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# National Monitoring of Sustainable Poverty Reduction Strategies / PRSPs

## VOLUME 2: COUNTRY STUDY ALBANIA



Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH

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## Acronyms and Abbreviations

ALL	Albanian Lek (national currency)
BWI	Bretton Woods Institutions (World Bank and IMF)
CARDS	EU program Community Assistance for Reconstruction, Development and Stabilization
DC	Development cooperation
EUC	EU Commission
ICT	Information and communication technology
IDA	International Development Association
INSTAT	Albanian Institute of Statistics
JSA	Joint Staff Assessment (BWI)
LCS	Living Conditions Survey
LSMS	Living Standards Measurement Survey
MoECT	Ministry of Economic Cooperation and Trade
MoLSA	Ministry of Labor and Social Affairs
MTBP	Medium-Term Budget Program
MTEF	Medium-Term Expenditure Framework
NGAP	National Government Action Plan
NSSED	National Strategy for Socio-Economic Development (Albania's PRSP)
SAA	Stabilization and Association Agreement
SDR	Special Drawing Rights (IMF)
SGAP	Sector Government Action Plan

## 1. Origin and Characteristics of Albania's Poverty Reduction Strategy

### 1.1 Political and economic background

With 3.2 million people and a per capita income of USD 1380 (2002, at the official exchange rate),<sup>1</sup> Albania is one of Europe's poorest countries.<sup>2</sup> However, it is neither a Heavily Indebted Poor Country (HIPC) nor does it have serious balance of payments problems. Even the extent of its foreign debt (around USD 1.2 billion) is relatively low, around 24 percent of GDP. Available reserves of foreign exchange and gold can finance close to 4.4 months of imports. Debt service, at 8 percent of exports, is clearly manageable.

By initiating negotiations with the European Union (EU) on a Stabilization and Association Agreement, Albania headed down the path towards acceptance as an EU member.

After collapse of the socialist regime in 1989, Albania in the 1990s entered a period of political instability with enormous economic and social changes as it moved towards a market economic system. The government introduced a structural reform program based on rapid privatization, public-sector reform, and price and trade liberalization. As a result, the country has had annual GDP growth rates of around 7 percent, interrupted only by the 1997 Ponzi-scheme crisis.

#### Box 1: The Ponzi-scheme crisis of 1997

It is estimated that by the end of 1996, 60 percent of all Albanians had put their money in investment firms organized according to a snowball system (Ponzi scheme: recruitment of ever-increasing numbers of customers). In 8 out of 10 families, there was at least one investor. These investments were supported by the political party then in power (evidence of poor governance).

In January 1997, after the first firms experienced payment difficulties, many Albanians had already lost their modest housing, and the first unrest began, these fraudulent businesses were outlawed. However, it was already too late to prevent a decline in growth and the imposition of a state of emergency.

Despite growth, Europe's poorest country

In spite of these impressive achievements, significant fiscal and foreign-trade imbalances remain. It proved possible to offset the latter through

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<sup>1</sup> According to the World Development Report, 2004.

<sup>2</sup> In 2003, Albania exceeded the upper limit of USD 1465 for International Development Association (IDA) credits. Although it is still listed today as an "IDA-only country," it is already being subjected to hard conditions, since the country has surpassed the "operational cut-off" of USD 895 for more than two subsequent years.

strong inflows of transfers from Albanian emigrants and concessionary financing from the Bretton Woods Institutions (BWI) and the EU. Thus, by mid-2001, Albania had received balance-of-payments credits totaling SDR 76 million from the IMF in the framework of Enhanced Structural Adjustment Facility (ESAF) / Poverty Reduction and Growth Facility (PRGF) agreements (1993 and 1998) and also USD 410 million in structural adjustment and investment credits in connection with two agreements with the World Bank in the same years up to the beginning of 2002. From 1991-2001, the EU provided financial assistance of around EUR 1.1 billion. Still, income remained low and the underground economy limited fiscal resources. The underground economy is estimated at 40-60 percent of GDP.

A liberal, market-oriented economic policy is being pursued. However, many areas of the modern economy are cornered or dominated by cartels, which misuse the state to protect economic interests. For example, the fact that land ownership issues have still not been constitutionally regulated is due to powerful interests of the political class, which has exploited the unregulated situation and bought cheap land. At the same time, this hinders investment in agriculture, the sector which produces the greatest value for the economy.

**Cartels,  
corruption, weak  
political system**

The political system suffers from corruption, which is practically the order of the day among the political class. Parliamentary disputes are often devoid of content and focused on access to benefices and political power. Although there is a wide variety of media, it is largely controlled by particular interests.

The infrastructure is inadequate and in poor condition. Energy and water supply are highly deficient. These problems represent a serious bottleneck for industrial economic development – and scare off foreign investors.

**The poor prefer to  
emigrate**

The education and health care systems have deteriorated. Migration to the cities, especially to Tirana (population has doubled since the beginning of the 1990s), or (often illegal) emigration to the USA and the EU is the only way for many Albanians to provide for the basic needs of their families.

## **1.2 Strategy documents in addition to the Poverty Reduction Strategy Paper: Stabilization and Association Agreement and commitments to the Millennium Development Goals**

**PRSP in  
competition with  
other strategies**

In November 2001, Albania's Full Poverty Reduction Strategy Paper 2002-2004, known as the NSSED (National Strategy for Socio-Economic Development), was published. However, besides the Poverty Reduction Strategy Paper (PRSP), there are two further cross-sectoral strategies. The objectives, priorities, timelines, and program priorities of these additional strategy documents are only partially integrated into or complementary to those of the NSSED.

### **Stabilization and Association Agreement (SAA) with the EU**

In January 2003, Albania and the EU initiated official negotiations for Albania's gradual association with and subsequent integration into the EU. The objective of the SAA process is for Albania to gradually meet the democratic-constitutional, institutional, market-economy, and normative conditions related to EU standards. The overwhelming majority of Albanians are pinning their future hopes for an improvement of living conditions and legalization of the de facto practice of emigration on this process.

Directorate for  
European  
Integration  
responsible for  
SAA

The medium-term goals of the SAA process are set out in the 2002-2004 Indicative Program and are basically being promoted by the CARDS Program of the EU Commission.<sup>3</sup> The current priority areas for assistance are:

- Justice and internal affairs: strengthening the judiciary, improving public order, improving border administration, fighting organized crime, fraud, and corruption
- Public administration: public procurement system, competition, and government subsidies, customs, taxation, and statistics
- Economic and social development: trade, system of standards and certification, education, and local infrastructure
- Environment and natural resources: environmental control, urban and spatial planning
- Stabilization of democracy: in particular, strengthening civil society.

Through the CARDS Program, the EU has promised Albania assistance to the amount of EUR 144 million for the period 2002-2004. On the Albanian side, the coordination of implementation and monitoring and evaluation of the SAA process are the responsibility of the Directorate for European Integration.

### **Commitments to the Millennium Development Goals (MDGs)**

In September 2000, Albania joined those supporting the Millennium Development Goals (MDG) agenda and thus committed itself to seek to meet the MDGs by 2015. The MDGs are to be integrated into Albania's national development strategies. The integration and comprehensive incorporation of the MDGs into the SAA and NSSD have not yet been achieved in practice.

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<sup>3</sup> CARDS stands for the EU program Community Assistance for Reconstruction, Development, and Stabilization (2000-2006) and concerns Albania, Bosnia-Herzegovina, Croatia, Macedonia, and Serbia and Montenegro, as beneficiary countries. It replaced PHARE and OBNOVA for the western Balkan countries. The program has a total volume of EUR 4.65 billion.

Ministry of  
Foreign Affairs  
responsible for  
MDGs

The United Nations Development Program (UNDP) is supporting the government through a program that works at the national and local levels and provides advisory and support services related to the realization of the MDGs (including integration of MDGs into planning, MDG monitoring, and MDG reporting). "The Albanian Response to the Millennium Development Goals" is now available, and the MDG Report 2003 has been announced. Albanian government responsibility for monitoring and evaluating progress toward the MDGs lies with the Ministry of Foreign Affairs.

### 1.3 NSSED – Albania's PRSP

I-PRSP without  
participation,  
BWI as authors

In order to obtain concessionary financing from the Bretton Woods Institutions (BWI), in May 2002 the Albanian government presented the BWI with an Interim Poverty Reduction Strategy Paper (I-PRSP) for 2001-03. It had been prepared in only a few months by the line ministries. This "participation-free" preparation was headed by the Macro Department of the Finance Ministry with the support of the World Bank and the UNDP. The I-PRSP contained a plan for preparation of the Full PRSP, which was to be prepared with broad participation over a period of about a year.

Parallel to the I-PRSP, the Medium-Term Budget Program (MTBP) 2001-03, for which the Finance Ministry was responsible, was introduced. Using a Medium-Term Expenditure Framework, the MTBP aims to:

- ensure effective prioritization of expenditures
- orient sector strategies and public expenditures to poverty issues
- provide a realistic macroeconomic resource framework.

Full PRSP with  
consultation,  
advisors as  
authors

In November 2001, the full PRSP 2002-2004 was published. The paper was called the "National Strategy for Socio-Economic Development" (NSSED), because *poverty reduction* as a headline was felt not to have appropriate "political punch." First as a working title, then later as a subtitle, the title *Growth and Poverty Reduction Strategy* (GPRS) also appeared. This three-year strategy had been prepared by a group of World-Bank-financed Albanian consultants (i.e., "consultant driven") in the course of more than a year through a far-reaching process of consultations, which included central and local government agencies as well as representatives of the civil society, the private sector, and the donor community. The NSSED is comprehensive in the sense that it:

- identifies the multi-dimensional nature of poverty and Albania's most important development problems
- endeavors to link the goal of rapid, fairly distributed, and sustainable growth with the objective of poverty reduction
- places both goals in the context of macroeconomic stability and existing resource limitations and assigns implementation to the MTBP
- recognizes that poverty reduction requires targeted interventions that address the causes of poverty.



PRSP appears to be a consistent, state-of-the-art document

The NSSED has the following structure:

**Principles of the strategy**: harmonization of the NSSED with other long-term goals; prioritization of policy measures; dynamic understanding of the strategy; active cooperation with donors as partners

**Strategic pillars**: institutional reforms to improve governance; sustainable and high economic growth

**Overall goals**:

- real GDP growth of 18-21 percent in the three-year period
- reduction of the percentage of the population with per-capita income under USD 2 per day from 47 percent to 38 percent
- improvement of infrastructure and basic services (electricity and water supply, waste disposal, etc.) and improved access to services for the poor
- reduction of child and maternal mortality rates by 15 percent and 25 percent, respectively, and of the incidence of infectious diseases
- increase in primary and secondary school enrolment rates by 4 percent and 25 percent, respectively, as well as average length of school attendance by 5 percent.

**Priority sectors**: health, education, infrastructure, reform of state institutions, economic growth, social support, macroeconomic stability

**Areas of particular concern**: improvement of health, education, infrastructure, and "essential" services

**Prerequisites**: social support and macroeconomic stability

The NSSED emphasizes that poverty reduction requires (i) increasing opportunity for the poor to improve their situation, (ii) strengthening their participation and their voice in public institutions, and (iii) making their life situation more secure.

Furthermore, it is assumed that the donor community will provide external support for the NSSED through subsidies and soft credits of around 3-4 percent of GDP (about USD 200-290 million a year). Close to 50 percent of government investment expenditures and of the projected government budget deficit are to be externally financed.

The NSSED can be rated an improvement over the I-PRSP, particularly in the following respects:

Improvements over the I-PRSP through participation

- The government and civil-society partners were much more involved in drawing it up, and the participation and consultation processes were more intensive and broader than planning of the I-PRSP had foreseen, with the qualification, however, that neither political parties nor parliamentarians took part.

- Preparation of the NSSED was considerably more "country driven." Ownership by the government found expression in the finance minister's active coordination, the increasing involvement of ministry administrations and government agencies, as well as the fact that – given the lack of appropriate capacities within the government administration – local consultants were involved.
- Preparation of the NSSED and the results were publicized in the media and were the subject of conferences. This – in connection with the consultations carried out – raised initial expectations for greater civil-society participation in policy design.
- The NSSED is the very first national development strategy of post-socialist Albania and thus creates an orientation basis for donor contributions to national priorities.
- There was recognition of the necessity to interlace the NSSED and the MTBP in order to attain goals relating to the allocation of government expenditure.<sup>4</sup>

**For BWI, NSSED is a credible basis for poverty-reducing DC**

The NSSED was officially presented to the BWI in May 2002. Despite its weaknesses, the Joint Staff Assessment (JSA) arrived at a positive overall assessment and viewed the NSSED as a credible poverty reduction strategy that represented a basis for the provision of additional support by the BWI. In this connection, Albania was granted an additional PRGF of SDR 28 million in June 2002 as well as further IDA financing in the amount of USD 132 million.

**Finance ministry responsible for PRSP**

An inter-ministerial steering committee headed by the prime minister is supervising the NSSED. Coordination of implementation, in contrast, is the responsibility of the inter-ministerial working group headed by the finance minister. This mandate includes:

- organizing the inter-ministerial political coordination for NSSED implementation; the NSSED directorate in the Finance Ministry functions as the secretariat of the inter-ministerial working group and has, among others, the following tasks:
  - promoting broad transparency with respect to the concrete annual results of NSSED goal achievement
  - providing NGOs with information, ensuring consultations with the civil society, and promoting civil society participation in the PRSP process.

The Finance Ministry is at the same time the cooperation partner for the BWI with respect to their NSSED support, budget assistance, and lines of credit.

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<sup>4</sup> However, in practice this connection has only been partially achieved. The problem manifests itself in the ca. 82,000 ad-hoc budget changes each year and the relatively large ranges for allocations.

## 1.4 Implementation of the NSSED and progress reports

With all the weaknesses of the NSSED planning document, the recovery process in 2001-2002 as such proved to be a very promising start for the participants. The announcement of the government that it intended to deal quickly and directly with the shortcomings noted by the JSA in May 2002 raised high expectations for successful implementation.

**Expectations for implementation disappointed**

These expectations were disappointed. Political factors led to three changes of government in 2002. The political situation thus became uncertain, and ultimately, by the end of 2002, little progress had been made in implementation – despite endorsement of the NSSED by each government.

**Advisors prepare progress report and BWI are accommodating**

The first NSSED progress report for 2002, prepared with the help of local consultants, was published by the Albanian government in May 2003 and submitted to the BWI in June 2003. Despite all attempts to smooth over the situation, it could not obscure the fact that, despite all efforts, NSSED implementation in the first 18 months could only be evaluated as “too little, too late.”

Although the corresponding JSA finally concluded that progress was broadly satisfactory under the circumstances, and in view of the most recent efforts of the country, it warned that substantial further improvements must be made in the following 12 months at a pace equal to that of the first half of 2003. In order to support the overall assessment, the JSA commends a number of positive points:

- completion of the first Living Standards Measurement Survey (LSMS)<sup>5</sup> within the timeframe and its use to enhance the poverty analysis
- more timely coordination between the NSSED and MTBP
- establishment of M&E units in 12 line ministries and preparation of monitoring plans for the ministries
- mandating the NSSED Department in the Finance Ministry with coordination, implementation, and monitoring
- greater awareness and comprehension of the NSSED
- efforts to better integrate the MDGs into the NSSED and to highlight complementarities to the SAA process.

However, the second JSA also criticizes the shortcomings, many of which were already noted in the first JSA, in particular:

- Progress in implementation is not supported by data and is thus not verifiable.
- Slow progress or even reversals in poverty reduction (e.g., in health and education) are not sufficiently analyzed.

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<sup>5</sup> See Section 2.

- Crosscutting and inter-sectoral interdependencies are not sufficiently considered.
- The government has done little to deepen and institutionalize the participation of civil society in the continuation and monitoring of the NSSSED.
- The poverty analysis does not make full use of the possibilities that were created by the available LSMS data.
- The vision for long-term economic development remains unclear.
- The list of government measures for 2003-2006 continues to lack the prioritization required to make it useful for the MTBP.
- Although units to monitor the NSSSED were set up, capacity building has still not notably progressed.

**External support remains critical for success**

The progress report helped to revive self-responsibility and ownership, build up limited capacity in the government administration, and better integrate the NSSSED and MTBP. However, it also showed that the burden of reporting easily leads to paperwork instead of implementation and analysis. Furthermore, it here becomes apparent that – despite all the rhetoric – external support remains essential for the continuation and implementation of the NSSSED.

## **1.5 NGAP (National Government Action Plan) as the final steering instrument**

**Prime Minister must not lose the overview: NGAP**

At the initiative of the prime minister, the NGAP 2002-2005 was introduced mid-2002 as a comprehensive management instrument for government activity. Responsibility for formulation, coordination, and monitoring the NGAP was assigned to the office of the Minister of State to the Prime Minister, created in 2002.

On the one hand, the NGAP aggregates the Sector Government Action Plans (SGAPs) and, on the other, consolidates all key government policies: SAA, NSSSED, MDGs, and MTBP. Furthermore, a number of additional policies are integrated into the NGAP: the government administration decentralization strategy, the development plan for information and communication technologies, the anti-corruption plan, and cooperation with NATO.

For purposes of planning and monitoring the NGAP, a database was set up in the office of the Minister of State to the Prime Minister; it records the agreed goals of SGAP, activities, and related donor contributions.

**NGAP provides an overview, but strategy harmonization is lacking**

At the level of overall goals and results, the SGAP and the NGAP rely solely on the NSSSED. However, in prioritizing goals, results, and activities – especially for the measures deemed most important – clear differences emerge.

The result is the failure to achieve either complete coordination of the various means-ends systems of the NSSSED, SAA, MDG, and NGAP, or

consistent, unequivocal allocation of topics, responsibilities, functions, procedures, and M&E formats among the office of the Minister of State to the Prime Minister, the ministries responsible for the various key policies (Finance Ministry, the Directorate for Integration, the Ministry of Foreign Affairs) and the Ministry of Economy, which continues to be formally responsible for donor cooperation.

## 2. Poverty Monitoring in Albania

Poverty monitoring has only a short history in Albania, and as yet its sustainability is by no means guaranteed. Before the 1990s, the question of poverty reduction did not arise at the political level. Subsequently, it was posed all the more forcefully, given the radical changes in the political and social system and the 1997 Ponzi-scheme crisis (see Section 1).

Massive  
population  
movements  
hamper statistics

The possibilities for monitoring poverty were limited at first. The data existing from the 1989 census were soon made obsolete by massive economic and social changes, the emigration abroad of around 10 percent of the total population, and the onset of flight from rural to peri-urban and urban areas that occurred in the 1990s.

Only through a national census in 2001 did the conditions for poverty monitoring improve, particularly since other important basic information on education, employment, and the housing situation were provided in addition to current population distribution.

### 2.1 Preliminary observations of the poverty situation

Individual studies  
touch on the  
realities

During the 1990s, there were a number of individual studies that permitted preliminary observations of the poverty situation. At the same time, this information was not comprehensive enough to be useful for the formulation of concrete policies. These studies include:

- A 1996 World Bank study that evaluated data gathered in a study of household budgets in Tirana in 1993 and 1994. The survey introduced a combination of household, budgetary, and multi-theme research and covered 3179 households. It took the form of direct interviews and records of all frequent expenditures during a 14-day period.
- A Living Standards Measurement Survey (LSMS) in 1996, which surveyed a random sample of around 1500 households. The LSMS revealed that poverty in Albania is a rural phenomenon, as 90 percent of the poor live in rural areas and 60 percent of the poor engage in rural subsistence farming. Many households in northern rural areas are dependent on subsidized wheat and financial assistance in order to survive the winter. Limited access to public services, aggravated by poor physical infrastructure, contributes to poverty here.
- A Living Conditions Survey carried out by the Albanian Institute of Statistics (INSTAT) in 1998. The study simultaneously pursued multiple goals: structural mapping of living conditions as well as

multiple-purpose data procedures to analyze social development, national accounting, poverty, and the price level. The results of the LCS provide information on the level and sources of household income. Here, too, it becomes clear that the majority of the poor (around 80 percent) live in rural areas. However, subsistence production, which is very important in the Albanian countryside, did not enter into the assessment of income. Furthermore, given the extent of the underground economy, the poverty level may have been distorted upwards because those questioned deliberately understated their income.

## 2.2 Poverty monitoring beginning in 2001

In 2001 a new census provided the basis for statistical research

A national census in 2001 improved conditions for poverty monitoring, particularly because it also provided other important basic information on education, employment, and the housing situation, in addition to the current population distribution. The census made it possible to select with care the sample for an LSMS in 2002.

The 2002 LSMS was supported by the World Bank and the University of Essex (ISER). INSTAT was responsible for implementation.

A standard LSMS questionnaire, adjusted to Albanian conditions, was used. The sample consisted of 3599 households with 16,321 members; it may be considered representative for Tirana and other urban and rural regions as well as for Tirana and the coastal, central, and mountain regions. It is not representative at the level of smaller territorial entities.

The results refine the analysis of previous findings on the chief factors for poverty in Albania:

- Households led by single women are not among the households most strongly threatened by poverty.
- In addition to large households, particularly young households demonstrate high rates of poverty.
- A calculation of an absolute poverty line for Albania of ALL 4891<sup>6</sup> per month (around EUR 37) was possible for the first time. Using this standard, around 25 percent of the population fall below the poverty line.
- The majority of the population is concentrated near the poverty line, so that a slight upward shift of the line would increase the poverty rate to 50 percent.

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<sup>6</sup> Albanian Lek (currency unit).

- The reverse also applies: small changes in the general socio-economic situation have a disproportionate effect on the percentage of the population above and below the poverty line.

However, according to the Ministry of Labor and Social Affairs (MoLSA), which is now responsible for poverty monitoring, there is no official poverty line at the present moment. This is currently being worked out on the basis of the LSMS results.

**LSMS in 2003 and 2004**

A partial sample of the 2002 LSMS sample was again surveyed mid-2003; another survey is planned for 2004. The use of the same questionnaire will track changes over time. The Department for International Development (DFID) is providing financial support for the 2003 and 2004 surveys.

**However, LSMS are quickly outdated because of migration**

The high number of migrating households, who either move from the rural areas to the cities or leave the country entirely (and thereby also the catchment area of the sample) continues to be significant. This indicates that the census data still become outdated relatively quickly.

**Sustainability of poverty monitoring is not ensured**

Another LSMS is foreseen for 2005 using a newly prepared sample; the World Bank will finance it. However, there are presently no plans for further, regular studies. Neither are there similar, regular studies that could be used for a quantitative determination of poverty trends.

**Box 2: Qualitative poverty research:**

- Poverty in Albania: A Qualitative Assessment (World Bank 2002).
  - Qualitative data gathered in the framework of Poverty and Social Impact Assessments (PSIA).
  - Additional participatory qualitative studies of health care are planned in conjunction with the Poverty Reduction Strategy Trust Fund (PRSTF).
- So far, only a few Participatory Poverty Assessments (PPA) have been conducted in Albania.

**3. Monitoring Poverty Reduction Policies**

**Earlier (inadequate) attempts**

Policy monitoring and evaluation, like poverty monitoring, has no well-developed tradition in Albania. Earlier attempts in this area were:

- The establishment by the donors of special project management units in the respective ministries (1990s): This came about because of the lack of government-directed M&E systems and served project steering and supervision of resource flows.
- The establishment of a network of program coordination offices in selected ministries to implement a series of sector evaluations (1998-2000): This initiative came from the Ministry of Economic Cooperation and Trade (MoECT) and was supported by the EU Commission and

UNDP. The lack of carefully formulated sectoral policies (as a reference point), high rates of staff fluctuation, and insufficient financial resources resulted in the almost complete failure of this attempt.

**First steps as the basis of policy monitoring**

With the adoption of a number of political programs that were integrated into the government's NGAP in recent years, there are now starting points for M&E.

### 3.1 Institutional structure and organization

Council of Ministers Decree Nr. 251 of 23 October 2002 assigns responsibilities for the implementation and M&E of NSSD as follows:

Steering Committee Chair: Prime Minister	- evaluates implementation of NSSD - evaluates results and benefits
Inter-Ministerial Working Group (WG) Chair: Finance Minister	- political coordination of NSSD implementation
NSSD Department in Finance Ministry	- organizes monitoring - supports inter-ministerial WG
M&E units in line ministries	- progress reports on implementation of the NSSD
Technical sector working groups in the line ministries – including civil-society representatives	- defines the indicators for the NSSD

However, NSSD monitoring cannot be viewed apart from the monitoring of Albania's other political strategies. Thus, Decree Nr. 253 of the same date applies to the NGAP and makes the following assignments:

Minister of State to the Prime Minister	- monitors the NGAP - monitors the sector programs
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**Rival monitoring systems**

The fact that the NGAP also incorporates the NSSD inevitably results in confusion about lines of authority for the institutional organization of the M&E system. The lack of clarity and coherence about monitoring responsibilities represents a fundamental weakness.

Additional problem points are:

- Decree Nr. 251 leaves open which units in the respective line ministries must report to the Minister of State.



- In the Finance Ministry, the technical secretariat of the NSSD was upgraded to a department. However, it remains unclear to what extent its functions also include comprehensive evaluations and what its role in poverty monitoring (for which the Ministry of Labor and Social Affairs is formally responsible) is to be.
- In practice, comprehensive monitoring tasks and poverty monitoring have usually been undertaken thus far by INSTAT.

**Other shortcomings in the M&E system**

As early as the end of 2002, UNDP consultants complained that the decrees did not define specifically enough the nature of M&E units in the line ministries or the structure of links to other departments (also in the line ministries). The following shortcomings were particularly criticized:

- Coordination between M&E units and the planning and budgeting departments for purposes of preparing sector policy evaluations and policy recommendations is not regulated.
- There are overlaps between the M&E units and the respective technical sector working groups, which assist the ministries with policy analysis and strategy formulation.
- The functional responsibility of M&E units is divided into two parts: the Vice Minister represents the department in the inter-ministerial working group, yet the General Secretary coordinates the work of the departments within the respective line ministry.

Furthermore, there are problems with respect to reporting formats, structures, and frequency, which have not as yet been standardized. The UNDP has therefore been making intensive, quite successful, attempts to establish a user-friendly reporting system for the government program NGAP (also see Section 4). This also aims to integrate achievement of the MDG goals into NGAP monitoring. However, as of yet, no unified structure has emerged; instead, different systems are being developed.

Currently, all line ministries have set up an M&E function and placed people in charge of this area. In a number of ministries, special departments were organized. In others, the function was combined with other departments. The ministries thus face the difficulty that Decree Nr. 251 refers to the NSSD, but the ministries must also satisfy the reporting requirements of NGAP, SAA, donor-financed projects, and MDG commitments.

### **3.2 Structure and quality of the indicator system**

**From more than 1000 to around 350 indicators**

The system of indicators was introduced mid-2003 in the framework of the 2002-2003 NSSD progress report and is attached to the progress report. According to the NSSD Department in the Finance Ministry, the indicator system is presently (February 2004) being modified and improved. The following observations refer to the 2003 document.

The framework consists of 334 indicators.<sup>7</sup> The number of indicators being discussed was already reduced from over 1000 to this number during various workshops.

...however, the indicators remain underdeveloped

If the indicators are classified in terms of poverty reduction, the following picture emerges:

<b>Monitoring level</b>	<b>Number / percentage</b>
Input indicators	63 (18.9%)
Output indicators	169 (50.6%)
Outcome indicators	86 (25.7%)
Impact indicators	4 (1.2%)
Not assigned to any monitoring level	11 (3.3%)

<b>Thematic reference</b>	<b>Number / percentage</b>
Macroeconomic categories (macroeconomic goals, employment, etc.)	11
Indicators directly related to poverty reduction	38 (11%)
<u>Of these:</u> Labor and Social Affairs Department	32
Others (broader interpretation)	6

<b>Survey frequency</b>	<b>Number / percentage</b>
Yearly	238 (71%)
Not specified	96 (29%)

<b>Sources of information</b>	<b>Number / percentage</b>
INSTAT	4 (1.2%)
Monitoring units of various ministry departments	264 (79%)
Central Bank	14 (4.2%)
Council of Ministers Department for Public Administration	8 (2.4%)

Only a portion of the indicators is actually reported

For 104 (31.1 percent) of the 334 indicators, no data were made available in the PRSP progress report. For another 45 indicators (13.5 percent), the target indicators themselves were apparently reported instead of

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<sup>7</sup> Our count: Generally, 350 indicators are mentioned. Determination of the exact number is hampered by erratic numbering and occasional imprecision of the indicators. This in itself reveals the underdevelopment of the indicator system.

measured values. This does not pertain to the small number of indicators directly relevant to poverty reduction.

Nevertheless, a baseline date from 1998 or 2000 is available for 176 indicators (52.7 percent). Information on another 25 indicators (7.5 percent) was collected or evaluated in 2002 for the first time. However, for a majority of the indicators, there are absolutely no baseline data.

**...and a further reduction in the number is being sought**

The NSSD Department is aware that the high number of indicators impedes monitoring. The intention is therefore to further reduce the number in conjunction with the next progress report. However, the number of indicators directly related to poverty reduction is already sufficiently small and should not be further reduced.

**Gaps in data collection**

The largest gaps in data collection are currently found in the following areas:

- measurement of poverty impacts
- regional differentiation of measures (because of regional differences in the poverty situation)
- decrease in the risk of poverty (vulnerability).

Thus, most of the indicators deal with disjointed sector strategies and general sectoral data. At times, it appears as if the indicators used by current sector programs or projects have been simply taken over by NSSD monitoring without examination of their relevance to national strategy. For example, the number of over-flights registered by air traffic control or letters handled by the post office are relatively unimportant – both to Albania's economic development and to poverty reduction.

**Overburdened capacities through inflated indicator lists**

It has become clear that the quantitative overburdening of the system is already producing qualitative problems. The terms of reference for the NSSD Department state that the department must deal not only with the collection but also with the analysis of information and indicator values. Just collecting and processing information for the indicators almost fully exhausts the capacity of the department. Analysis and evaluation thus fall completely by the wayside, and appropriate feedback for strategy formulation is practically impossible.

Compounding all this is the fact that the M&E units have only limited statistical and analytical capacity for evaluating data in greater detail. Thus, consultants commissioned by DFID have observed that the LSMS, an important source for policy analysis, has not been utilized to date except by INSTAT and the donor community. None of the line ministries has asked INSTAT for primary data in order to carry out their own analysis.

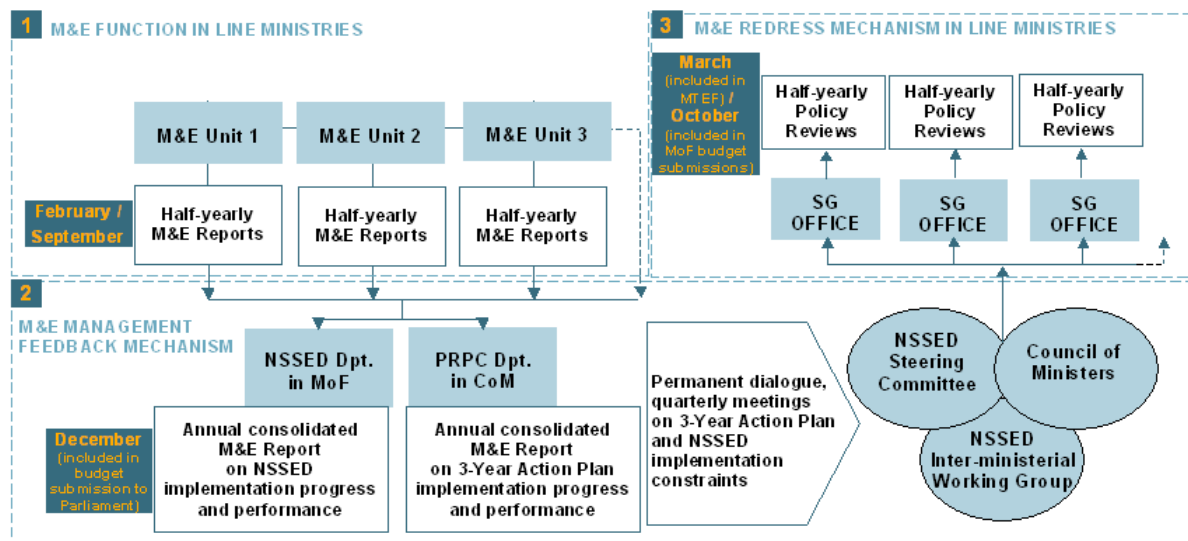
Additionally, creation of a meaningful indicator framework is complicated by the fact that the NSSD is not viewed as a final document. Accordingly, one reads that the NSSD is a living document, which is continually changed and improved. No one doubts that flexibility and adaptability of policies and their implementation are fundamentally

desirable for appropriate response to altered frameworks and special conditions. However, a minimum of goal consistency in planning is clearly a pre-condition for implementation.

### 3.3 UNDP proposal for a new M&E system

In December 2002, UNDP consultants presented a detailed and comprehensive work proposal, containing, in principle, all the elements of a comprehensive, functional M&E system, one which not only permits the incorporation of individual strategies but also allows sector strategies to be adjusted. Besides incorporating the primary strategies NSSED and SAA, it creates links to the corresponding budgets – both to the MTBP of the Finance Ministry and to the Public Investment Program (PIP) in the Ministry of Economy – and enables coordination of external donor contributions (uncoordinated up to now, despite a designated function within the Ministry of Economy).

The following diagram illustrates the proposal:



Source: Koppen, Hendrik & Mauro Napodano 2002, *Strengthening Economic Management*, UNDP, ALB/01/011: Establishing an Economic Management Function in Albania. p. 23.

This system would allow the Council of Ministers to:

- evaluate their own policy decisions and also to have them assessed by independent agencies
- coordinate policy through advance inter-ministerial consultations, supervise implementation of the NGAP, and facilitate sector studies
- balance and coordinate the public investment program and the MTBP with foreign assistance.

Proposals for the (undeniably more difficult) differentiation of the system at the regional level (which is also important in connection with the SAA process) have also been received.

Detailed implementation manual

In November 2003, a brief but well-structured "Manual of Procedures" for monitoring the progress of NGAP implementation was published, containing three clear monitoring matrices, which are very useful for the semi-annual reports to the Council of Ministers. It permits the creation of unequivocal references to the respective strategies and is "database compatible." This reporting system can and should be supplemented by special reports as needed. It is to be hoped that this system will be widely accepted and actually used and not fall victim to possible rivalries between various donors or government organizations.

## 4. The Role of Donors in Supporting Monitoring

External pressure determines government activity

Up to now, the pressure to change conditions in Albania has come basically from the outside. The EU, BWI, and UNDP have played the decisive roles in this respect. Particularly to satisfy the interests, directives, and demands of (a) the EU for initiation of the Stabilization and Association Process and (b) the BWI in order to obtain additional PRGF, PRSC, and of investment funds, the government attempted to formulate policies that address internal and foreign-trade imbalances and aim to improve the distribution of growth and reduce poverty.

...and is rewarded with support

In doing so, the government requested commitment and support for the NSSED process from its foreign development partners and received it generously from a large number of donors in the form of financial resources, technical advisory services, and constructive dialogue. However, to date, the foreign donors do not comprise a homogeneous group of development partners, but are at times highly divided about the strategic priorities for Albania and thus offer assistance based on very different points of view.

### 4.1 Multilateral donors

EU Commission focused on SAA

The priority areas of the **European Commission (EUC)** for cooperation in Albania are set down in the CARDS Country Strategy Paper. Although the paper acknowledges the PRSP processes and cooperation with the BWI, these form only the background for the cooperation and have no specific impact on the design of the SAA process, which clearly determines the goals for the EUC. This is all the more striking, as an EUC evaluation of the country strategy for 1996-2001, carried out in September 2001, criticized precisely this point - the lack of connection between the EUC strategy and all of the donor efforts to reduce poverty in Albania.

Even in evaluating capacity with respect to European integration and in stipulating the priorities and objectives of cooperation, poverty occupied the very last position.<sup>8</sup> Direct poverty reduction is no longer mentioned in the section on the priorities of cooperation. At times, the exclusive focus on non-PRSP concerns has led to open conflict between the EUC and the World Bank. This has now been smoothed over and a structure for donor coordination has been designed. However, the new coordination mechanisms have not yet been tested. De facto, EUC field staff have absolutely no time (precisely because of the other strategic projects) to concern themselves with the extensive PRSP processes and PRSP documents.

**BWI focus on PRSP**

As in other countries, **the IMF and World Bank** have joint responsibility for approving the PRSP for purposes of disbursement of the multilateral funds that they have at their disposal. They thus had a great deal of influence in Albania over the original strategy process surrounding the I-PRSP. Because of the weaknesses of the Albanian administration, this influence is still considerable and is directly apparent in the terminology used and in the composition of the first Full PRSP, which is similar to the earlier (pre-formulated) structural adjustment programs except for having nine priority areas. However, it has now proved possible to transfer much of the process, which was at first completely determined by the donors, to the beneficiary country and, in general, to promote civil-society participation through the PRSP directives.

**...set standards for poverty analysis in Albania**

The contributions of the World Bank to poverty analysis and to the promotion of poverty policies in the Ministry of Labor and Social Affairs are fundamental for the successful definition of poverty reduction policies and comprise important building blocks for the entire system. They set the standard in Albania.

A co-financed trust fund will continue to support various line ministries (Health, Education, Labor and Social Affairs, others later) in implementing programs and measures compatible with the NSSED. In the area of NSSED monitoring, the BWI have not been heavily involved, except for a number of workshops, although proof of progress in implementation has already been requested.

**...and handle the government carefully**

Both institutions, through their JSA, assess the PRSP processes in Albania with marked leniency: despite multiple shortcomings in PRSP implementation and a lack of evidence of progress, Albania has repeatedly escaped with a satisfactory evaluation. The appraisals must certainly be seen in conjunction with the participation of the BWI and the competition with other national policy processes (SAA, MDG, NGAP).

Officially, the World Bank denies that there are goal conflicts between the NSSED and SAA, and it emphasizes the fact that cooperation between

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<sup>8</sup> The word *poverty* is mentioned six times in the 54 pages of single-spaced document text (excluding the title pages and descriptions of other donor contributions).

UNDP is pragmatically oriented to the NGAP

donors is at the point of being improved through new structures in the framework of sector-related working groups (after dissolution of the Friends of Albania Group in May 2001). Discussions in Brussels have smoothed over the relationship between the World Bank and the EU.

The **United Nations Development Program (UNDP)** is the donor that is by far the most involved with respect to M&E of policy implementation in Albania. The involvement is professional and exemplary. The UNDP attempts to pragmatically support the government in monitoring the various systems of objectives in conjunction with its interest in measuring results for the MDGs. This naturally occurs best in the framework of the NGAP, the priorities of which must ultimately be decided by the strategies of day-to-day political activity, for practical reasons.

In December 2002, UNDP consultants presented a detailed, comprehensive work proposal on this topic containing, in principle, all the elements of a comprehensive, functional M&E system, which not only permits the incorporation of individual strategies but also allows the sector strategies to be adjusted. The proposal is described in more detail in Section 3.3.

## 4.2 Bilateral donors

Neighboring countries are not oriented to PRSP

From the perspective of the Albanians, Italy and Greece represent European “mentors” who can facilitate their access to the EU.

**Italy** is Albania’s largest bilateral donor with current pledged funds of around EUR 202 million.<sup>9</sup> The intensive relationship with Italy results from geographical proximity, since the countries on the Adriatic Sea have direct security and foreign policy effects on Italy. The direct impacts are most apparent when observing the Albanian migration paths.

However, Italian bilateral cooperation is not linked to poverty reduction efforts and the PRSP, because Italian bilateral cooperation does not carry on an active exchange with other participating donors.

**Greece** is more strongly involved in Albania than in other countries, but that does not make it one of Albania’s most important development partners to date. The involvement is also based on its position as a neighbor. Resources are earmarked for social infrastructure (health, education, housing, equipment, studies, training), economic infrastructure (transportation, telecommunications, energy, etc.), and the promotion of productive activities (industry, trade, tourism). There is a concentration on the regions near the border to Greece and not on the poorest regions of Albania, so that there is no clearly recognizable relation to the poverty strategy.

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<sup>9</sup> Italy’s Ministry of Foreign Affairs reports current pledged funds; the Germans report total pledges. Thus, the mentioned ranking does not follow from the figures. It appears undisputed that Italy is the largest bilateral donor.

**Germany seeks the middle road between the SAA and the PRSP**

Although it might not act as a “mentor” to the southern flank of the EU, **Germany’s** bilateral commitments of EUR 329 million and its classification of Albania as a priority partner country should not be overlooked. It has second place among the bilateral donor countries. The priority areas of cooperation are drinking water supply and sewage disposal, the energy sector, and economic reforms.

As an EU member state, Germany assigns great importance to the SAA process. However, the SAA process is not viewed in isolation from the PRSP process; rather, in government negotiations, the BMZ pushes for implementation of the NSSED as a poverty reduction strategy, with targets for the government budget. From the German perspective, Albania's fundamental problems are the weakness of public institutions and widespread corruption. These factors will also determine the degree of implementation of the NSSED.

**DFID links support for MTEF and the PRSP**

**DFID** is currently the bilateral donor most directly and intensively involved with the NSSED. The country strategy for Albania was being revised at the time of this study.

Support for the Medium-Term Expenditure Framework (MTEF) and Medium-Term Budget Program (MTBP) led to direct ties between DFID and key areas of the finance administration, which can be used for targeted support of NSEED implementation and its monitoring. Correspondingly, DFID is currently planning a project to support the NSSED Department in the Finance Ministry. It has been proposed that a consultant support professional capacity building in the NSSED Department and advise the department director and his team on implementation of their tasks. Training for the M&E units in various ministries is also to be offered. An additional consultant will work with the cabinet in setting the required priorities.

With the help of short-term advisors, the consistency between sector programs and national goals and strategies is also to be examined. This would clearly make a very important contribution to the establishment of coherence in the overall system. It is of necessity a long-term process, which is however not yet specifically coordinated with the UNDP.

DFID fundamentally recognizes that the NSSED must still be strengthened in order to be effective as a national strategy or strategic planning process. It is rightly understood that, although a number of institutions have been created, the NSSED itself is still underdeveloped and as of yet not supported by all government and administration authorities. Technical strengthening of the NSSED Department in the Finance Ministry can also strengthen the NSSED and thus reduce poverty by effectively linking it with the MTBP advisory services that DFID has already carried out.

**IDA sees a lack of reporting on PRSP implementation**

**Sweden’s** country strategy was being revised at the time of this study, so that little can be said about the new priority areas of the Swedish International Development Cooperation Agency (SIDA). Traditionally, Swedish cooperation in Albania has strongly focused on building local



institutions, because lack of trust in the institutional framework is seen as a major obstacle to development.

In general, Swedish cooperation views Albania's integration into the EU and poverty reduction as equally important. Both processes are supported with the same interest. Thus, Sweden attaches great importance to Albania's PRSP and assigns a great deal of priority to cooperation with INSTAT and the Department of Public Administration under the Prime Minister, as well as efforts to fight corruption. However, not much of substance can be detected with respect to poverty reduction. Thus, the NSSED progress report is seen as a report on a process which has little to do with implementation of a poverty reduction strategy, because the NSSED activities appear, in many respects, to be imposed and entirely disconnected from implementation issues.

**USAID is not oriented to the PRSP**

The involvement of USAID in Albania is based on geo-strategic and foreign-policy considerations. The emphasis is on regional stability and fighting terrorism, whereby a withdrawal from the region is sought in the medium term (recognition of the advantage of European bilateral donors). USAID maintains some distance from the PRSP process; it does not seek to orient bilateral cooperation to the PRSP.

## **5. Informational Value of the Monitoring System for the Donors**

**The value of current information is low**

Because there is no functional PRSP monitoring system in Albania, little information relevant to the donors is generated here. The first NSSED progress report does not bear up under examination of the results.

The BWI are officially required to accept the NSSED progress reports and therefore carefully evaluate the reports. However, in that assessment, they must draw extensively on information generated outside these reports (and often with the support of the BWI themselves). In part, the information presented in the reports is also based on studies that were supported by the BWI, although the quality of the evaluation diminishes in comparison with the studies themselves. Thus, the reports prepared to date using the PRSP monitoring system have negligible informational value for the BWI.

EUC staff in fact do not have the time to deal with evaluation of the PRSP progress reports. They are far too preoccupied with the SAA process. Under these conditions, study of the information from PRSP monitoring would clearly facilitate the work of the EUC staff members, because the PRSP monitoring reports are more concise than the studies on which their information is based. However, because the quality of the evaluation is still deficient, the danger does exist that information will be used indiscriminately, and the value of the information must therefore be ranked as low.

Although the UNDP also gains no profound insights from the information generated by current PRSP monitoring, it is very involved in helping to improve PRSP monitoring in order to increase the relevance of the monitoring results.

Of the bilateral donors, DFID is making the greatest efforts to sustainably strengthen the quality of PRSP monitoring, and it may be assumed that DFID will actively make use of the information provided by a functioning monitoring system. Germany and Sweden are interested in functional PRSP monitoring but have serious doubts about anchoring the PRSP in Albania's policies. Moreover, there are reservations about the evaluation of information provided by PRSP monitoring. Other donors, such as Italy and USAID, have not shown any great interest in the PRSP and correspondingly do not use the information generated by PRSP monitoring either.

## **6. Evaluation of the Monitoring System in Albania**

Despite massive support by various donors, PRSP monitoring in Albania is only in its initial stages. This may be a response to an externally imposed PRSP process that is not supported by the decisive political-economic power structures in the country; it may also be the result of an incomplete national discussion process that was carried out very hastily under external pressure. The same applies to preparation of the NSSD progress reports, the current heart of M&E.

Albania's government is currently looking at the various strategies, whereby the most comprehensive (SAA, PRSP, NATO) are strongly pushed from outside the country. Under these conditions, it is understandable that all of these processes are heavily dominated by donors whose technical and institutional capacities to persist in planning are at times greater than that of the government. This imbalance ultimately hinders priority setting by the Albanian administration, which is obviously concerned to meet all external demands. On the other hand, the political landscape is determined by special interests, so that it does not appear possible to create general interest in the PRSP process. Needless to say, PRSP monitoring cannot compensate for these political weaknesses.

Furthermore, the quality of PRSP monitoring is largely determined on the technical side by the pressure to adhere to the timeline of the BWI with respect to building up such a system. Although the process is supported by national consultants, their work has been restricted, up to now, to timely preparation of progress reports with the many participants who were involved in preparation of the indicators in addition to their other work – a considerable effort in view of the fact that political priorities are not clearly oriented to the PRSP.

On the organizational side, there has been progress through the establishment of special PRSP M&E units in the line ministries and strengthening of M&E units in the Finance Ministry. However, capacities are by no means sufficient to meet quality demands. Pursuit of different, disjointed strategies, the monitoring of which is also the responsibility of different agencies, hinders the establishment of efficient structures through unnecessary duplication.

**Pre-conditions for PRSP M&E are in place**

Thanks to technical advising, particularly by the World Bank (in the area of poverty analysis), UNDP (in the area of policy monitoring), and DFID (in the area of public finance), the pre-conditions for a viable M&E system have now been created. However, it will take at least a year until the system is implemented and the first concrete impacts on the PRSP reporting system and policy decisions have been achieved.

## **7. Conclusions for the Country Comparison**

How important are the various monitoring levels (input-output-outcome-impact) and how can they be meaningfully assigned to different actors? In which sequence should the M&E systems be set up at the different levels?

- Despite massive deployment of foreign technical assistance, if national capacities are weak, externally imposed PRSP and PRSP monitoring processes can produce results only in the medium term.
- The less real political will there is to implement the PRSP, the longer will be the delays in implementing strategies. In the present situation, the broad class of Albania's poor is not represented in the political institutions, which are dominated by personal and special interests. The impact of technical advising on the quality of the processes must not distract attention from the political realities. Nevertheless, with increasing transparency and participation in monitoring, the pressure on the political class to introduce the required structural changes may increase.
- To the extent that there are competing or complementary political strategies for the PRSP, PRSP monitoring can usefully be done only in the overall context. Focusing donor contributions on PRSP monitoring in this case leads only to duplication of reporting procedures and contents. Intelligent and resource-conserving solutions must then be found, so that the government of the beneficiary country is not overburdened with monitoring or even driven by monitoring demands to neglect actual implementation of the strategy. Donors must act as one in this area.
- The (apparently blind) and relatively comprehensive integration of sectoral indicators into the PRSP, without more careful examination of their informational value for overall policy, weakens the entire monitoring system. The resulting high number of indicators leads to a surfeit of information, which de facto limits the capacity to process and evaluate truly relevant information with sufficient thoroughness. The

high number of indicators thus curtails the informational value of the monitoring. Therefore, it would be more useful to leave (or organize or modify, as needed) monitoring of sectoral chains for input-output-outcome in the sectors and orient overall PRSP monitoring to the relationship outcome-impact.

- If there are as yet no capacities for “full” monitoring, then it may be more useful for the establishment of the system to begin with a limited number (<30) of core indicators that are developed in a professional and participatory manner, rather than to do the opposite and sort out the less important indicators from existing reporting systems. This may be more effective, particularly because one cannot assume a priori that existing reporting systems contain the indicators that are meaningful for PRSP monitoring.

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