar oversight arrangements) to assess Albania's progress in combatting corruption.

Since corruption is a cross-cutting problem, the NGO leadership initiative planned under this strategic objective will be reinforced by USAID-financed activities in other strategic objectives to promote ethical practices, strengthen regulatory systems, and identify/act on abuses. Complementary results include improved adjudication of commercial laws, strengthened bank supervision, increased independence and professionalism of the judiciary, improved police training and internal affairs procedures, etc. USAID-financed activities will closely complement the World Bank's support to an anti-corruption program and EU Phare's assistance to civil service reform, including a stronger role for auditor-general functions.

4. Commitment and Capacity of Development Partners

Progress toward building the institutional capacity of NGOs will depend on the cooperation and commitment of several USAID partners. Such collaboration will ensure that promising NGOs are recognized and supported through a wide range of grants, technical

assistance and training. USAID partners include SNV (the Dutch foreign-aid agency), DANIDA (the Danish foreign-aid agency), the Regional Environmental Center of Central and Eastern Europe, and EU PHARE. ICNL and Freedom House will provide valuable support in building an enabling legal framework and accessing regional and American exchange opportunities.

5. Sustainability

Since the institutions/processes that encourage and mobilize citizens' participation are all in very early developmental stages, we do not foresee achievement of this strategic objective by 2002, the end of the strategy period. Within political institutions, we anticipate significant improvements in organizational capabilities, democratic structures, openness to public views and involvement, and established channels of public information and participation -- as defined by our targets. It is possible that electoral institutions, the Parliament, and political parties will have matured sufficiently (and "democratized") by 2002 that USAID will be able to conclude its assistance. The sustainability of democratic reforms would then depend upon the abilities and influence of local NGOs, like the Society for Democratic Culture and ORT's local partner DeMetra, to promote democratic reforms from within. We will need to assess this possibility midway through the strategy period and reconsider viable end-point targets and the related time frame for our assistance.

For civil society development and media strengthening, sustainability appears to require a longer time horizon. In both areas, sustainability is associated with a supportive legislative/regulatory environment, expanding the numbers and geographic coverage of effective organizations, greatly improving organizational capabilities and program quality, stabilizing their financial base, and establishing Albanian associations and support organizations that can continue the reform effort after USAID's assistance is concluded. We anticipate that USAID assistance will need to extend into the next strategy period, but this conclusion will also be tested by a mid-strategy assessment.

Finally, it is too early to estimate the time period required for the new starts on educational/pedagogical reform and NGO-based anti-corruption efforts. Both require changes in long-established patterns of behavior. Even though we foresee a modest USAID role in concert with other donors, achievement of even narrowly-defined results may require some staying power. We will have a better perspective after the assessment/design work on activities associated with these two intermediate results takes place.

STRATEGIC OBJECTIVE 2.2: LEGAL SYSTEMS THAT BETTER SUPPORT DEMOCRATIC PROCESSES AND MARKET REFORMS

1. Problem Analysis

Albania's legal system is rated by Freedom House at 4.75 out of 7, with 7 being the least able to ensure the rule of law. This rating was based on data collected prior to the 1997 period of civil unrest, and the current status of the legal system is probably more dire. For much of 1997, no legal authority existed in some districts and at this point in time, arrests, prosecutions and court proceedings have all yet to be resumed at their 1996 level. While the system of civil law is as troubled as that of criminal law, the problems with the criminal law system are the more salient at this point in history as Albania tries to restore public order and reduce criminality in the aftermath of the proliferation of weapons that occurred as part of the civil unrest. Another great challenge is to devise the ground rules for political participation and competition for power, which need to be embodied in a constitution that is adopted in a transparent and participatory process.

The judiciary is generally considered to be the component of a legal system most vital to supporting democratic processes and market reforms, having the mandates of upholding civil liberties, acting as a third power vis-a-vis the executive and legislature, and enforcing property rights. A recent study of the judicial system of Albania sponsored by the World Bank came to the alarming conclusions that the independence of the judiciary from the executive is severely limited in Albania, that it is not uncommon for judges to have only 6 months of legal training and no practical experience or training, that conflicts of interest on the part of judges may be quite extensive, and that judges do not have access to the current law that they are charged with upholding.

While weakness of the judiciary is of special concern, the problems identified for the judiciary are evident in other aspects of the legal system. For example, lack of competent professionals plagues the police, prosecutors and law schools. Basic structures and procedures are subjects of contention or unknown to the public. For example, there has recently been disagreement about how to ratify a new constitution, how to interpret legal provisions regarding rotation of judges on the Court of Cassation (Supreme Court), what to do about judges with limited legal education, and whether the collapse of pyramid schemes is a matter of criminal or civil law. It is an indicator of the state of the legal system that Albanian judges, who have limited legal education and are apprehensive about peremptory removal, recently conducted a hunger strike rather than appealing to the High Council of Justice or the Court of Cassation for a remedy. Due process appears to be lacking for many government actions, including those of the commission charged with identifying former employees of the secret police and removing them from government positions.

With regard to the average citizen's access to legal recourse, according to the assessment of the judiciary carried out for the World Bank, judges in Albania are very focused on

civil cases which tend to be very basic and personal in nature, such as inheritance, marriage/divorce, child support and government benefit cases. The 1997 Nations in Transit report asserts that defendants' right to legal counsel is generally respected in criminal and civil cases. This relatively good access to courts and defense is probably negated by the fact that most criminal cases lack proper evidence gathering and civil cases are plagued by perceptions of judicial corruption. Recently the Albania Helsinki group charged that pre-trial detention is becoming a serious problem, since police frequently fail to develop evidence or show up for court hearings, leading criminal cases to drag on through a series of fruitless hearings while the defendant remains in jail. Also, it appears that lack of familiarity with conflict of interest principles leads many judges to accept gifts from parties with business pending before them. These problems, combined with lack of ability to effectively enforce judicial decisions, has limited the interest of the business community in resolving disputes through the courts. Overall Albanians need to become more informed about new laws and their legal rights, and then press the legal system to uphold civil liberties and property rights and to handle more complex citizen concerns in the future, such as establishing liability for the failed pyramid schemes.

2. Strategy: The Results Framework

A. Transition Hypothesis:

If Albania does not establish the ground rules of political participation and competition, it invites repetition of the events of the recent past, with elected governments usurping power to the point where they are intolerable, and extra-legal measures are used to remove them. If Albania does not make progress in establishing public order, foreign investment will be seriously dampened. In sum, Albania needs a legal system that provides for enforcement of laws, resolution of disputes, and protection of rights, or it will continue to suffer low levels of investment, high levels of emigration and frequent and unpredictable changes in leadership.

B. Critical Assumptions:

1. Political Will: The results framework for S.O. 2.2 assumes that political will exists to improve the legal system. This assumption has not been fully validated, but the approach of the current government toward drafting and ratifying a new constitution should be a litmus test. The new constitution should also show whether or not the current government is serious about creating a more independent judiciary and ensuring due process. Finally, the drafting process will be a critical indicator of the opposition's willingness and ability to participate in the political process. The government's approach to reducing the number of police and testing qualifications of current legal professionals will also indicate whether the political will exists to improve the professionalism of the legal system.

2. Appropriateness of New Legislation: Another critical assumption is that current Albanian legislation will prove enforceable. Much effort has gone into drafting new civil and criminal codes and codes of procedure and other laws. These laws are considered quite good because they are based on Western European model laws, but for that reason it will take time to determine how Albanians work with them under Albanian conditions. The focus of this S.O. and other donors' efforts is now on training Albanians in implementation of laws.

3. Post-Constitution Technical Assistance: It is assumed that the donor community will continue to help Albania implement the new constitution. Passage of the new constitution will in many ways just begin the process of restructuring the legal system, since it will prescribe norms, but much effort will be needed to bring current Albanian practice into line with the norms.

4. Improvement of Legal Education: Our strategy does not address improvement of legal education because to date, the climate in the two principal law faculties at Tirana and Shkodra has not favored reform. However, we must assume that this climate will improve and that there will be opportunities in the future for USAID or other donors to assist with improving legal education, or each new generation of legal professionals will require extensive continuing/remedial education to be effective.

C. Causal Linkages (Principal Intermediate Results): There are three principal intermediate results which USAID/Albania hopes to achieve: to increase the number of competent legal professionals, to restructure the legal system and to promote citizen recourse under the legal system. It is hypothesized that if the legal system is structured in a way that promotes independence of the judiciary, democratic policing, and due process, and if the people working in that system are highly qualified and behave ethically, that the constitutional order will be maintained and laws will be upheld. Further, if citizens know their rights and have legal recourse, they will continually expand the demands on the legal system so that it will grow and adapt to support democratic processes and market reforms as they are put into place. These intermediate results are the minimum necessary to obtain a legal system that better supports democratic reforms. In order to support market reforms, additional work needs to be done to train judges in how to adjudicate commercial law cases, to improve court administration, to improve judicial ethics, and to improve enforcement of judicial decisions.

IR 2.2.1. More Competent Legal Professionals.

This IR hypothesizes that currently actors in the legal system, on the public side at least, do not behave according to international standards for their professions because they do not possess adequate skills to do their jobs, nor do they know the current Albanian law. In order to raise the competency of legal professionals, USAID will finance many continuing education opportunities and will work to improve the indigenous training institutions in the legal system, principally the Magistrates School and the Police Acade-

my. Improved investigative skills of police is especially important because criminal cases currently lack evidence, which leads to postponement of action on cases, and thus lengthy pre-trial detention in violation of human rights' standards.

IR 2.2.2. Legal System Restructured in the Direction of International Norms.

This IR hypothesizes that, in the short run, Albania will draft and adopt a new constitution that will provide for a more independent judiciary. If the constitutional drafting process is participatory, there will be more of a possibility that the constitution will be accepted and implemented. In order for Albania to fully restructure its legal system, it will no doubt need continued technical assistance from USAID and other donors with regard to such topics as judicial appointments, judicial discipline, the role of the constitutional court, the relations of the judiciary to the Ministry of Justice, etc. USAID will need to change the mix of its activities upon adoption of a new constitution, given that there is considerable emphasis on the drafting process at the moment.

The Albanian National Police is currently considered a quasi-military body, and our program is working to convince the GOA to adopt a purely civilian, community-oriented police force.

IR 2.2.3. Citizens Have Legal Recourse.

This IR hypothesizes that, over time, citizens will have more access to legal recourse if they are given information about their rights and avenues for redressing problems. A variety of activities is included here including public education, publications, training of lay persons in basic legal subjects, establishment of legal clinics and establishment of an office to handle complaints of police infringement of citizen rights.

3. Progress to Date

More competent legal professionals: USAID began assistance to strengthen Albania's legal system in 1992. USAID-financed advisors have worked closely with the Court of Cassation (Supreme Court), Ministry of Justice, and the Albanian Association of Judges to develop a long-range judicial reform agenda and strengthen professionalism within the judicial system. An important early achievement was distribution of Albanian legal codes to judges, prosecutors, and attorneys to correct the serious lack of access to the body of Albanian law. From 1995-97, more than 10,000 copies of civil and criminal codes were disseminated (although the benefit was partly negated by the rioting of 1997, which burned several courthouses and their law collections). In 1997, the USAID program also helped establish a law library at the Supreme Court, open to all members of the legal community.

Another significant contribution was assistance to planning and curriculum development of a new Magistrates School, which inaugurated its first semester of classes in October

1997. The school offers a one-year pre-service curriculum for the entering class of new judges. USAID-financed advisors are teaching specialized courses at the school and helping school faculty organize a continuing legal education program for sitting judges that will commence in the summer of 1998. The USAID program also helped the National Chamber of Advocates (equivalent to a bar association) establish a new organizational statute and ethics code and promulgate these through publication of an Advocates Book. With program support, a Women's Jurist Association was formed in 1996, and has grown to current membership of 73 female attorneys.

An initiative to upgrade the training, professional standards, and performance of the Albanian National Police began in November 1997, with the arrival of three resident advisors from the Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP). Work to date has focussed on a reorganization plan, modified operating procedures to conform with the relatively new criminal code and related procedures code, improved personnel administration, and development of a code of conduct.

Restructured legal system: With preparation of an Albanian constitution at center stage of legal developments, USAID-financed advisors have contributed concept papers on constitutional issues, organized workshops on the role of the judiciary in a democratic society, and trained Constitutional Commission members in legislative drafting.

Citizens have legal recourse: The USAID program helped the Women's Jurist Association organize a legal aid clinic for women that began operations in November 1997. Training efforts have broadened their reach to familiarize non-lawyers with legal processes that affect their well-being, e.g., training farmers in basic principles of contract law and negotiations.

4. Program Approaches

Upgrading the judiciary and legal profession: The USAID program will continue to give priority to the constitutional process, keeping provisions for an independent judiciary in the forefront of deliberations. Parallel efforts will be directed to public education on citizens' rights and responsibilities under a constitution. Ensuring the quality of the Magistrates School will also receive priority, with attention to faculty development, curriculum enrichment, and high-quality in-service training programs. The national and regional bar associations will be strengthened, including institutionalization of continuing legal education for their members. Other initiatives will include assistance to early operations of the women's legal aid clinic and developing a sustainable system for disseminating statutes, codes, and lawbooks to the legal community. In addition, a complementary program to improve the adjudication of commercial law will be implemented under USAID's private enterprise strategic objective (S.O. 1.3), with emphasis on training the judiciary in all aspects of commercial law including numerous laws on contracts, property rights, bankruptcy, etc. that have been enacted in recent years. The

commercial law program will be closely coordinated with the mainline judicial improvement effort under this strategic objective on improved legal systems. Following GOA adoption of a constitution, USAID will reassess all aspects of this program and adjust it wherever necessary to conform with constitutional provisions.

Police reform program: The recently initiated ICITAP program will focus on strengthening the police training center, providing leadership and management training for police executives, improving criminal investigative techniques -- with emphasis on proper evidence-handling at crime scenes, and developing community relations skills. Parallel efforts to improve performance standards will include development of the code of conduct, an office of professional responsibility to counter police corruption, and a transparent system for managing citizen complaints. With FY1998 USAID funds bridging Phase II of the ICITAP program, its results are incorporated in the results framework for this strategic objective. However, we anticipate other U.S. Government funding sources for later stages of the program, at which time the program would no longer be featured in the USAID strategic plan and results reporting.

Criminal justice reform: A complementary program under consideration is a broad-based Department of Justice (DOJ) training effort for Albanian judges, prosecutors, investigators, and attorneys who handle criminal cases. The training would be designed to help the GOA effectively implement relatively new criminal laws and procedural codes, conform with international human rights standards, and combat problems of growing criminal activity. A similar program was incorporated in a 1995 interagency agreement between DOJ and USAID, but was deferred because subsequent political developments (including the 1997 insurrection and government ouster) made the assistance inopportune. The current government has expressed renewed interest in assistance for criminal justice reform. Specific results and performance targets would be defined following a baseline assessment that would be the first task of a resident advisor under the new activity.

5. Commitment and Capacity of Development Partners

Under S.O. 2.2, USAID is expected to work with a variety of development partners, ranging from donor institutions to government ministries and agencies to local and grassroots organizations. A brief outline of USAID's expected collaboration with such partners is provided below.

Citizen Participation in Constitutional Drafting. In addition to the Albanian Government and Parliament, partners include international assistance providers such as the Administrative Center for Coordination of Assistance and Public Participation (ACCAAP), the Council of Europe (COE), and the European Union (EU).

Strengthening Legal Associations. USAID partners include international organizations, as well as the government-sponsored Magistrates' School, the Albanian Judiciary, the Tirana Law Faculty, the Chamber of Advocates, and various Albanian NGOs—such as

the Young Lawyers' Association, the Association of Albanian Judges and the Women Jurists' Association. USAID partners in the women's legal rights area include the Professional and Business Women's Association and Women's Jurists' Association.

Increased Information Flow. Partners include the National Chamber of Advocates and the Soros-funded COPLI organization.

6. Sustainability

USAID assistance to constitutional development and, following approval, training in constitutional processes should achieve their intended results by 1999-2000. Developing a high-quality educational program at the Magistrates School and sustainable continuing legal education through national and regional bar associations will require extensive assistance and, given their fledgling status, these programs may not be self-sufficient by the end of the strategy period. Our targets , however, call for full achievement of results associated with these critical education/training efforts by 2002 and disengagement of USAID's support. Similarly, ICITAP's program to institutionalize improved training and professional standards for the Albanian National Police will require a long-term support effort, but sufficient momentum may be attainable by 2002 to warrant conclusion of ICITAP assistance. In any case, we foresee other U.S. Government funding supplanting USAID's financing role in the out-years. Department of Justice assistance to criminal justice reform is intended to be a short-duration (one-two years), intensive training effort, with completion no later than 2000. In sum, we believe that this strategic objective can achieve its intended results by 2002, and USAID assistance to democratic governance in the next strategy period will concentrate on increased people's participation and improved local government.

STRATEGIC OBJECTIVE 2.3: MORE EFFECTIVE, RESPONSIVE AND ACCOUNTABLE LOCAL GOVERNMENT

1. Problem Analysis

Incomplete Legal Framework for Local Government: Local government autonomy is extremely limited under the current legal framework. Confused roles and responsibilities impede local governments capacity to serve and respond to their constituents. While mayors are directly elected, they lack key decision-making powers. Local governments have virtually no fiscal autonomy. Financial resources come through transfers from central government, which earmarks the funds for specific purposes. Even then, district officials will veto expenditures through seemingly arbitrary decisions. Within a confused and incomplete legal framework, local governments have no recourse.

That said, the central government has shown interest in fostering deeper decentralization of responsibilities and authorities to local governments. GOA interest is provoked by the EU's requirement for members to adopt the Charter for Local Government, stipulating that local governments have authority to provide key urban services and the ability to raise their own revenues. The central government also seems to recognize that Albania's infrastructure and governance needs cannot be met from the center and that delegation will be necessary for effective governance. A newly created Inter-Ministerial Task Force on Local Government has identified laws on municipal organization and finance to be reviewed and amended, but has not yet created an implementation plan. These laws need to contain or be supplemented by clear enforcement guidelines and mechanisms to effectively clarify, increase and sustain the powers and authorities of local governments.

Strained Infrastructure: Poor service quality compounded by rapid urban migration to the largest cities and inadequate infrastructure are among the most significant challenges local governments currently face. Growth in the principal cities is explosive, accelerated greatly by the unrest in other parts of Albania. Estimates suggest that the population of Tirana increased by 200,000 (an increase of half) between 1996 and 1997 and in Durres by up to 50,000. This growth is placing severe strain on already insufficient housing and infrastructure. Increased demand on the power grid and water lines are rendering service more sporadic and, in some cases, non-existent. Local governments are left to deal with the proliferation of illegal settlements in a context that doesn't allow regulation or constructive channeling of growth.

With the right tools and authorities, local governments could channel this movement to foster local economic development while simultaneously protecting urban public space from illegal and uncontrolled development. Without effective tools, however, new housing developments and businesses are being set up wherever there is unoccupied space - regardless of existing infrastructure in place, land use regulations, permit laws or licensing. In Albania's existing centralized structure, local governments lack the legal

enforcement mechanisms to control illegal growth and enforce land use plans which could yield socially optimal solutions supportive of broad-based growth.

Lack of Local Management Capacity: Most government officials in Albania lack significant experience in basic management including contract supervision and enforcement, operating and capital budgeting, infrastructure investment planning and involving citizens in quality control and oversight. These skills will become increasingly critical as decentralization progresses since adequate resources will not likely follow new responsibilities. Effective service delivery will require creative management and may require increasing prices to citizens for services. With price rate increases, citizens will expect improved performance which managers must be equipped to provide.

Local governments are also confronted with new challenges pertaining to local economic development. The destabilization suffered last year underscores the need for greater understanding of the economic principles that contribute to the retention and creation of businesses and government's role in fostering a supportive environment. Pressure at the local level is particularly acute as unemployment levels remain extremely high. Albanian local governments have little experience in managing market-based strategies, but will need to use dynamic planning and limited resources creatively to yield clear benefits to their communities.

Limited Citizen Confidence and Participation/Communication in Local Governance: The collapse of formal state authority over much of Albania in 1997 raises serious questions about the legitimacy of public institutions at any level in the eyes of most Albanians. Local governments must build a level of trust with citizens by involving them in decisions that affect their community and by managing the responsibilities the local governments do have in an accountable manner. In general there has been a lack of communications and partnership between local government and the business community. With new responsibilities in management and control of services, municipalities need to learn how to solicit citizen input and engage citizens in community decisions and attaining public goals. Local governments also need to recognize the need to adopt transparent operating procedures in procurement and management decisions to build citizen confidence in accountable governance.

2. Strategy: The Results Framework

A. Transition Hypothesis

The premise behind this strategy is that local government has a key role to play in fostering positive economic and democratic development, but to play that role effectively requires autonomy and management capacity to respond to constituents' highest priorities. Citizens must begin to feel tangible benefits flowing from effective governance now. Basic service delivery and infrastructure management are fundamental responsibilities of

government that shape economic prospects and Albanians' confidence in democratic institutions.

B. Critical Assumptions

1. Security. It is assumed that security conditions throughout the country will improve over the period of this strategy. Otherwise USAID's ability to work intensively with pilot cities outside the Tirana-Durres-Elbasan triangle and extend successful practices to other municipalities will be circumscribed and performance targets will need to be adjusted.

2. Commitment to legislative reform: It is also assumed that the GOA will follow through on its apparent commitment to fiscal decentralization and increased transfer of authority to local administration. Otherwise there will continue to be a mismatch between perceived responsibilities of municipalities and their real ability to execute those responsibilities effectively.

3. Infrastructure financing: Municipal infrastructure needs far exceed the revenue potential of municipal governments and central government combined. It is assumed that the donor community will continue to finance major infrastructure improvements that in combination with improved municipal services and administration will address the most important needs of Albanian communities.

C. Causal Linkages (Principal Intermediate Results)

IR 2.3.1. Central Government Transfers Responsibility and Authority to Local Government.

Without increased financial capacity and discretionary authority, municipal governments cannot discharge assigned responsibilities and improve local responsibilities in response to community needs. Albania is pursuing a broad legislative agenda to improve the organization, authorities, and financial base of municipalities including a draft constitution that will, among other things, set out legal parameters for local government. USAID assistance will be directed at fostering an informed and non-partisan dialogue about decentralization between local governments and central ministries, strengthening local governments' ability to advocate and ensure implementation of reforms (particularly through the recently-formed Association of Albanian Mayors), and ensuring that essential authorities are incorporated in revised legislation.

IR 2.3.2. Local Government Capable in Budgeting, Planning, Managing.

Effective municipal management requires a broad range of skills. Albanian local officials need training in modern budgeting processes, data collection and analysis, principles of taxation and revenue forecasting, treasury and cash management, contract execution and supervision, use of citizens commissions and advisory boards, and public infrastructure

management. This capacity building at the local level should add impetus to central government initiatives to transfer responsibilities and increased revenue authority to local government.

Capacity building will initially be concentrated on the eight pilot cities, with a few cities receiving assistance in both modernized administrative practices and improved municipal services to reinforce synergy between the complementary programs. Over the five-year strategy period, increased attention will be given to modest expansion of the pilot city network, disseminating best practices to other municipalities, and establishing an Albanian institutional capability to provide long-term support for the local administration improvement effort. The Association of Mayors should be able to provide leadership, over time reinforced by possible collaboration with appropriate central government entities, creation of regional associations, associations of administrative specialists such as budget/finance officers, and indigenous training programs.

IR 2.3.3. Local Government Provides Improved Services

Basic service delivery is a fundamental responsibility of local government, and a prerequisite to increasing community confidence. USAID's program will be directed at improvements in land management, water, sewer, solid waste, and roads in selected municipalities to extend replicable models, establish effective management arrangements, and attract donor financing for major infrastructure improvements. Much of this work will build on prior successes. To the extent that such improvements require ministerial collaboration, assistance will be directed at developing multi-jurisdictional agreements and action plans to accomplish specific objectives. This approach has proven successful in work on land management in Tirana; the Tirana experience and its participatory elements will be extended to other communities. Increased attention will be given to improving contract management of privately-provided services such as waste collection and increasing municipal authority to set contractor specifications and enforce performance standards. Small grant assistance will also be used to support improvement of municipal services and to reinforce management training.

IR 2.3.4. Increased Openness of Local Government

Citizen confidence is contingent upon demonstrated results and public access to decision-making and dialogue with government officials. USAID's assistance will feature techniques that can be used by local government to responsibly seek citizens' participation on a regular basis. It will also help to institutionalize channels of public communication on community issues and needs. Planning for economic development will be a primary instrument for initiating community involvement in local government decision-making, particularly through planning commissions. Public participation will also be featured in plans to improve service delivery. A particularly successful experience was the Tirana Land Management Task Force in which community participation, community cost-sharing and opinion surveys helped identify neighborhood improvements. Efforts to manage

service contracts, develop municipal budgets and undertake specific infrastructure improvements may also include citizen participation and oversight.

IR 2.3.5. Local Government Support for Economic Development

USAID's assistance to the local government program will continue to promote public-private partnerships to stimulate business opportunity, job creation, and supporting municipal services. Joint planning will ensure opportunities for local businesses and NGOs to communicate their interests to local decision-makers, collaborative use of land use planning, revenue raising and other development tools, and help to shape decisions for locally appropriate and sustainable results. Technical assistance and training will focus on such options as establishment of economic development departments, use of economic commissions with citizen appointees, public hearings on important planning issues, and regional planning cooperation among several municipalities. USAID will also identify opportunities for cooperation in local development planning across several of its strategic objectives, bringing together municipal government, individual enterprises, business associations, regional development entities, and non-governmental organizations in identifying and acting on local priority needs.

3. Progress to Date

Municipal services: USAID has provided support to local government since 1992, initially as a component of a Housing Sector Assistance Project. Assistance on municipal services focussed on utilities management, land use planning, and infrastructure development, emphasizing heavily the role of public-private partnerships. Significant achievements include:

(1) creation of the first intergovernmental working group -- city and district of Tirana, Ministry of Construction, and the National Planning Institute -- which has planned development of a 70-hectare area, identifying sites and related infrastructure needs and addressing legal/policy issues of residential upgrading. An innovative feature has been community participation in the planning effort. A World Bank loan will finance further infrastructure development and neighborhood upgrading..

(2) establishment of legal and institutional mechanisms for private sector delivery and management of municipal services, resulting in passage of the Concession Law for Public Services, Law on Privatization of the water sector, and complementary laws enabling privatization and contracting for water, wastewater, and sanitation.

(3) GOA adoption of procurement procedures for contracting solid waste collection and subsequent contracting for such services by the cities of Tirana, Durres, and Korce. Since contractor performance has fallen short of expectations, USAID-financed advisors are assisting municipal governments to improve contract supervision and enforcement of performance standards.

(4) GOA policy agreement to privatize water services. A World Bank loan will help finance privatization of the Tirana water supply system and USAID-financed advisors are helping the GOA establish a commission to regulate the price and quality of service in a private monopoly situation.

Less successful has been the joint World Bank-USAID effort to improve the Durres Water Utility and increase average daily service from two to four hours. USAID-financed advisors continue to assist on management and financial performance of the utility. These efforts slowed in 1997 due to the civil unrest, and plans to extend assistance in land management, water system improvements, and waste disposal (landfills) are affected by persisting unsafe conditions in many municipalities outside Tirana.

Municipal management and Governance: Efforts to strengthen municipal administration, economic development planning, and public participation in local government affairs were initially concentrated on five pilot cities, which were expanded to eight cities in 1997. Security conditions over the past year (and prevailing today outside the Tirana-Elbasan-Durres triangle) have limited access to several pilot cities, required much of the assistance to be delivered through Tirana-based training, and inevitably slowed progress below original expectations. Nevertheless five cities have made gains in budget planning and management through training in use of spreadsheets and trend analysis/projections. Two pilot cities initiated formation of economic development committees, but follow-up was stymied by security problems. Several municipalities have begun to establish routines of public hearings, town hall meetings, and open press conferences. USAID-financed advisors have prepared twenty-five self-study documents which have been widely distributed to municipal governments. Further, a national Association of Albanian Mayors was organized in 1997, and is pursuing a legislative reform agenda with the GOA. Starting in 1997, USAID-financed participant training has placed increased emphasis on strengthening local government capabilities, including familiarization of seven Albanian mayors with patterns of cooperation and association-building among U.S. cities and exposure of Albanian businessmen to public-private partnerships in the U.S. that have successfully promoted local economic development.

Legislative framework: An especially promising development is the GOA's appointment of an Interministerial Task Force on Local Government and designation of a list of legislative acts on municipal organization, authority, and finance for review and amendment in 1998. USAID-financed advisors recently prepared a report on opportunities and issues for municipal reform to help set the legislative agenda, and will continue to work with the Task Force, Association of Albanian Mayors, and drafting committees to advance the legislative changes most important for effective local administration.

4. Program Approaches

Given continuing security problems outside the capital city, an incremental approach, both practical and realistic in expectations, is necessary. In the short-run, policy work will be a primary focus and "hands-on" assistance will be provided to municipalities as security conditions permit. As the security situation resolves itself and Americans are allowed to travel with greater regularity throughout Albania, the network of municipalities will be expanded and successes replicated.

Scenario One: Limited access outside of Tirana

This scenario assumes that U.S. program advisors and trainers are able to travel freely within the Tirana-Durres-Elbasan triangle, but travel to other Albanian municipalities remains problematic.

* Organize seminars on effective service delivery and decentralization in Tirana for a broad audience of municipal leaders and ministry officials. Decentralization dialogue will focus on targets of opportunity and determining where tangible successes in improving definition of roles and resource flows can be achieved. Service delivery will include privatizing solid waste and contract monitoring.

* Provide policy advice directly to the central government on developing and implementing decentralization laws and policies. This activity will build upon the analysis and recommendations for revising Albania's municipal finance system conducted in January, 1998. In particular, the program will work with the Inter-Ministerial Task Force, Ministry of Finance, and the Interior Ministry's State Secretariat for Local Government to promote decentralization and solidify central government support for effective local administration.

* Advise appropriate ministries, targeted municipalities and utilities on developing and implementing infrastructure investment plans and policies to promote service delivery improvements. Work with the Tirana Land Management Task Force will continue, with results disseminated as a model for community-based development. Work in Durres on water will recommence and focus on developing an action plan outlining responsibilities of the water utility, the municipality and the Ministry of Public works for improvements. Projects outlined prior to the unrest will recommence as the security situation permits. Advice will be provided to the Water Regulatory Commission on rates and privatization once members are appointed.

* Strengthen the Association of Albanian Mayors as an organization capable of representing municipal concerns and as a vehicle for professional training. Consideration will also be given to working with other professional associations such as the associations of small settlement (commune) mayors, city managers, architects and budget officers.

Scenario Two: Broader access outside of Tirana

This scenario assumes that travel is not restricted and the central government continues

its decentralization agenda. This more comprehensive program will include the key initiatives cited in Scenario #1 and add the following features that depend upon a frequent advisory presence at pilot municipalities:

* Provide direct technical assistance and training to mayors, municipal officials and utility managers on public management and administration. Technical assistance will focus on operating and capital budgeting, contract management and oversight. Technical assistance will be coupled with small grants in improving public infrastructure and property management, including roads, water, sewer and solid waste systems.

* Work with municipal officials, local businesses and community groups to draft and implement economic development plans which promote public participation and improve and increase business retention, expansion, creation and attraction.

* Enhance communication between the local government and citizens groups through technical assistance in public communication and citizen participation. This will focus on developing techniques that can be used by government to responsibly seek citizen participation in government activities on a day-to-day basis.

* Replicate on-going work in land management, service improvement, regulatory reform and donor cooperation as well as expansion of successful practices to a larger number of municipalities. This work will further delineate roles, responsibilities, local revenue needs, and special training requirements to upgrade municipal capabilities.

* Development of Albanian institutional capabilities to support continuing local administration improvement efforts, including regional municipal associations, associations of specialized municipal officials, and indigenous training programs.

5. Commitment and Capacity of Development Partners

Assistance under this S.O. will be provided in close collaboration with development partners, particularly those most active in pilot cities targeted for USAID assistance, such as the British Know How Fund. USAID will continue to work with the Dutch foreign-aid agency, EU-PHARE, and UNDP. It will also expand its collaboration with the World Bank, as this organization embarks on large projects in several cities targeted for USAID assistance. Major objectives of such collaboration will be to maximize results from all sources, prevent duplication of effort, and promote devolution of authority to local officials through democratic reform. The World Bank is also active in this area mainly in providing direct infrastructure projects to communities across the country. Direct contact with local governments have helped indirectly to foment the need for better management of local infrastructure works.

6. Sustainability

Local government did not exist in Albania prior to 1991, and none of the individuals who served as Democratic Party mayors from 1991-1996 were allowed to run for re-election in the October 1996 municipal elections. USAID's support to municipal service improvement has mostly concentrated on Tirana and Durres, with rollout of successful practice at an early stage. Assistance in improved municipal management was mobilized in late 1995, severely circumscribed by the political violence of 1997, and still constrained by security conditions that limit regular advisory travel to the pilot cities. The Association of Albanian Mayors was only recently formed and will need much more experience and support to become a genuine force. ENI/W assessment of Albania's progress toward successful local government, using five normative standards, rates Albania's progress as low in nearly every category with a medium progress rating only for municipal services. There is, therefore, a great need for technical assistance and training for local government officials in all areas of municipal operations.

Sustainability of the local government improvement effort will depend upon the legislative changes now under consideration to increase local government authority and revenue capacity, and experience in exercising such authorities. It will also depend upon significant improvements in the capabilities and performance of several pilot cities that can serve as models of successful practice and generate leadership in strengthening municipal associations and advocating continuing municipal needs with central government. It will depend upon institutionalization of effective patterns of communication and cooperation with local communities, business groups, and NGOs that become routine relationships rather than the exception they are today. And it will depend upon establishing an Albanian capacity to continue organizational, advisory, and training support for further improvements in local administration after external assistance has concluded. USAID's assistance program during this strategy period will work on all these characteristics, but it is too early to judge when we have "done enough" with the pilot cities and can proceed to expansion of the assistance program and progressive reliance on as yet unidentified Albanian institutions to take the lead in delivering further assistance. Clearly the program will not approach a sustainability level by 2002, the end of this strategy period. Our performance targets for 2002 define benchmarks of progress towards S.O. achievement sometime in the follow-on strategy period, with end-point targets to be defined after several more years of implementation experience.

STRATEGIC OBJECTIVE 3.2: IMPROVED SUSTAINABILITY OF SOCIAL BENEFITS AND SERVICES

1. Problem Analysis

The general state of health care: The social sector as a whole suffered major deterioration following collapse of the totalitarian regime in 1991/1992. Improved health services are a major priority because Albania has some of the worst health status indicators in Europe, as documented in the overview. A Donors' Conference Report on Albania in October 1997 cited the following significant health care issues:

*Mismatch between health services provided and population needs: The system emphasizes curative services over primary care and preventive services activities.

*Low level of resources and inadequate financing and payment mechanisms: At about 5% of GDP, total health expenditures (including foreign aid) are among the lowest in Europe (but in line with countries of comparable wealth). Most resources continue to originate from the government budget and are very sensitive to fiscal adjustments.

*Weak planning and management capacity: At the national and regional/district levels, tasks are insufficiently specified and/or overlapping. Information systems and modern resources management methods are embryonic.

Maternal/child health: Maternal mortality in 1994 was estimated at 40 per 100,000 births compared to 19 in Western Europe. Infant mortality was nearly 36 per 1,000 births vs. 10 in Western Europe. Due to Albania's then pro-natalist policy and poor information on reproductive health, abortion was the prevailing form of family planning, resulting in high morbidity and mortality rates for women. By traditional practice, Albanian women had on average five abortions during childbearing years, which translates to five abortions for every three children born. For women carrying to term, most prenatal and postnatal care was woefully inadequate.

2. Strategy: The Results Framework

A. Development Hypothesis

Affordable, quality health care is a public expectation in any developed country and therefore represents a special challenge to Albania's emergent market-oriented democracy. Improved health services will fortify the productive capacity of Albania's human resources; increasing the efficiency and lowering the cost of health services will reduce the social investment required to maintain a healthy population.

B. Critical Assumptions

1. Commitment to reforms. It is assumed that Ministry of Health leadership will remain committed to improved planning, budgeting, and management procedures and increasingly rely on them in making policy and resource allocation decisions.

2. Continuity of personnel. The sustainability of improved practices will depend greatly on continuity within senior civil service ranks of the health system. It is assumed that changes in government will not, in turn, result in major displacement of key administrative personnel.

3. Improved security conditions. Particularly for the reproductive health services program, it is assumed that security will improve sufficiently to facilitate national rollout of successful information, counselling, service, and logistics management methods.

C. Causal Linkages (Principal Intermediate Results)

IR 3.2.1 Improved Reproductive Health Practices

High maternal mortality rates are the result of overreliance on abortion and lack of familiarity with modern reproductive health methods. USAID's program will emphasize information dissemination, family planning counselling, improved access to services, and higher-quality services.

IR 3.2.2. Improved Hospital Services in Tirana

Albanian hospitals need to modernize administrative procedures, clinical methods, and financial management. Through partnership arrangements, USAID's program will introduce improvements in administration, nursing, maternal/child care, emergency medicine, and infection control. It is expected that the participating Tirana-based hospitals will serve as models for extension to other hospitals, and the Tirana University Hospital will incorporate improved practices in medical/nursing school curricula.

IR 3.2.3. Improved Health Administration and Management

Given Albania's comparatively low level of health expenditures, it is especially important to improve health management, performance budgeting, and cost control. USAID's program will help institutionalize improved management procedures in the Ministry of Health, establish university-based health management education courses, and develop in-service training in the Ministry.

3. Progress to Date

Improved reproductive health practices:

A Family Planning Expansion and Technical Support Project (SEATS) was initiated in 1996 to achieve several key results: enhanced ability of Albanian families to make informed choices based on more widespread information, education, and communication (IEC), improved family planning and reproductive health services by health professionals, and increased number of service delivery points. Promoting IEC, SEATS and local partners have begun distributing quarterly newsletters and counselling aids to all public health directorates in Albania. Radio broadcasts of family planning information will begin later in 1998. SEATS also pilot-tested a contraceptive logistics management information system that, following refinement, will be extended throughout the health system. Working primarily in the Tirana and Durres municipal districts, SEATS has trained 132 service providers in contraceptive information and counselling and established two family planning training centers within Ministry of Health facilities.

Improved hospital services in Tirana: An early hospital partnership program helped the University Hospital Center of Tirana improve hospital administration, computerize medical records and procurement, and realize savings through increased efficiency. (Similar improvements were made at the Durres Hospital, but benefits were negated by collapse of the main hospital building in 1995.) A follow-on partnership between a Michigan hospital and three Tirana hospitals was initiated in December 1996, with priority emphasis on improving hospital administration, maternal/child care, nursing services, emergency medical treatment, and infection control. Progress was interrupted by the civil unrest of early 1997 and subsequent travel limitations between the U.S. and Albania. The partnership program was reactivated in early 1998 through a series of Michigan-based training programs for health care personnel from the three Tirana hospitals.

Improved health administration and management: Another partnership arrangement, involving tripartite cooperation among New York University (NYU: the School of Public Service and the Medical School), the Albanian Ministry of Health, and the University of Tirana, is dedicated to improving health management education in Albania. Initiated in 1996, this partnership began well with a series of visits in both directions, but again the civil unrest of 1997 caused a hiatus in partnership activities. In addition, the subsequent change in the Albanian Government and key Ministry positions required renewal of the government's commitment. The program was reinvigorated with late-1997 workshops on health administration and financial management, and appears ready to resume progress towards its objectives. Under the partnership, two Albanian health officers enrolled in Masters Degree programs in health management at NYU, and one has returned to a position as the Minister's health policy advisor.

In mid-1996, USAID also financed a cooperative agreement between the U.S. Department of Health and Human Services (DHHS) and Albanian Ministry of Health to improve the Ministry's planning, budgeting, and management capabilities. DHHS sent two advisory teams to Albania in 1996, the first to make a baseline assessment, the second to hold a workshop on financial planning and budget management for Ministry and hospital

administrative officers. Off to a promising start, this Financial Planning Advisor Project also faltered through the turbulent period of 1997. The program was recently resuscitated by a January 1998 DHHS country visit to reconfirm priorities and update the workplan. The program supplied computers to several Ministry offices, but few procedural improvements highlighted in the 1996 workshop have been put into practice.

4. Program Approaches

Improved reproductive health practices: The SEATS program will continue to increase demand for family planning services through IEC and strengthen institutional capabilities to deliver quality services, integrating services within the national health care structure. Priority will be given to development of a national training capacity and nationwide use of IEC materials and a modernized logistics management information system. Beginning in 1999, SEATS will extend its quality/availability of services efforts to two districts each in northern and southern Albania. SEATS also contemplates extending its IEC outreach through association with NGOs and youth groups, and help medical/nursing schools improve course content on reproductive health. Across the five-year strategy period, USAID plans progressive expansion of the reproductive health services program with corresponding reduced emphasis on hospital partnership activities.

Improved hospital services in Tirana: The Michigan partner hospital has developed a training model to be applied across the specialty areas identified as priorities in the partnership agreement. The model begins with foundation training common to all specialties, branches into an administrative or clinical curriculum, then progressively focusses on specialized training in administration, nursing, mother/infant care, trauma/emergency treatment, and infection prevention/control. Emphasis will be given to training Albanian trainers to extend improved practices throughout their respective hospitals. For emergency medical services (EMS), the partnership plans to establish a permanent EMS training center and incorporate EMS into medical school education. Sub-objectives have also been defined for other specialties, such as establishing nursing care protocols and reduction of in-hospital infection rates.

Improved health administration and management: The New York University partnership will concentrate on several complementary institutional objectives: undergraduate and graduate educational programs in health management at the University of Tirana, in-service training courses in health management at the Ministry of Health, a policy analysis unit in the Ministry of Health, and a health policy and management resource center at a site to be determined. At the University of Tirana, initial efforts will be dedicated to curriculum development, faculty training, and course materials for the undergraduate program, with start-up tentatively scheduled for the 1999-2000 academic year. The Ministry of Health will designate at least five senior officers to serve as faculty for in-service training and, with U.S. partner assistance, inaugurate courses no later than 1999.

The DHHS Financial Planning Advisor program will upgrade the Ministry of Health's capabilities to plan and manage budgetary resources in line with priority needs of the public health system. The following areas will receive emphasis:

*improved capital investment planning, with initial attention to an inventory and assessment of buildings and equipment throughout the hospital system. The survey instrument has been designed.

*improved preparation of operational budgets, with corresponding better cost accounting practices within the Ministry, hospitals, and other major health facilities

*more effective material management, including timely procurement and distribution, development of a drug formulary, and increased use of group purchasing to lower costs.

*development of a health policy analysis unit within the Ministry (in coordination with the NYU partnership).

Related efforts will improve computer use skills within the Ministry and principal hospitals and assist the government's Health Insurance Institute to increase coverage of hospital costs -- in part dependent on better cost accounting and control by hospitals.

5. Commitment and Capacity of Development Partners

A key partner is the Ministry of Health. Other local partners include the University of Tirana, as well as a number of NGOs such as the Albania Family Planning Association and other women's and youth NGOs. USAID will also continue to work with a wide range of donor organizations such as the World Bank, the United Nations Population Fund, UNAIDS, EU-PHARE, Soros, the Health For All Foundation, and the Swiss Nursing School.

6. Sustainability

The SEATS program will continue to emphasize institutionalized training capabilities, improved knowledge and services, and routine use of IEC materials and management information systems. As the program expands and adds new initiatives and development partners, it will receive increasing USAID priority in the out-years of the strategy period. However, given SEATS' relatively recent startup and limited geographic coverage to date of its "full-service" program, it is questionable whether the program will achieve full sustainability within this strategy period. We will have a better perspective on program effectiveness when we have measured changes in family planning knowledge and practice in the current impact areas of Tirana and Durres.

We foresee successful achievement of results in improved health administration, health management education, and Tirana-based hospital services by 2000. The DHHS program

in financial planning and budget management is intended to strengthen Ministry capabilities across a rolling, three-year budget cycle, following which improved procedures should be Ministry routines. Health management education courses established with the help of the New York University partnership should have three years of operation and phase-out by 2000, and Albanian faculty should be fully capable of sustaining this training. Similarly, the three Tirana hospitals should have internalized improved administrative and clinical methods by 2000, and serve as models for replication of reforms more broadly throughout the hospital system.

STRATEGIC OBJECTIVE 4.1 AND 4.2 SPECIAL INITIATIVES AND CROSS-CUTTING PROGRAMS

S.O. Statement

Strategic Objectives 4.1 (Special Initiatives) and 4.2 (Cross-Cutting Programs) together include funding for 10 activities (including, however, "Parking Fines" in FY 98 only). Special Initiatives include three USIA activities in FY 98, reduced to two activities in FY 99 and out years. Special Initiatives also includes an ESF Cash Transfer in FY 99. The two S.O. 4.2 Cross-Cutting activities cover participant training under the TRANSIT grant and the Project Support activity.

Strategic Objective 4.1, Special Initiatives

The three USIA activities under S.O. 4.1 are essentially outside the USAID mission's manageable interest. These are:

1) English Teaching (USIA). This program is intended to improve the English language capability of Albanians by focussing on four areas: English language training; teacher training, methodology and concepts; English for Special Purposes; and testing, monitoring and evaluation. Several groups have been sent to the U.S. to help develop their competency in English language teaching skills.

2) Educational Reform (USIA). This is a program for training Albanian secondary and primary school teachers of civic education, helping them develop materials and designing a modern curriculum based on democratic principles. Eight Albanian teachers and educators have been brought to the U.S. and two Americans have been brought to Albania under this program. Together, these educators have produced a teachers' manual for civics teachers: "Democratic Citizenship Education in Albania: A Manual for Educators."

3) Ron Brown Fellowships (USIA). The Ron Brown Fellowship Program began in Albania in 1994 as the Central and Eastern European Graduate Fellowship Program with the first fellows going to the U.S. in 1995. The Program provides opportunities for two years of graduate study at leading U.S. institutions for outstanding university graduates and young professionals from Albania and other Central and Eastern European nations. The program is sponsored by USIA and implemented by the International Research and Exchanges Board. Fellowships are offered in the fields of business, public administration, educational administration, public policy, mass communication/journalism, law and the environment. The Program has sent 14 Albanians to the U.S. through 1998.

USIA's educational reform activity is planned for phase-out by FY 2000. In late FY 1998, we expect activities in support of educational reform will be addressed by our new Education Reform Activity under the Civil Society Strategic Objective 2.1. The Ron Brown Fellowships and English Teaching Programs will continue through the remainder of our Strategy period.

In addition, in FY 99 the USAID expects to provide a $10 million Cash Transfer to Albania for balance of payments support. This ESF program will be designed at the end of FY 98 and early FY 99. Conditionality for the release of the funds will be determined at that time.

Strategic Objective 4.2, Cross-Cutting Programs

USAID/Albania's participant training program is being implemented by World Learning which supports U.S., third-country and in-country training programs designed to support achievement of all seven of our Strategic Objectives. Under the Global Training for Development program, World Learning offers training services through a buy-in mechanism with Global Bureau's TRANSIT Europe project. The USAID has moved from a training program based on targets of opportunity to a training program aimed at achieving Intermediate Results and ultimately the Strategic Objectives. Training has also evolved toward the training of groups which has, in turn, resulted in significantly lower costs per participant. The USAID has also moved more aggressively toward the training of women, achieving an increase from about 32 percent per year to over 50 percent currently.

Given the evacuation of American personnel and the civil unrest in FY 97, only 9 Albanians were sent to the United States in that fiscal year. However, so far in FY 98, we have already provided U.S. and third country training to some 70 Albanians. Among the more significant groups were 17 local government budget and finance specialists trained in Poland, 6 Albanian constitutional drafters sent to the U.S. (one was made the Chief Justice of the Supreme Court upon his return), the mayors of seven major Albanian cities to the U.S., and 5 environmental finance specialists to Hungary. Based on her training in the U.S., one returning specialist successfully introduced block grants for local government financing, a very innovative concept in Albania. We intend to continue funding our participant training program at the rate of $750,000 per year through the end of SEED Act funding.

Project Support: $290,000 is being provided in FY 98 to support studies, surveys and activity designs, particularly for the new Education Reform activity and the new Anti-Corruption activity. Future year funding will provide $366,000 in FY 99 and $300,000 in the FY 2000 and out years. Likewise, these levels will assist mission designs for new activities to be developed in our portfolio.

PART III.RESOURCE REQUIREMENTS

A. Program Funding Requirements, FY 1998-2002

1. Budget Table by S.O.: FY 1998-2002 (see Attachment 1)

2. Budget Table by Project: FY 1998-2002 (see Attachment 2)

3. Supporting Rationale

The attached budget scenarios represent resource allocations which are based on the Mission's analysis of four key variables: (a) the needs and opportunities for transitional and developmental assistance in Albania; (b) the USAID assessment of strategic interest and importance of activities in the different objectives; (c) past performance of USAID-financed activities and Strategic Objective results packages; and (d) the proposed evolution of USAID involvement in Albania from a transitional assistance program funded through SEED Act-derived resources, expected to end after FY 2002, to a sustainable development strategy and program financed beyond FY 2002 through Development Assistance, follow-on SEED, or SEED-successor resources.

These factors combine most strongly in the SOs and activities identified as the core of the Mission's Sustainable Development strategy. In each case, ongoing Mission engagement has built a strong foundation of results and expertise, combined with a clear need for continuing assistance through and beyond the FY 1998-2002 planning period. Those Strategic Objectives, with the corresponding Agency Goals, are as follows:

<u>USAID/Albania Objectives Agency Goals</u>

1.3 Private Enterprise Growth Broad Economic Growth Achieved

1.6 Environmental Management Environment Managed for Sustainability

2.1 Citizens' Participation Sustained Democracies Built

2.3 Local Government Sustained Democracies Built

3.2 Sustained Social Services Population Stabilized/Human Health
Protected in Sustainable Fashion

With the near-collapse of the state sector economy, private sector business growth has become the single most dynamic factor in Albania's ongoing efforts towards economic recovery and growth. In terms of both demographics and GDP production, rural and agriculture-based economic production will remain the foundation on which the population will depend for employment and sustenance, supplemented by small business

and microenterprise development in both rural and urban areas. Environmental degradation, and specifically soil erosion in the deforested Albanian highlands, poses a critical threat to the long-term sustainability and growth of agricultural production and dependent agri-businesses.

Albania's slow progress towards an open and functioning democracy suffered severe setbacks in 1996-97, with abuses of state power contributing to a popular uprising and near-anarchy for much of 1997. The role of non-governmental organizations in a civil society is still not widely accepted; popular trust in the judicial process is lacking; the media, both state-controlled and independent, do not inspire confidence; the Parliament has not proven itself to be a model for bipartisan debate and resolution of the country's problems; and the power and responsibility to govern local affairs has not been decentralized to capable, effective local authorities. In addition to these continuing challenges to the establishment of democratic processes and institutions, Albania remains without an agreed Constitution and must prepare for new Parliamentary elections by the year 2001 at the latest.

Government support for social services has deteriorated across the range of social sectors, but the most invidious impact on both the current population and future generations may be in the near-collapse of basic health care and preventative services. Infant mortality levels are the highest in Europe, and have increased from 31 per 1,000 births in 1989 to 45 per 1,000 births in 1995 (the last year for which figures are available). This compares with an average of 12 per 1,000 births in OECD member countries and only 6 per 1,000 births in members of the European Union. USAID efforts in Albania, therefore, have focussed on establishing sustainable systems for the delivery of modern and effective family planning services to couples of reproductive age. To move beyond the current pilot stage of interventions to nationwide impact, the Mission will be increasing its support to the on-going family planning activity. In the out-years, this nationwide system of training, service delivery and health management (at the hospital and clinic levels) may provide the foundation for an expanded USAID involvement in primary health care programs.

In addition to these core activities and sustainable development objectives, USAID/Albania will continue its support for key transitional assistance activities through most or all of the FY 1998-2002 planning period. These include critical activities in financial sector reform and development, including a special focus on bank supervision as a key element in establishing legitimate and effective banking services. Beyond the immediate objective of developing trustworthy alternatives to the informal pyramid investment schemes which proved so ruinous in 1996-97, a functioning banking sector is absolutely essential to the development of private sector businesses, and therefore supports one of the core USAID objectives in Albania. Although the Mission currently anticipates that assistance in the fiscal, banking and capital markets sector will end by FY 2002 period, new interventions will focus attention on promoting sustainable microenterprise and savings mechanisms. In addition, the pace of development of critical financial

market institutions and processes will be closely tracked throughout the period. As needed, the Mission may revisit this issue and either seek approval to continue support to "transitional" financial sector assistance under new funding arrangements in the period beyond FY 2002 or, possibly, seek other donor involvement to carry forward the work begun under USAID auspices.

Similarly, transitional assistance to the establishment of legal systems which can support both democratic development and commercial activities will continue to be provided. Continuing support to these activities, and the time period over which they will be implemented, will be more clearly defined once a Constitution has been approved.

Finally, a number of special initiatives will receive support through a portion of the planning period. Included are transfers to USIA for programs in English teaching, media training, and participant training (Ron Brown Fellowships). In addition, the Mission plans to include support through FY 2000 for Health Markets and Health/Hospital Partnership activities. Although these activities have not shown strategic-level impact to date, slow progress does justify some additional support.

B. Programming Options

The key issue in regard to alternative resource levels arises in FY 2001 and FY 2002. In light of anticipated reductions in overall SEED funding, the Albania country planning level falls from a range of $30-35 million during FY 1998 - 2000 to a new level of $20 million in FY 2001 and FY 2002. These decreases, which coincide with the last two years of planned transitional assistance programs and with the planned evolution to a strong focus on sustainable development objectives and activities, would have a serious effect on the results USAID/Albania plans to achieve in the FY 1998-2002 planning period, and would compromise its ability to make an effective shift to a new sustainable development country strategy and program in the years following FY 2002.

The planned program for FY 2001 and FY 2002 is presented in the enclosed charts as Attachment 3. For each year, two columns are shown. First are the planned allocations for a SEED budget totalling $20 million. Second is an additional column (labeled "DA") for each fiscal year, proposing an additional $10 million per year, to be sourced from either Development Assistance funds or expanded SEED resources. Unique to FY 1999 is a $10 million ESF allocation, intended for balance of payments support and directly linked to the anticipated three-year IMF Enhanced Structural Adjustment Facility (ESAF). (Balance of payments assistance in FY 1998 is planned to be provided through a $10 million Food for Progress grant funded under PL 480 Title I.)

The key programmatic impacts of an overall assistance budget at the $20 million level versus the proposed $30 million total OYB would be a significant reduction in support of the five core, sustainable development Strategic Objectives, and a resulting change in the timeframe for the achievement of some objectives, an inability to expand certain

activities to higher levels of results (e.g., national impact), and the possible early termination of support for some transitional assistance activities. Examples of such negative impacts may include:

1. A lessening of the planned degree of emphasis on microenterprise development within the Mission's overall commitments to economic growth activities.

2. An inability to build on the systems and successes realized within the family planning activity to engage more broadly in primary health care development.

3. An inability within the democratic - related portfolio to both continue support to ongoing activities and place special emphasis on preparations for, and management of the anticipated 2001 Parliamentary elections.

4. Slower rollout of national impact within natural resource management and local government support activities.

5. Premature termination of support for transitional assistance in financial sector reform development and legal systems development.

C. Management Requirements

The USAID/Albania staffing pattern has been adjusted since submission of the FY 1996 R4 to accommodate an expanding portfolio and increasing competencies of the Albanian staff. With the involuntary departure of the Program Economist in July 1996 and recognition that such officers are in short supply agency-wide, the position was reSPARed for a Program Officer and filled in March 1997. Following the departure of the Agricultural Development Officer/de facto Deputy USAID Representative in August 1997, this position was also reSPARed and upgraded as a General Development Officer/Deputy Mission Director. This adjustment reflected an increasing workload in non-agricultural activities as well as confidence in the FSN Agricultural Officer to provide complete technical backstopping of the agricultural/natural resources management activities, which continue to be a major area of emphasis in the program. This position has been vacant since August 1997.

The events of March-July 1997 were a disturbing reminder of the frailty of Albania's young democracy and the need for sustained donor assistance to see Albania through a second transition. The democracy portfolio (S.O. 2.1, S.O. 2.2 and S.O. 2.3) has consequently been both deepened and broadened with concomitant workload implications. Following NSDD-38 approval of a sixth USDH position for a Democracy Officer in January 1998, it is hoped that an officer will arrive in summer-fall 1998. In the interim a USPSC Democracy Officer joined the staff in April 1998 to assume a portion of the democracy-related workload now handled by the Project Development Officer. The Democracy Officer will recruit an Albanian Project Assistant.

With the exception of the Program Officer and Executive Officer, four of the USAID staff, including the USAID Mission Director, will be new by September 1998. Based on the experience, skills and interests of the new staff, it is likely that management portfolios among the officers will be realigned. It may be necessary to develop new position descriptions.

Before December 1998, it is expected that an FSN vacancy in the Executive Office will be filled with an FSN PSC to assist the FSN Administrative Assistant and provide back-up accounting support to the USPSC Financial Manager.

ENI has approved a seventh USDH position in FY 2000. Given the number of activities in S.O. 1.3 and S.O. 1.4, it may be most appropriate to recruit a Private Sector Officer for this position. This officer would also recruit an Albanian Project Assistant. Even as the Albania program becomes DA-funded, it is assumed that USAID/Albania will remain an NMS-lite post with controller support from the RSC/Budapest.

An important issue related to an assignment in Albania is appropriate housing. In the context of an FBO housing construction project in 1993-94, USAID bought four staff houses on the Rilindja Ridge housing compound. The Embassy has opened negotiations with FBO concerning a Phase II construction project, and it would definitely be to USAID's advantage to participate again. It is highly recommended that appropriate funding be allocated to construct three staff houses and a residence for the USAID Mission Director. The Embassy hopes that such a construction project at the Rilindja Ridge site can start within two years.