I. Project Context

Country Context

Albania sustained high growth in the years before the global economic downturn. Annual growth averaged over six percent over 1998-2008 — among the highest in Europe — while unemployment declined steadily. Industry and construction, which grew by around 14-15 percent, were the key drivers of the economic expansion. Inflation was largely contained.

After avoiding recession in the wake of the global financial crisis, higher growth rates have been constrained by the renewed concerns in euro zone in the second half of 2011. Albania managed to preserve a modest but positive growth rate in 2009 at 3.3 percent. Growth picked up in 2010 and in the first half of 2011 mostly driven by the strong recovery of commodity exports. However, the intensification of the sovereign debt crisis in the euro zone shook business and consumer confidence again reducing the prospects for a gradual recovery to high growth rates in the medium term. For 2011, growth is estimated at three percent, while it is expected to drop to two percent in 2012. Of particular concern is the ongoing economic distress in Greece and Italy, given the importance of these countries as a source of remittances and destination for exports, and the general worsening of global economic conditions.

The strong economic performance before the global economic downturn was accompanied by positive strong poverty reduction. The poverty rate decreased from 25.4 percent in 2002 to 12.4 percent in 2008. Growth accounted for most of the reduction in poverty during this period. Inequality also decreased as individuals in the lower percentiles of the distribution experienced higher income growth rates than those in the upper percentiles. The extreme poor, defined as those with difficulty meeting basic nutritional needs, decreased from about 5 percent of the population in 2002 to 3.5 percent in 2005 to 1.2 percent in 2008.

II. Sectoral and Institutional Context

While overall spending on social assistance is comparable with other countries in the region, the composition has gradually shifted away from benefits targeted to the poor. Albania currently spends about 1.6 percent of GDP on social assistance overall, which is on par with the average in the ECA region. Two cash transfer programs account for the majority of this spending: disability assistance benefits and the Ndihma Ekonomike (NE) program, which is the main poverty-targeted social assistance benefit. The relative balance in spending on these two programs has shifted significantly over time in favor of disability benefits. Outlays on disability assistance increased from 0.4 percent of GDP in 2000 to over one percent of GDP in 2010 (among the highest in the region), while the spending on NE declined from 0.8 percent of GDP to 0.35 percent of GDP in the same period.

Spending on disability assistance increased in part due to the generous indexation of disability benefits. The increase in disability benefit levels outpaced inflation by a large margin (twice as high), due to indexation to minimum wages plus ad-hoc adjustments. To contain costs and reverse the resource shift away from the poverty-focused program, the Government changed the indexation rule for disability assistance program to link it to inflation.

The Government of Albania initiated an ambitious reform program to strengthen the design, administration and governance of social assistance programs. The objectives of this reform program focus on improving the equity and efficiency and the Ndihma Ekonomike program and disability assistance benefits, in support of the Government's mandate of reducing extreme poverty.

III. Project Development Objectives

The proposed project would support the Government’s implementation of reforms to improve the equity and efficiency of its social assistance programs.
IV. Project Description

Component Name
Strengthening the Implementation and Performance of Social Assistance Programs
Technical Assistance to Strengthen Implementation Capacity for Social Assistance Programs

V. Financing (in USD Million)

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<th>For Loans/Credits/Others</th>
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VI. Implementation

The project will be implemented by the Ministry of Labor, Social Affairs and Equal Opportunity with the close involvement of State Social Services (Social Administrators), Treasury and local government officials.

VII. Safeguard Policies (including public consultation)

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<td>Projects in Disputed Areas OP/BP 7.60</td>
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VIII. Contact point

**World Bank**
Contact: Melis Ufuk Guven
Title: Sr Social Protection Specialist
Tel: 473-9025
Email: uguven@worldbank.org

**Borrower/Client/Recipient**
Name: Ministry of Finance
Contact: 
Title: 
Tel: 
Email: shshehu@minfin.gov.al

**Implementing Agencies**
Name: Ministry of Labour, Social Affairs and Equal Opportunities
Contact: Mr. Kastriot Sulka
Title: Deputy Minister
Tel: 35542228493
Email: kbulka@hotmail.com
IX. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop