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INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY
FOR
ALBANIA
FOR THE PERIOD FY11–FY14**

June 16, 2010

**South East Europe Country Unit
Europe and Central Asia**

**Southern Europe and Central Asia
International Finance Corporation**

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Currency Equivalents

(Exchange Rate Effective May 26, 2010)

Currency Unit = Albanian Lek (LEK)

LEK 1.00 = US\$ 0.009

US\$ 1.00 = LEK 111.5

Government's Fiscal Year

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Abbreviations and Acronyms

AAA	Analytical and Advisory Activities	DMFAS	Debt Management Financial Accounting System
AaC	Aarhus Convention	DMS	Debt Management System
ABCDE	Albania Bank Conferences on Development Economics)	DP	Democratic Party (Albania)
ANTP	Albanian National Transport Plan	DPL	Development Policy Lending
APL	Adaptable Program Loan	DPO	Development Policy Operation
AFMIS	Albania Financial Management Information System	EAOD	External Assistance Orientation Document
BEEPS	Business Environment and Enterprise Performance Survey	EBRD	European Bank for Reconstruction and Development
BERIS	Business Environment Reform and Institutional Strengthening Project	EC	European Commission
CAD	Current Account Deficit	ECA	Europe and Central Asia
CAS	Country Assistance Strategy	ECSEE	Energy Community of South East Europe
CASPR	Country Assistance Strategy Progress Report	EEEEP	Education Excellence and Equity Project - (EEEEP)
CEM	Country Economic Memorandum	EIB	European Investment Bank
CGAC	Country Governance and Anti-Corruption	EITI	Extractive Industries Transparency Initiative
CFA	Country Fiduciary Assessment	ESW	Economic and Sector Work
CFP	Country Financing Parameters	EU	European Union
COEDB	Council of Europe Development Bank	FDI	Foreign Direct Investment
CoE	Council of Europe	FIAS	Foreign Investment Advisory Service
CPFR	Country Portfolio Fiduciary Review	FSAP	Financial Sector Assessment Program
CPGs	Clinical Practice Guidelines	FY	Fiscal Year
CPS	Country Partnership Strategy	GDP	Gross Domestic Product
CSAP	Country Strategy and Action Plan	GEF	Global Environmental Facility
CSC	Civil Service Commission	GHG	Greenhouse Gases
CSL	Civil Service Law	GPF	Governance Partnership Facility
CSO	Civil Society Organizations'	gWh	Gigawatt Hour
DEC	Development Economics	HII	Health Insurance Institute
DFID	UK Department for International Development	HSMP	Health Sector Management Project
DM	Development Marketplace	IBRD	International Bank for Reconstruction and Development
		ICA	Investment Climate Assessment

ICT	Information and Communication Technologies	ODIHR	Office for Democratic Institutions and Human Rights
ICZMCP	Integrated Coastal Zone Management and Clean-Up Project	OSCE	Organization for Security and Cooperation in Europe
IDA	International Development Association	PEFA	Public Expenditure and Financial Accountability
IDF	Institutional Development Fund	PEIR	Public Expenditure and Institutional Review
IEG	Independent Evaluation Group	PHC	Primary Health Care
IWEMP	Integrated Water and Ecosystem Management Project	PHRD	Japan Policy and Human Resources Development Fund
IFC	International Finance Corporation	PIUs	Project Implementation Units
IFIs	International Financial Institutions	PREM	Poverty Reduction and Economic Management Network
IFRS	International Financial Reporting Standards	PRG	Partial Risk Guarantee
IMF	International Monetary Fund	PRGF-EFF	Poverty Reduction Growth Facility-Extended Fund Facility
IPS	Integrated Planning System	PSP	Private Sector Participation
IPA	Instrument for Pre-Accession		
JPRR	Joint Portfolio Performance Review	REPARIS	The Road to Europe: Program of Accounting Reform and Institutional Report on the Observance of Standards and Codes
JSDF	Japan Social Development Fund	ROSC	Stabilization and Association Agreement
KESH	Albanian Electroenergetic Corporation	SAA	South East Europe
kWh	Kilowatt Hour	SEETO	South East Europe Transport Observatory
LAMP	Land Administration and Management Project	SHPPs	Small Hydro Power Plants
LSMS	Living Standards Measurement Survey	SII	Social Insurance Institute
MDGs	Millennium Development Goals	SME	Small and Medium Enterprises
MDTF	Multi-Donor Trust Fund	SP	Socialist Party (Albania)
M&E	Monitoring and Evaluation	SPC	Strategic Planning Committee
MIGA	Multilateral Investment Guarantee Agency	SSDP	Social Services Delivery Project
MoES	Ministry of Education and Science	SWAp	Sector-Wide Approach
MOLSA	Ministry of Labor and Social Affairs	TA	Technical Assistance
MSMEs	Micro, Small and Medium Enterprises	UN	United Nations
MTBP	Medium-Term Budget Process	UNDP	United Nations Development Programme
NATO	North Atlantic Treaty Organization	VAT	Value Added Tax
NE	Ndihma Ekonomike	WBG	World Bank Group
NES	National Education Strategy	WGIs	World Governance Indicators
NGO	Nongovernmental Organization		
NRDP	Natural Resources Development Project		
NSDI	National Strategy for Development and Integration		
NSSD	National Strategy for Socio-Economic Development		
O&M	Operation and Maintenance		

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**JOINT IBRD – IFC
COUNTRY PARTNERSHIP STRATEGY FOR ALBANIA**

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EXECUTIVE SUMMARY

This World Bank Group Country Partnership Strategy (CPS) for Albania covers the period FY11-FY14 and is the first CPS to be presented to the Board following Albania's graduation from IDA in mid-2008. The CPS is fully aligned with Albania's National Strategy for Development and Integration (NSDI), which was prepared by Government following a broad participatory process involving stakeholders throughout the country. The CPS program also takes into account the lessons learned through implementation of the last country strategy, the findings of Bank analytical work and other donor's activities.

Albania has been *a development success story* in many respects. Over the past two decades the country has made enormous strides in establishing a credible multi-party democracy and market economy and it is rapidly re-integrating into the international and European communities. In addition, over the past decade, Albania has been one of the fastest-growing countries in Europe, enjoying average annual real growth rates of 6 percent, accompanied by rapid reductions in poverty. Poverty fell by half (to about 12.4 percent) between 2002 and 2008, while extreme poverty now affects under 2 percent of the population. In addition, the country has made solid progress towards achievement of the Millennium Development Goals (MDGs), although social indicators still lag significantly behind the EU10 and Croatia.

Albania is one of a very few countries in Europe which was able to maintain positive – albeit significantly reduced – growth rates and financial stability in 2009, despite the global financial and economic crisis. Thus far, the impact of the crisis has been transmitted mainly through lower remittances and trade. A substantial fiscal expansion in 2008 and 2009 also helped cushion the impact of the crisis, but needs to be unwound quickly. Given the slower recovery in Europe, Albania's growth prospects could be less favorable than in the past. The *key challenges going forward* are the following: (i) early resumption of fiscal consolidation and strengthened public expenditure management; (ii) regulatory and institutional reforms to boost competitiveness and investment; (iii) improvements in education levels and skills to meet the demand from businesses; (iv) reduction of infrastructure deficits in a fiscally sustainable way; and (v) improvements in the effectiveness of social protection systems and key health services to avert new vulnerability risks that could arise as a result of the slow recovery. In addition, given that Albania is very vulnerable to climate change (due to high dependence on water for power and irrigation for the economically-important agriculture sector) it is vital that the country moves rapidly to appropriately adapt its water infrastructure and usage to changing climatic conditions.

The joint Bank Group CPS program will help Albania to meet the above challenges, by focusing on *three strategic objectives* as follows:

- *Supporting a recovery in Albania's growth rates through improved competitiveness*, by strengthening macroeconomic and public expenditure management, improving the business climate, affordably addressing infrastructure bottlenecks, and deepening access to credit
- *Broadening and sustaining social gains* by improving education and health services and establishing an adequate safety net
- *Reducing vulnerability to climate change* by improving water conservation and management and increasing disaster preparedness

Under this CPS, a "one-WBG" approach aims at a more focused, synergistic program, with coordinated IBRD-IFC engagements in the following priority sectors: (i) national infrastructure – energy and roads; (ii) municipal infrastructure, mainly water supply and solid waste management; and (iii) the business environment. Moreover, the CPS program reflects a *deepening sub-regional focus* in the Western Balkans and South-East Europe especially in energy, trade/transport and disaster management.

The CPS program will also continue to support governance improvements in Albania through use of a “governance filter” for all Bank-financed operations in order to promote management, efficiency and transparency improvements across government ministries.

A main focus of the Bank’s effort under this CPS will be to focus on *improving the implementation of the large ongoing portfolio* of Bank-financed operations in Albania (which are fully relevant to the developmental challenges described above). *New projects will be added very selectively*, and only in a small number of crucial areas. The focus on the existing portfolio is needed in order to deliver the expected development impacts while improving the pace of resource transfer to the Government as it faces new fiscal constraints. A key goal will be to further integrate Bank-financed operations into Government’s budget and administrative framework to realize across-the-board gains in public expenditure management and transparency. The strategy of lending for fewer, larger projects both responds to Government’s explicit request in this regard as well as allows for the completion of the consolidation of the investment portfolio to 10-12 operations by FY14 (from 21 projects in FY04). This in turn, will free up Bank internal resources for more analytical and advisory work with Government on Albania’s emerging challenges.

New IBRD lending to Albania over the CPS period is expected to amount to about \$275 million while *IFC expects to increase its financing* for the private sector to a level of \$120-150 million. Of the total IBRD lending, which will be contingent on IBRD’s financial capacity, just over 35 percent (or \$100 million) could be provided in the form of quick-disbursing policy-based budget support, assuming a satisfactory macroeconomic framework. Annual budget support would likely be on the order of \$25 million, initially for a social sector policy reform operation and subsequently for a series of three DPLs focused on growth and investment. Remaining new IBRD support will be provided in the form of about 8 investment operations for social sectors, natural resource management, infrastructure, and public sector reform. IFC’s investments will be channeled through direct financing in key sectors including agribusiness, energy and social sectors. Financial sector investments will strengthen banks’ capitalization (where needed) and provide long-term financing for micro, small and medium enterprises (MSMEs), renewable energy and energy efficiency products. IFC will also use its advisory services to secure private financing through PPPs for road maintenance, water supply, solid waste management and renewable energy.

Implementation of the CPS is subject to *four main risks*. First, *delays in effecting a fiscal adjustment or a deepening of the crisis in the Eurozone could compromise macroeconomic stability* thus affecting the planned budget support program. To accommodate these risks, the CPS program has been designed to be flexible -- enabling a reduction in quick-disbursing lending in the case of continued fiscal expansion or, conversely, a substantial increase in budget support if Albania is hit hard by external shocks despite sound macroeconomic policies. Second, the *polarized political climate in Albania could lead to policy and/or institutional gridlock*. While it is difficult to fully address this risk, it is hoped that the consensus between the parties on the European Union (EU) accession agenda will help achieve progress. Third, given that new IBRD lending is relatively small and increasingly selective, it is possible that *the Bank’s ability to influence sectoral reforms through policy dialogue and institutional development could be reduced* – especially as concessional financing from the EU becomes more readily available. This, however, need not necessarily affect results on the ground as the Bank Group will continue to provide analytical and advisory services to help Albania meet its development challenges. Moreover, the Bank will continue to partner closely with the EU on many programs of relevance to Albania’s development. Finally, *portfolio performance could be affected by ongoing constraints in Government’s implementation capacity*, though these are being addressed through capacity building and consolidation of the Bank program.

I. INTRODUCTION

1. ***This World Bank Group Country Partnership Strategy for Albania covers the period FY11-FY14 and is the first CPS to be presented following Albania's graduation from IDA in mid-2008.*** The last World Bank Group Country Assistance Strategy for Albania was approved on January 10, 2006 and covered the period FY06-09. Implementation of the strategy was assessed through a CAS Progress Report (CASPR) presented to the Board in May 2008, and through a comprehensive CAS Completion Report (CASCR) attached in Annex 2. The lessons identified in the CASCR, country priorities as laid out in the Government's National Strategy for Development and Integration, analytical work undertaken by the Bank and the activities of other external partners were critical in shaping this strategy for FY11-14.

2. ***Albania enters the new CPS period having weathered the global financial and economic crisis reasonably well -- maintaining positive, albeit significantly reduced, growth rates in 2009 and a sound banking sector.*** The impact has mainly been felt through remittances and trade, while the fiscal expansion that helped to cushion the impact of the crisis, needs to be unwound quickly. Given the uncertain prospects in Europe and difficulties in Greece – a major economic partner for trade, investment and remittances – the next few years are likely to be much less favorable. The key challenges to improving Albania's growth prospects in this environment include: (i) the early resumption of a sound medium term fiscal framework and further strengthening of public expenditure management; (ii) improving implementation of Albania's already broad program of regulatory reforms to boost competitiveness and investment levels; (iii) continuing to close the infrastructure gap in a fiscally sustainable manner; (iv) deepening the private sector access to credit. Meanwhile, the slow recovery is likely to take its toll on the most vulnerable necessitating a renewed attention to improving the effectiveness of social protection systems and accelerating progress on social indicators. Finally, Albania is rapidly coming to terms with its climate change challenge – as the second most vulnerable country in Europe and Central Asia – primarily relating to the management of its water resources on which the country is heavily dependent for energy and agriculture.

3. ***The joint Bank Group program presented in this CPS focuses on the implementation of a large ongoing program in Albania that is already supporting the abovementioned challenges, while selectively introducing new IBRD lending of around \$275 million, and increasing IFC financing for the private sector to a level of \$120-\$150 million.*** Of the total IBRD lending, which is conditional on IBRD's financial capacity, just over 35 percent (or \$100 million) could be provided in the form of quick-disbursing, policy-based budget support – assuming satisfactory macroeconomic framework – with the remainder devoted to investment operations for the social sectors, basic infrastructure, natural resource management and public sector reform. The new activities are fully spelled out for the first two years of the CPS but only indicative descriptions are included for the outer years, in order to retain flexibility to adapt the program to emerging circumstances. IFC will also mobilize other funds especially for private participation in infrastructure through its advisory services. This joint strategy will continue the tradition of strong collaboration between IFC and IBRD, particularly in the water, transport and energy sectors. It will also build on the deepening sub-regional focus in the Western Balkans and South Eastern Europe in key sectors such as electricity, trade and transport and disaster mitigation and management.

II. COUNTRY CONTEXT

A. Country Background

4. ***With a population of about 3.2 million, Albania is situated in the Western Balkans and enjoys a favorable geographic location in South-East Europe and valuable natural resources.*** Not only is the country close to much larger economies (Greece, Italy) – which are important as trading partners, hosts of Albanian migrants and sources of investment – its natural resources include significant hydropower potential, large swathes of fertile agricultural land, over 360 kilometers of Mediterranean coastline with excellent tourism and transport potential, and valuable mining deposits.

5. ***Albania has come a long way in establishing a multi-party parliamentary democracy since the fall of the communist dictatorship in 1991, although the political environment continues to be affected by a high degree of political polarization.*** Political stability has increased with a gradually improving conduct of successive national and local elections (the latest in 2009) with associated non-violent – albeit sometimes rancorous– hand-overs of power between the two dominant parties: the center-right Democratic Party (DP) led by Prime Minister Sali Berisha and the Socialist Party (SP) now led by Tirana mayor Edi Rama. The governing coalition currently in power is led by the DP for its second term together with a small left-leaning party, the Socialist Movement for Integration. The legitimacy of the constitutional system is well accepted, and despite recurrent controversies over electoral results, parties’ efforts to garner votes act as a key determinant of their platforms. Nonetheless, the political environment is very polarized, often to the detriment of constructive debate and policy stability.

6. ***Albania has made important strides in re-integrating into the international and European communities after decades of isolation, and has been an important contributor to regional stability in the Balkans.*** The country became a member of North Atlantic Treaty Organization (NATO) in 2008 and formally applied for EU candidate status in 2009, after ratification of its Stabilization and Association Agreement, originally signed in 2006. In April 2010, Albanian authorities submitted the responses to the pre-questionnaire necessary to prepare an assessment of the country’s readiness to fulfill EU membership obligations. Within the Balkan region, Albania has promoted regional stability and collaboration wherever possible, while remaining a strong supporter of Kosovo independence. Successive Albanian governments have consciously and systematically avoided the notion of a “greater Albania” among ethnic Albanians across the region, and have maintained strong ties with all of its regional neighbors.

7. ***Albania has also seen rapid economic growth and major social change over the past decade.*** Once labeled as the continent’s poorest country, Albania has been one of the fastest-growing economies in Europe, enjoying annual real economic growth rates of around 6 percent over the last decade. Today, with a GDP per capita of US\$3,836, Albania is a lower middle-income country, and graduated from IDA lending in mid-2008. The country has also experienced rapid social change, including internal migration from rural to urban areas and mass emigration of economically active citizens who are a source of substantial remittances (ranging from 11-14% of GDP annually).

8. ***The rapid growth in GDP has been accompanied by an equally impressive decline in poverty.*** Nearly half of Albania’s poor had been lifted out of poverty between 2002 and 2008. The poverty headcount fell from 25.4 percent in 2002 to 12.4 percent by 2008 and extreme poverty is very low at under 2 percent. Besides rapid growth, significant increases in public and private wages and pensions have been contributors to this reduction in poverty. Poverty reduction was initially more pronounced in rural areas (29.6 percent in 2002), but the decline in rural poverty has accelerated substantially in the last 5 or so years and is now approaching urban rates (14.6 percent in 2008). Nonetheless, there are areas of the country – mostly the mountain areas -- where poverty remains high (29.8 percent), contributing to

increasing income inequality. In addition, in the rural areas, female-headed households have experienced only a one-third the rate of poverty reduction as male-headed households.

9. *Albania is well on its way to achieving most of the MDGs, but remains an outlier among its European neighbors on most health and education indicators.* Albania's position on the Human Development Index has improved steadily to a rank of 70 in 2009, in line with Western Balkans' rankings, but significantly behind the rankings of the EU10 countries and Croatia. There have been notable improvements in some of Albania's social indicators. For instance, enrollments in all levels of education (early childhood, primary, secondary and tertiary) have increased. Similarly, infant mortality fell from 15.1 per 1,000 live births in 2004 to 10.3 by 2009. However, as Table 2 below shows, Albania still has significant challenges to converge with regional standards in the area of secondary enrollment, child and maternal mortality rates, and in access to safe drinking water.

Table 1: Albania's Progress toward the MDGs and Regional Comparators

MDG	Indicator	Original 2015 target	New 2015 target	Latest 2008	EU10 & SEE * average
Extreme poverty	Absolute poverty headcount	13	0	12.4	--
	Extreme poverty headcount	0	0	1.2	2.0
Basic education	Net enrollment in basic education	100	96	89	93 (2007)
	Net enrollment in secondary educ			60	91 (2006)
Gender equality	Gender balance in basic education	1	1	0.96	0.97 (2007)
Child mortality	Infant mortality (per 1000 births)	10	10	11.1	6.6 (2008)
	Under 5 mortality (per 1000 births)			14.0	7.9 (2008)
Maternal health	Maternal mortality (per 100,000)	11	11	20.9	10.0 (2005)
HIV/AIDs & TB	TB mortality (per 100,000)	2.5	<2.5	0.5	4.8 (2007)
Sustainable devt	Population declaring access to safe drinking water	98	98	75	
Improve governance	Reported frequency of bribery for health service**	--		29.1	7.4

* EU10 includes Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovenia, Slovakia, and Romania. SEE includes Bosnia-Herzegovina, the former Yugoslav republic of Macedonia, Montenegro, Serbia, and Kosovo, where available.

** Percentage of respondents who selected "Always", to the question "How often is it necessary for people like you to have to make unofficial payments/gifts to receive medical treatment in the public health system?" Life in Transition

10. *Despite the strong record of growth, poverty reduction and social welfare achieved thus far, Albania faces a number of important challenges going forward, especially in the wake of the global financial and economic crisis.* The recovery to sustained economic growth while maintaining poverty reduction trends will require concerted efforts to increase investment and raise labor productivity (growth has been largely jobless to date and based on productivity improvements from the reallocation of resources across sectors). Albania will need to raise its competitiveness as an investment location within Europe by addressing key bottlenecks in the business environment, and by raising the skills base in the labor market. In addition, given the uncertain prospects in its external environment and the likely toll on the poor and vulnerable, Albania should also move to accelerate reforms aimed at improving the effectiveness and efficiency of its social protections services.

- First, on the macroeconomic management front, there will be a need to correct the recent fiscal expansion and establish a more sustainable fiscal framework for the medium term. To underpin this framework, the authorities should also accelerate improvements in public

expenditure management, notably: (i) raising the efficiency of social spending, (ii) careful pacing of needed public investments in infrastructure; (iii) improving disbursement of Albania's substantial – but increasingly less concessional – donor financing; and (iv) a concerted effort to attract more private financing for infrastructure and social services, over time.

- Second, securing robust improvements in the business environment is crucial not only for increasing Albania's competitiveness, but also for making progress on its EU integration agenda. Albania has undertaken a broad program of regulatory reforms, but implementation continues to lag substantially behind new laws and regulations. This lag contributes to a high level of uncertainty in the business environment (in turn, possibly exacerbated by ongoing political polarization) that significantly lowers returns to private investment in Albania.
- In order to maintain the rapid poverty reduction trends, even in the more difficult environment, Albania will also need to broaden its social gains to date. Reforms in education are needed to broaden access, particularly at secondary and higher levels, and to improve quality at all levels to bring Albania's skills base more into line with its European neighbors so that it can compete for jobs. Meanwhile health indicators remain comparatively low, particularly for women, and the effectiveness of social programs to reach the remaining vulnerable groups needs improvement.

B. Recent Developments

(i) Political Developments

11. *One year after the most recent Parliamentary elections in June 2009, the Albanian political environment remains marked by tense relations between the opposition and the coalition Government.* The Democratic Party finished ahead of the Socialists by only about 1 percentage point in the June elections, but secured a majority in Parliament thanks to support from the Socialist Movement for Integration (a smaller left-leaning party). The Office for Democratic Institutions and Human Rights (ODIHR) of the Organization for Security and Co-operation in Europe (OSCE) certified the elections as better than previous ones, although still with some shortcomings. After the elections, the SP refused to take its seats in Parliament, demanding a partial recount. However, its appeal to the courts was rejected. Meanwhile, the DP has expressed its full support of the original Electoral College decision not to sanction a recount. In this context, the President and the international community mediated a compromise in which SP parliamentarians took their seats in Parliament just ahead of a February 2010 constitutional deadline. However, a two day marathon session in Parliament failed to bring the parties to an agreement, and the SP has since abstained from parliamentary sessions. In early May 2010, the SP organized a series of public peaceful protests and a 19-day hunger strike demanding a recount. Recent pressure from the European parliament, in the context of the ongoing candidacy process, has brought the parties together to negotiate a resolution and has already facilitated a resumption of the opposition's participation in Parliament.

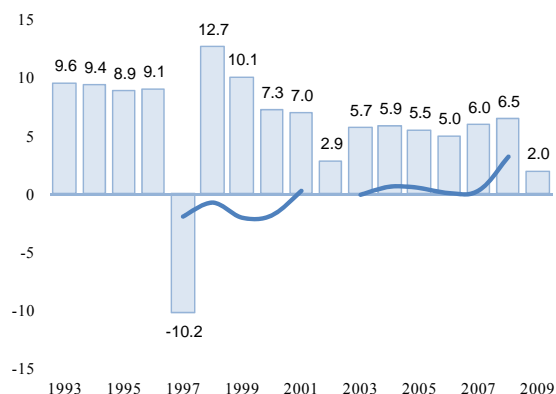
12. *Public opinion polls suggest that the prospect of EU membership (and, more immediately, the prospect of visa liberalization with the EU) is a widely-held aspiration of the Albanian electorate and provides powerful motivation for many political and economic actors.* EU integration is a central element in the platforms of both major parties, while, several European actors have reiterated that the efficient functioning of democratic institutions, including Parliament, remains an essential political criterion in the ongoing candidacy process. As such, the EU integration processes are expected to continue providing an important and credible anchor for Albania's political development over time. That

said, there remains a not-insignificant risk that continued political tension in Albania may intermittently impact development progress and the accession anchor, as well.

(ii) Economic developments

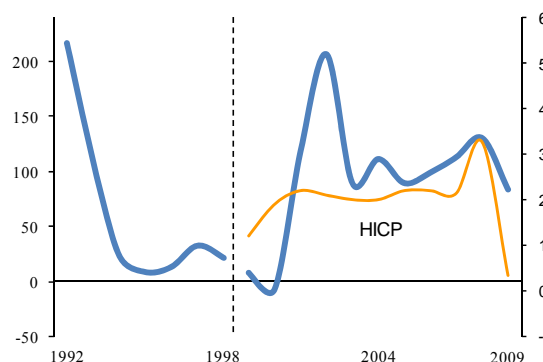
13. *Albania has had a successful record of sustained growth over the last ten years, averaging 6 percent per year, while maintaining stable inflation, interest and exchange rates* (Figures 1 and 2). Growth has been the result of major structural transformation, based largely on the movement of labor from low productivity agricultural occupations to services and construction, and, to a lesser extent, to manufacturing. The high rates of economic growth have not been matched by rapid increases in employment. Indeed, employment remained stagnant in all years except 2008 which saw only a marginal improvement. Still, Albania avoided excessively high open unemployment due to massive emigration of skilled and unskilled workers, particularly to Italy and Greece. The inflow of remittances from migrants has fluctuated between 11 and 14% percent of GDP, annually, and has been an important source of demand while also helping to achieve the rapid declines in poverty cited above.

Figure 1: Real Growth Rates



Source: INSTAT, and staff estimations after 2008; Bar – real GDP growth rate, Line – Employment growth rate

Figure 2: Inflation



Source: INSTAT, Eurostat; Blue line – Rate of inflation in Albania
HICP = Harmonized Index of Consumer Prices (EU)

14. *For most of the last decade, growth has been underpinned by a stable macro-economic framework, in turn the result of sound fiscal and monetary policies.* From 2002 to 2007, a gradual fiscal consolidation based on improving revenue administration contributed to a downward trend in the overall deficit and a decline in public debt from 62 to 53 percent of GDP between 2003 and 2007. In addition to low and stable inflation, Albania’s flexible exchange rate system has proved to be a good shock absorber. In this environment, the financial system saw a rapid expansion of private credit from 4.2 percent of GDP in 2000 to 37.4 percent at the end of 2009.

15. *However, Albania met the global financial and economic crisis in a period of fiscal expansion.* In 2008, Albania embarked on a path of fiscal expansion through a rapid increase in public investment (from 5.8 in 2007 to 8.7 in 2008, associated mainly with one large road project) and subsequent increases in public sector wages and pensions, which elevated total spending to 33.7 percent of GDP in 2009 from 29.2 percent in 2007. Combined with relatively limited exposure to international markets and comparatively low levels of credit to GDP, the result was that Albania was one of the few countries in Europe that experienced positive growth rates in 2009, albeit at a much slower 3 percent.

16. *The Government's delay in adjusting spending plans throughout 2009 resulted in deteriorating macroeconomic indicators.* By 2009, the fiscal deficit had risen to 7 percent of GDP (of which, 4.6 percent was financed through new borrowing and 2.4 percent was covered through privatization proceeds). Meanwhile the gradual impact of the global crisis materialized with remittances falling from 13.5 percent of GDP in 2007 to 10.7 in 2009, and a significant slowdown in exports. The increasing current account deficit, which reached 15.2 percent in 2009, was financed by exceptional privatization-related Foreign Direct Investment (FDI) and expensive public sector external borrowing – the Government contracted two syndicated loans (of around half a billion Euros) in 2008 and 2009. As a result, public debt also rose – to 59.6 percent of GDP from 53.7 percent in 2007.

17. *The banking sector has withstood the crisis reasonably well.* Albania's banking sector was one of the few in the region with a large positive net foreign assets position, especially compared with other countries in the region. This was related to prudent bank management as well as limited credit lines of foreign banks for Albania, which in turn meant very limited private external debt. Moreover, active supervision by the central bank helped to avoid contagion, despite the fact that Albania's banking sector is dominated by foreign banks from around the region. After an early sharp drop in late 2008/early 2009, bank deposits have since recovered to pre-crisis levels at the beginning of 2010. Meanwhile, non-performing loans rose slightly, but the situation remains manageable. Levels of provisions at 6 percent of the loan portfolio and capital adequacy ratios of about 16 percent of total assets remain at comfortable levels and should be able to absorb further negative shocks.

Table 2: Key Economic Indicators, 2005-2013

	Actual			2008	Est.		Projections		
	2005	2006	2007		2009	2010	2011	2012	2013
Real GDP growth (%)	5.5	5.0	6.0	6.5	2.2	3.0	4.0	5.0	5.5
Retail prices (end-period, %)	2.0	2.5	3.5	2.7	2.7	2.9	2.7	2.6	2.8
	(in percent of GDP unless otherwise noted)								
Saving-investment balance	24.8	29.2	29.9	32.5	29.5	27.7	27.6	27.7	28.0
Foreign savings	6.5	5.9	8.6	14.7	15.2	11.4	10.3	9.2	8.5
Domestic savings	17.1	23.3	21.3	17.8	14.3	16.3	17.4	18.5	19.5
Investment	23.6	29.3	29.9	32.5	29.5	27.7	27.6	27.7	28.0
Fiscal sector									
Revenues and grants	24.5	25.3	25.5	27.1	26.7	27.7	27.7	27.9	27.8
Tax revenue	22.0	23.0	23.4	24.6	24.3	25.4	25.5	25.8	26.1
Expenditures	28.1	28.6	29.2	32.7	33.7	32.6	32.2	31.8	31.4
Overall balance (including grants)	-3.6	-3.2	-3.7	-5.6	-7.0	-5.0	-4.5	-3.8	-3.6
Primary balance (including grants)	-0.5	-0.4	-1.1	-2.6	-3.7	-1.3	-1.1	-0.7	-0.8
Public saving (including grants)	1.2	4.2	3.0	3.4	2.0	1.9	2.2	2.5	3.0
Public Debt	56.9	55.9	53.7	55.5	59.6	60.1	58.8	56.8	56.4
External sector									
Current account balance (incl. official transf.)	-6.5	-5.9	-8.6	-14.7	-15.2	-11.4	-10.3	-9.2	-8.5
Trade balance (goods and services)	-24.0	-24.3	-25.9	-28.0	-27.2	-22.2	-21.4	-20.6	-20.0
International Reserves (in months of imports)	4.0	4.7	4.3	4.0	4.0	4.0	4.0	4.0	4.0
Remittances	13.7	14.1	13.5	11.2	11.1	11.0	10.9	11.0	11.0
FDI	3.3	3.6	6.0	7.0	8.2	5.3	5.3	5.3	5.2

Source: IMF, World Bank staff and authorities' estimates

18. ***Growth prospects in the coming years are less favorable -- external conditions are tougher and Albania needs to find new sources of productivity growth.*** Albania faces a tough external environment with tighter capital and investment markets, a deteriorating situation in one of its main economic partners (Greece) and the likelihood of a much slower recovery in Europe. Graduation from IDA has been accompanied by several other development partners also moving to less concessional financing. In addition, the country's past productivity growth has been based on the reallocation of labor from agriculture to other sectors, on demand driven by earnings of external migrants, and the impact of regulatory reforms aimed at improving the business climate. Both these sources are likely to become less important over the medium term. Under these conditions, Albania can expect to grow at a slower pace over the short-to-medium term. Growth in 2010 is likely to be only marginally higher than in 2009, with a projected slow recovery from 2011 depending on the outturns in Europe as a whole.

19. ***Albania will need a renewed focus on maintaining the conditions for economic growth and poverty reduction by reducing current macro-fiscal risks, raising the returns to investment, and improving labor productivity.*** Re-establishing its tradition of sound macro-fiscal policy in an environment of tighter external financing and an uncertain European economy will require more cautious budgeting over the next few years. A careful pacing of domestically financed public investments over the medium term as well improvements in the efficiency of large social expenditures are also key. In addition, Albania will need to dramatically improve its competitiveness as an investment location in Europe, by following through on business environment reforms. In particular, Albania needs to close a persistent gap between its steady stream of regulatory reforms and their subsequent implementation, and to reduce the uncertainties stemming from cumbersome administrative procedures, corruption, weak rule of law, and lack of secure property rights. Finally, Albania needs to accelerate reforms in the education sector to increase access, quality and relevance to its labor market needs.

III. THE GOVERNMENT PROGRAM AND SECTORAL CHALLENGES

A. The National Strategy for Development and Integration

20. ***In 2007, Albania approved the National Strategy for Development and Integration for 2007-2013, which was developed via a participatory process involving stakeholders throughout the country.*** The NSDI aims to (i) integrate the country into the EU and NATO; (ii) develop and consolidate the democratic state, notably through electoral, judicial and property rights reform; and (iii) achieve rapid, balanced and sustainable economic, human and social development. The NSDI has established target growth rates of 6-7 percent and aims to reduce the poverty headcount to below 10 percent by 2013. The NSDI states that macroeconomic stability is to be supported by fiscal consolidation and reduction of debt. Infrastructure investments would concentrate on roads and transport, energy, and water supply and sanitation. In the social services, the Government aims to increase secondary education enrolment to 76 percent, introduce a basic package of covered health benefits, strengthen the coverage of the social assistance, and reform the public pension system. Moreover, following the 2009 Parliamentary elections, the Government reiterated the focus on water sector (including both water supply and sanitation, but also on irrigation to improve agricultural productivity) and the health sector as areas where resources would be concentrated in the next 2-4 years.

B. Improving Macro Management, Budget Processes and Public Expenditure Management

21. ***Given the recent fiscal expansion, Albania needs to return to the more prudent fiscal policy that served the economy very well between 2002 and 2007.*** Sound macro-economic management (especially a prudent fiscal stance, flexible exchange rates and sound monetary policy) was fundamental

to the rapid expansion of the economy over most of the past decade. However, the sharp increase in the overall deficit (and reduction in public saving) in 2009, resulting in a level of debt nearing 60 percent of GDP have raised concerns about the fiscal framework, particularly in the absence of a new IMF program to provide an anchor for fiscal policy since the successful completion of the last program in 2008. Given the uncertainties in Europe and the capital markets, Albania needs to move quickly to withdraw the recent stimulus, consolidate its fiscal position, increase public saving and begin to reverse recent increases in public debt. It should be noted that Albania, with Bank support, has made important strides in strengthening its institutional capacities for debt management, in time for its graduation from IDA and its entry into the international capital markets (see Box 1). Notwithstanding this, given the fiscal trends over the past few years, a revised fiscal framework would be well-served by some type of anchor mechanism, such as a fiscal rule, consistent with long term debt sustainability, to increase the confidence of the financial markets and investors that Albania has resumed its strong macroeconomic record of the past. Without the anchor of a credible fiscal policy Albania would be at the risk of higher financing costs and uncertain availability of finance, which may increase macroeconomic volatility.

22. ***Albania should also continue to further strengthen its expenditure management systems, as the underpinning for both its fiscal policy and the effective implementation of the NSDI.*** Albania has made significant progress in putting in place the institutional framework for sound budgeting, most recently with the passage of the new Organic Budget Law which enshrines, *inter alia*, medium term budget practices that have been followed for some years, and with new procedures for public investment planning. However, this needs to be complemented by: (i) stronger enforcement of the new rules and procedures; (ii) more transparency and fewer reallocations at the budget execution stage, to preserve the integrity of the annual and medium term budgeting processes; and (iii) more ex-post monitoring and analysis to reinforce incentives for improving the quality of medium term budget plans. Completion of the long-delayed Treasury system (currently underway) and the subsequent development of a modern integrated financial management information system would allow not only to strengthen day-to-day management of expenditures, but also to link spending with NSDI objectives and program outcomes, and improve monitoring of development programs, as a whole. Similarly, Albania has also made some strides improving its fiduciary systems. It continues to receive support from a number of development partners, not least the Bank and the European Union, on completing the reforms of public procurement and on deepening improvements in financial management.

Box 1: Improving Debt Management Capacity in Time for IDA Graduation

Starting in 2007, with support from the World Bank's Treasury Department and a multi-donor trust fund for Integrated Planning System (IPS), Albania has been steadily improving its technical capacities for effective debt management to respond to its graduation from IDA and reduced access to concessional loans. The Debt Department has been restructured in line with international best practices and is now fully staffed for the appropriate separation of functions. A Debt Management Strategy (DMS) for a 3 year period was produced in 2006 and was revised in 2009. Under this strategy, the Government managed to gradually extend the maturity of domestic debt from 224 to 481 days, and gradually lower domestic interest payments. A Debt Management Financial Accounting System (DMFAS) is in use for external debt and guarantees. Next steps include introducing a clear risk management framework for evaluating the tradeoffs between expected cost and risk, and extension of to DMFAS to domestic debt.

23. ***Building confidence in Albania's macroeconomic management will also require an improvement in the production of national statistics, in particular, national and fiscal accounts.*** Albania has had a longstanding need to strengthen its macroeconomic statistics and has been receiving a range of donor support for this purpose but the assistance has been very small and relatively uncoordinated. National accounts and labor and employment statistics are notably the weakest areas, and require urgent attention given their importance as key signals to economic actors in a modern market

economy. More urgently, however, there is also a critical need to adhere to a fixed calendar for the timely release of all macroeconomic data. The global financial crisis saw a tendency in many countries towards a hands-on management of the production and release of key national statistics. The current crisis in Greece demonstrates the risks of not having accurate, transparent and timely economic data. Reinforcing the capacity and independence of the National Statistical Agency to produce robust and unbiased statistics would also help to further underpin both the soundness and credibility of macroeconomic policy in Albania.

C. Strengthening the Framework for Private Investment

24. ***In recent years, Albania has taken important steps to upgrade the regulatory framework for business.*** The Government has been implementing a comprehensive reform program to establish an efficient, sustainable and transparent regulatory system, with the goal of increasing investment levels, enhancing competition and stimulating business growth. These efforts are reflected in the improving Doing Business indicators and ranking: Albania moved from 136th in 2007 to 82nd in 2010. Its performance on the Global Competitiveness Index and on the Heritage Foundation's Index of Economic Freedom has also improved significantly in the recent years. However, the overall rankings mask considerable variation in rankings for individual indicators. For example, the country's *Doing Business* rankings ranged from 15th for protection of minority shareholder rights, to 91st on enforcing contracts, to 173rd on getting construction permits, the Index of Economic Freedom includes rather low scores for protection of property rights and freedom from corruption. In addition, the business environment remains more difficult for women who are poorly represented in ownership of firms, compared to other countries in ECA.

25. ***A significant gap remains between officially-adopted regulatory policies and their implementation and enforcement, explained in part by the still-weak rule of law.*** The enforcement gap significantly reduces the high returns to private investment in Albania, deterring both foreign and local investors and imposing costly time and bribe "taxes", thus eroding some benefits of regulatory reform. Analysis of recent firm surveys (2007-08) demonstrates that firms' productivity, propensity to export and their employment creation are hampered by lack of the predictability over enforcement of rules, and the time taken to comply with regulations. Meanwhile, Albania continues to see its lowest rankings among the World Governance Indicators¹ (WGI) on *control of corruption* and *rule of law*, which are the only areas in which it is on par with an below the average level for lower middle income countries, respectively.

26. ***Albania's investment climate is also substantially undermined by unclear property rights and weaknesses in land administration.*** A survey conducted in 2008 as part of the Investment Climate Assessment (ICA) found that insecure property rights and access to land were considered to be severe obstacles to investment by a large majority of firms, with small- and medium-sized firms disproportionately affected. Moreover, anecdotal evidence suggests that foreign investors are often deterred from investing in Albania due to difficulties in obtaining access to land or premises with clear legal title. Exacerbating the uncertainty surrounding property rights is the apparent inability of the courts to successfully resolve disputes and/or to enforce decisions taken through judicial processes. The Government is well aware of the issues surrounding property rights and their implications for private investment and has adopted some appropriate policy responses. Implementation has lagged, however, due to a highly variable legal framework, coordination failures, capacity constraints and corruption.

¹ WGI indicators also include *voice and accountability*, *political stability*, *government effectiveness* and *regulatory quality* on which Albania has improved significantly over the last decade.

27. ***In addition, Albania faces a significant challenge with respect to supporting private businesses in the adoption of the more sophisticated technologies that are needed in order to meet new EU standards and regulations.*** While the authorities make progress on introducing new EU regulations and standards, there is a need not only to improve their implementation from the public sector side, but also to create an environment which allows private firms to acquire the necessary technical know-how to comply with these requirements. Albania's exporters remain concentrated in the bottom end of the global market, mainly comprising unskilled processing with limited value added. A limited number of programs are underway financed both by Government and development partners to raise the capacity on both sides to implement new regulations, in particular in agriculture sector. However, these need to be complemented by attention to the systemic constraints that hinder the usual changes for knowledge adoption and innovation, for example, linkages with foreign direct investment, promotion of within firm worker training and an effective quality and standards infrastructure.

D. Closing the Infrastructure Gap

28. ***Increasing the availability of good quality infrastructure is another critical element of the Government's efforts to enhance the climate for private investment and growth and ensure wider inclusion.*** Indeed, firms interviewed for the Bank's competitiveness assessment under the ICA identified infrastructure bottlenecks – electricity supply, telecommunications and transport (including logistics) – as the greatest obstacles to growth and investment.

29. ***The unreliability and poor quality of electricity supplies has regularly been cited by Albanian firms of all sizes as one of their most critical constraints.*** In 2008, firms reported an average 32 outages per month, necessitating widespread reliance on stand-by generators and inhibiting expenditures on sophisticated technical equipment which might be damaged by power fluctuations. Aware of the seriousness of this situation, the Government, in close cooperation with the Bank Group, has embarked on a major reform of the power sector beginning in 2008, but much remains to be done. The government began restructuring the power sector: the state-owned electricity company, Albanian Electroenergetic Corporation (KESH), was unbundled and the retail distribution and supply business was privatized. Under the new electricity tariff framework, the privatized OSSh is required to meet performance targets for: (i) reducing transmission and distribution losses; (ii) increasing collection rates; (iii) improving operational efficiency; and (iv) improving the quality of electricity. The sector has already begun to see substantial improvements, in part because of management reform but also because of better hydrological conditions, strengthening of the regulatory entity, and privatization of the retail supply. The next three years will be especially critical in making the new structure and market model fully effective. First, the financial, managerial and technical viability of the publicly owned energy companies in the supply chain need to be strengthened and their associated inter-company arrears reduced. Second, there is a need to make the recent privatization of the distribution sector effective through, *inter alia*, new investments to reduce energy losses in distribution. Third, the Government will need to further increase generation capacity, especially through small but efficient hydro projects. Finally, the sector's contingent liabilities to the Government will need to be substantially reduced.

30. ***Albania's telecommunications infrastructure had been perceived as an obstacle to doing business but Government passed a telecommunications framework law in 2007 which is helping to create a competitive market.*** In the past, significant numbers of Albanian firms have reported that inadequate and costly telecommunications services are an obstacle to doing business (BEEPS 2005 and 2008). In response to these issues, the Government passed a new law in 2007 which has already led to significant improvements including the entrance of a third mobile service provider in the market. As a result there has been a notable rise in the number of users of telecom services, significantly lower costs and better quality of services. Further improvements will involve continued effective implementation of the new law including at least four elements in the short to medium term: (i) appropriate regulations

regarding interconnection; (ii) number portability; (iii) fostering inter-market competition; and (iv) competitive allocation of 3G and WiMax frequencies.

31. ***Albania has been steadily improving its transport infrastructure, but there is a substantial way to go before the road network reaches the average standard for lower middle income countries and there is a need for much greater emphasis on maintenance.*** The overall length of the road network in Albania totals about 14,500 km. The recent focus has been on development of the network and there have been some investments in short and discontinuous sections of expressway (including Tirana – Durres, Rreshen – Kalimash) - but the standard of the primary network remains inadequate. Meanwhile, the local road network (about 4,411 km) is also in very poor condition with only 39 percent paved. The recent establishment of a large Secondary and Tertiary Roads program, which aims to reconstruct and rehabilitate 1700 km of local roads, should make a significant improvement. At this stage, the key priorities for the road sector are to: (i) develop the connectivity of the network and bring it to a uniform standard that is comparable with other countries in the region; (ii) remove the maintenance backlog; (iii) provide sustainable management and financing systems; and (iv) continue institutional reform and capacity strengthening to improve sector institutions, such as the nascent Albanian Road Authority. In parallel, the country should also improve infrastructure and service delivery improvements, in the port and rail sub-sectors, through private sector involvement, EU alignment programs and regional initiatives.

32. ***Irrigation infrastructure is vital to tapping the agricultural sector’s comparative advantage but remains in poor condition and needs to be adapted to changing climatic conditions.*** While Albania has significant annual rainfall, less than 20 percent occurs in the six-month period from April to September, making irrigation necessary for summer and perennial crops. Drainage and flood protection is also important to agriculture, particularly in the low-lying coastal plains. Even after a decade or so of investment in rehabilitating the extensive irrigation and drainage system (a legacy of communism), about one third of the system still remains to be rehabilitated, and upstream dams and water sources need attention. Meanwhile the institutional structures for the operation and maintenance are still weak – Albania is still searching for sustainable and effective mechanisms for managing irrigation and drainage systems that can better meet the changing needs of Albania’s agricultural sector. The Government has recently made further improvement of the irrigation system, including the use of more modern methods such as drip irrigation, a major priority in order to raise productivity in the agriculture sector.

E. Broadening and Sustaining Social Gains

33. ***Albania has been comparatively less successful in extending the benefits of its growing market economy to the broader population.*** Growth, to date, has been largely jobless with only marginal increases in employment. The impact of growth on poverty reduction has been achieved mainly through sectoral reallocations of employment, migrant remittances to their families, as well as increases in public sector wages and pensions. In addition, social indicators in health and education, and in the coverage and adequacy of social protection systems, lag significantly behind averages of the EU10 and Albania’s regional neighbors. The slow economic recovery is likely to take its toll on the most vulnerable necessitating a renewed attention to improve the effectiveness of social protection systems. However, the pattern of vulnerability is likely to be gender-biased, as women face greater challenges than men in the labor market.

34. ***In education, the key challenge faced by the Government of Albania is to improve quality at all levels while also improving access, particularly for secondary and higher education as well as for rural households and minorities.*** This will require raising low secondary enrolment rates for boys and girls (Albania has no gender significant differences in secondary enrolment, see Table 1 on page 3), reducing large urban-rural disparities, and ensuring that students are better prepared to respond to labor market demands. Albanians have, on average, fewer years of schooling when compared to EU and sub-

regional averages, and few students continue into higher education. There are also vulnerable groups with particularly low enrolments, even in basic education. Quality, as measured by standardized tests, also indicates serious challenges. To address these challenges, the Government has developed a National Education Strategy (NES) for 2004-2015 (covering pre-university education) which emphasizes quality improvements as a way to encourage higher enrolment. The authorities have also launched a separate strategy for higher education which focuses on improved governance and, financing mechanisms in the public universities.

35. ***To date, the Government has made good progress in implementing its National Education Strategy, but will need to persist in and accelerate reforms in order to achieve educational outcomes comparable to EU10 and Croatia.*** By the end of 2009, one-fourth of all teachers had received some continuing education, student-computer ratios have declined from 61 to 25; and school overcrowding is being addressed with only 18 percent of students attending multiple-shift schools versus 36 percent just three years earlier. In terms of promoting accountability at the school level, all school principals have been trained in management and education leadership and 90 percent of pre-university level schools report having a functioning board but *de facto* responsibility for processes/procedures remains to be transferred. At the higher education level, reforms have also taken place, albeit at a slower pace. The higher education law was revised and is currently being implemented. All universities have established an external governing board and about 70 percent of the universities have developed strategic plans. The Government is currently carrying out discussions on curriculum reform and developing an action plan to implement the Bologna process. In addition, consideration is being given to the development of incentive schemes to attract students and provide resources in areas where skills are lacking.

36. ***Albania continues to lag behind other countries in the region as well as other lower middle income countries worldwide with respect to health outcomes.*** Health care also remains a critical area in which individual households are affected by corruption, with close to a third of survey respondents reporting that they have paid a bribe to receive medical attention. Public expenditure on health remains low (2.7 percent of GDP), but total spending on health care from both public and private sources is comparable with other lower middle income countries, at about 6.5 percent of GDP. Out-of-pocket payments currently account for nearly 60 percent of total funding, and the high level of informal payments leads to serious inequality in access to health care with the poor often foregoing necessary care.

37. ***Reforms initiated to improve health care service delivery and financing have not been fully implemented and serious problems remain with respect to: (i) regional imbalances and unequal access; (ii) payment systems that are unsuited to promoting cost containment or efficient resource use; and (iii) weak sector management capabilities.*** The Government has been committed to undertaking reforms in several areas. Most recently, it launched a broad program to rehabilitate primary care facilities. A system for continuous medical education and re-licensing of medical staff is being implemented; and the Ministry of Health has developed clinical practice guidelines for most common diseases which is being rolled out to primary health care (PHC) providers. In addition, the Government has undertaken initial steps towards improving resource allocation mechanisms through development of a national rationalization plan for hospital services. In addition, the Government has begun improving the resource allocation mechanism from the existing input-based to performance-based by changing the provider payment systems. Achieving the full impact of these reforms is likely to take several years and will involve changes in the behavior and incentives of both patients and providers.

38. ***Albania's rapid development has seen dramatic reductions in poverty rates, but there are emerging poverty traps which need to be addressed and vulnerable groups (especially labor-scarce households) which require Government support.*** The country has been slowly reforming its safety nets into modern, well-targeted and effective social assistance programs. Making progress on these is becoming increasingly important in terms of fiscal management, because of the large share of these

expenditures in the budget and recent expansionary trends, for example, ballooning disability fund expenditures. The pension system also has significant long-term fiscal deficits and low coverage.

39. ***There are significant opportunities to improve targeting and administration of the Albania's main social benefits program, Ndihma Ekonomike (NE).*** The poorest beneficiaries receive only 56 percent of NE transfers, and the benefits amount to only about 14 percent of the beneficiaries' total pre-transfer consumption. There are significant opportunities to improve targeting mechanisms, reduce discretion and opportunities for abuse. Administrative processes also remain overly cumbersome with the transaction costs for applicants inflated by numerous documentation requirements which administrators must cross check with multiple agencies at different levels of public administration. The introduction of national registry and electronic data bases would significantly increase the efficiency of targeting and administration, and help to reduce system costs. The Government has made improved administration of social benefits as one of its highest priorities and have already prepared a draft law to introduce targeting and administrative reforms in NE.

40. ***Spending on non-contributory disability benefits is disproportionate to the estimated number of disabled people.*** Disability benefits account for more than half of the total social assistance spending. During 2000-2008, both the number of disability beneficiaries and the level of average disability benefits increased significantly. An initial diagnostic of the disability program shows that the disability legislation is scattered, medical eligibility criteria are outdated, and the system in place for assessing disability cases is open to conflict of interests. Finally, it should be noted that the operational level disconnect among the institutions that manage different parts of social protection leads to missed opportunities for improved effectiveness from linking these services.

41. ***Finally, Albania's pension system is not sustainable in the long term.*** A compressed benefit structure, though redistributive, provides little incentive for people to contribute and/or declare correct earnings. As a result, a low share of the working age population is contributing to the pension system in Albania but the pension system has to finance several generations of elderly, most of which have full pension rights. In addition, roles of pension and social assistance programs are not clearly demarcated. In rural areas, the pension and social assistance branches of the system have evolved in such a way that rural pensions have essentially become a social assistance benefit. Rural pensioners pay contributions based on a flat amount, but a large part of their contribution is paid for by the Government. Sporadic implementation of the pension indexation rule leads to uncertainty. Pension administration is weak, with some of the past records still paper-based. The Albanian Government has made reform of the pension system administration one of its main priorities, but has delayed efforts on the necessary measures owing to the need for a broad-based and multiparty consensus. Meanwhile, efforts are underway to improve administration, including the introduction of new archive and information systems.

F. Strengthening Water Resource Management and Adapting to Climate Change

42. ***Albania is well endowed with water resources but its environmental infrastructure is lagging behind other countries in the region and hydrological institutions are weak.*** Insufficient understanding of the central role that water resources and the interconnections between various water uses play in the economy has contributed to systematic underfunding and weakening of the institutions in water resources management. Albania also shares a number of its rivers and lakes with neighboring countries, making it imperative that effective regional institutions are established to ensure their adequate management.

43. ***Upstream soil erosion and downstream sedimentation are already of increasing concern, with their attendant impact on the quality of coastal waters and Albania's tourism potential.*** This erosion and sedimentation is evident in abandoned (uncultivated) and arable lands, forests and pasture lands in the coastal area but also along river beds and in river deltas. This is caused by illegal logging,

overgrazing and extraction of gravel resources without any regulation. Millions of tons of sediments are deposited in rivers and washed away into the Adriatic Sea every year. Forests and water catchments in mountainous regions face increasing pressures from erosion, illegal logging, and development, but local capacity to manage resources is limited. Lack of critical environmental infrastructure and services in the southern coast of Albania also exacerbate the risks of damaging natural resources in light of the expected tourism development.

44. ***The impact of climate change on Albania is expected to be severe, with changing weather and water flow patterns in different parts of the country.*** Albania is the second most vulnerable country to climate change in Eastern Europe and Central Asia, owing to likely increases in the variability of precipitation and Albania's steeper topography and its reliance on water for energy and agriculture. Climate change predictions suggest that Albania is becoming hotter and drier, with more frequent droughts and extreme rainfalls. Increased variability and intensity of rainfall is expected to raise uncertainty and economic risk to farmers, water managers, energy producers, manufacturers, transport managers and tourism operators. Such hydrological variability also increases risks for natural disasters from flooding, erosion and landslides.

45. ***Recent changes in weather patterns, which are leading to an increased incidence of flooding throughout the country and a disastrous flood in northern Albania in January 2010, have sharpened the authorities focus on the more immediate impacts of the changing climate.*** Albania's flood protection infrastructure was built for much less extreme climate scenarios than have been recently experienced, meanwhile the institutional set-up for coordinated management of surface water flows does not function effectively. Given the extent of agricultural and urban investments in lowland areas, the economic risks of weak preparedness are quite high. In general, Albania's predictive and response capacities for natural disasters, which include earthquakes as well, are limited and fiscal resources are strained. Its hydro-meteorological and weather forecasting services lag behind the region and there is no existing early warning system.

46. ***Albania's high dependence on its water resources -- for hydropower production and irrigation for the important agriculture sector, as well as household uses -- makes it imperative to address this climate challenge in a comprehensive and integrated manner.*** Albania's hydropower dams produce 90 percent of domestically sourced power, but institutional, monitoring, and infrastructure deficiencies leave room for improved efficiency in water use and management. The Government's ongoing efforts to further develop its untapped hydropower potential in both small and large plants will have to be carefully considered so as to also preserve water use rights for other purposes. The irrigation sector, by far the largest water user, accounting for over 70 percent of all abstractions, has also suffered from insufficient funding and an inadequate management framework that have led to the deterioration of infrastructure and unreliable water delivery. Many agricultural reservoirs cannot be operated at their full storage level, reducing their functionality for flood protection. Erosion in upland areas and sedimentation have reduced storage capacities significantly, and farmers are increasingly installing wells without much consideration for competing demands on groundwater. Expanding access for municipal water supplies competes with the same ground and surface water as irrigation and hydropower, with the added problem of requiring strong environmental measures to protect water quality.

47. ***Albania's urban water supply sector also remains grossly inefficient, with unaccounted-for water at 73 percent while the average city supplies only 12 hours per day of drinking water.*** Moreover, the compliance with established microbiological standards is consistently low. The country has only one functional waste water treatment plant – several more are under construction – and environmental protection of water sources and coastal waters is sporadic. Ground and surface water which constitutes the main source of drinking water is at risk of pollution as a result of the discharge of untreated sewage waters into rivers and the sea, and inappropriate dumping of solid waste on river banks. The Government

has recently decentralized the management of Albania's 52 municipal water utilities to local governments, but still provides significant levels of subsidies to the sector. A number of experiments have been undertaken with private participation without much success to date owing mainly to the small size of the utilities. Having indicated to external donors that this sector should be a major focus of infrastructure support going forward, the Government is preparing a large coordinated program of reform, investments and capacity building in this sector, with one priority being to make rapid progress toward EU standards.

48. *Albania's challenge will be to move promptly to understand and adapt its infrastructure and usage to better manage, conserve and make more efficient use of its water resources.* Albania's large water infrastructure pool provides an excellent foundation to address water resources management. Some work is already ongoing on the development of better hydrological models for the major rivers and trans-boundary lakes, improvements in dam safety, reservoir and hydropower management, on new and improved irrigation techniques, and on defining a large investment program to improve municipal water supply and sanitation. However, to make best use of its opportunities for adaptation, a multi-sectoral effort is required with the attendant coordination across government (central and local) and end users.

IV. ONGOING PROGRAM AND KEY LESSONS

49. The Bank has had an active program in Albania for nearly two decades and a number of lessons have been learned over that period. The lessons have been divided into three main areas: (i) lessons from implementation of the current portfolio; (ii) broader lessons derived from a formal review of the last CAS for the period FY06-FY09 and the 2010 Client Survey; and (iii) lessons learned from engagement with other partners, both external development partners and domestic stakeholders.

A. The Current Portfolio and Implementation Lessons

50. Commitments under the current portfolio include US\$263 million in IBRD/IDA loans and credits, US\$180 million in co-financing loans and credits, and US\$35 million of recipient-executed Trust Funds (TF), amounting to a consolidated portfolio (under Bank supervision) of around US\$480 million of investments under implementation². About 40 percent of this consolidated portfolio is disbursed, with approximately equal disbursement ratios for Bank and TF financing. Portfolio performance has deteriorated over the last couple of years. At the end of May 2010, 10 of the 16 operations – including the IPS Multi-Donor Trust Fund, which is treated like a project on account of its size – had satisfactory or moderately satisfactory implementation performance. Two roads projects are rated highly satisfactory given their very rapid disbursement rates and good results to date. The average age of the portfolio is 4.5 years. The disbursement ratio in FY09 was 21 percent, and by end May 2010 was 15.3 percent for FY10.

51. The main challenges ahead for the portfolio are to: (a) *improve the implementation performance and disbursement rates*, which are still notably lower than the regional and Bank-wide averages; (b) *achieve a better balance of risks and development returns* across the portfolio; and (c) *consolidate and simplify the large portfolio* into a more streamlined and manageable program of interventions.

52. The recent decline of *implementation performance and disbursement rates* can be attributed to three main factors. First, the process of mainstreaming project implementation arrangements into line ministry structures which was begun at the Government's request in 2004 and applied rigorously to new projects during the last CAS period. This mainstreaming involved a steep learning curve for a number of ministries, although benefits become evident after the first years of implementation. Second, persistent fiduciary challenges – both in procurement and financial management – have continued to hamper project

² This portfolio also includes a contingent Partial Risk Guarantee of US\$78 million, not counted in the above investment numbers.

implementation. Finally, during the CAS period, the program saw a lengthy suspension of one project and several major project restructurings resulting from concerns about implementation of safeguard policies. Three of these restructurings are expected to be reflected in upgraded ratings in the next few weeks, and another in the next few months.

Table 3: Portfolio Performance as of June 1, 2010

Sector	Project name	Board	Revised Closing	IDA/IBRD US\$m	Donor Fin* US\$m	Disb (%)	Age (yrs)	Latest IP	Latest DO
HD	Social Services Delivery	Jun 2001	Sep 2012	15.0	--	67	9.0	MU	MU
	Education Excel & Equity	Jun 2006	Dec 2010	15.0	37.8	43	4.0	MS	MS
	Health System Mod	Mar 2006	Mar 2012	15.4	1.6	42	4.2	MS	MS
SD	Power Sector Gen & Rest	Mar 2004	Jun 2010	25.0	112.0	90	6.2	MU	S
	Transport	Feb 2007	Jun 2011	25.0	15.0	102	3.3	HS	S
	Natural Resources Devt	Jun 2005	Nov 2010	7.0	10.0	76	5.0	S	S
	Lake Shkoder Intg Mgmt	Jul 2008	Sep 2012	2.0	--	14	1.8	MS	MS
	Intg Coastal Zone Mgmt	Jun 2005	Dec 2012	17.5	7.8	23	4.9	MS	MS
	ECSEE APL 2 (Transmission)	Jun 2005	Jan 2011	27.0	--	14	4.9	MU	MU
	Land Admin & Mgmt	Feb 2007	Dec 2011	35.0	5.1	17	3.3	MU	MU
	Avian Influenza	Jun 2006	Dec 2010	5.0	0.8	76	3.9	S	S
	Secondary & Local Roads	Jun 2008	Dec 2012	20.0	15.0	46	2.0	HS	HS
	ECSEE APL 5 (Dam Safety)	Jun 2008	Dec 2013	35.3	--	5	1.9	MS	MS
	Disaster Risk Mit & Adapt	Jun 2008	Feb 2012	9.2	--	26	1.9	U	U
	PREM	Intg Planning System MDTF*	Jan 2008	Sep 2011	--	6.4	20	2.2	MS
PF	Bus Env Ref & Inst Sup	Oct 2006	Jan 2011	9.3	--	15	3.6	MU	MU
				263	215	42.2	4.5		

* includes co-financing and parallel financing loans, credits and trust funds

53. Both the Bank and Government are committed to continue the process of *mainstreaming implementation into government structures* under the new CPS. Mainstreaming is fully in line with the Paris Declaration and sets the stage for enhanced sector-wide approaches for development aid. One key lesson from the previous CAS is that the approach to this mainstreaming should not be “one-size fits all” nor aim simply for the elimination of external project implementation units (PIUs). Mainstreaming can make projects more vulnerable to the high staff turnover levels in government. As such, one way to mitigate the effect of individual staff replacements is to build a broad-based awareness about, and engagement with, the project across a wider range of ministry personnel. The mainstreaming and capacity building agenda should be: (i) carefully planned at project design to take into account the specific challenges of the beneficiary ministry administration; (ii) explicitly targeted in project outcomes; and (iii) explicitly addressed in the project risk framework for the likely impact on disbursements in early years, and for the vulnerability to staff turnover.

Table 4: Trends in Disbursement Rates (% of undisbursed balances)*

	FY05	FY06	FY07	FY08	FY09	FY10	FY05-10
Albania	26	17	25	18	21	15	20
ECA	24	17	19	18	18	17	19
Bank	23	24	23	22	27	24	24

*Figures are rounded to the nearest whole number.

54. With respect to *the fiduciary aspects of the portfolio*, the FY10 Country Portfolio Fiduciary Review (CPFR) noted some progress on both financial management and procurement, and identified a series of measures to be undertaken under this CPS. Albania remains a high risk country for *procurement*, as reflected in the still comparatively high level of bribes reported by firms paid to receive public contracts, as share of contract value. The 2008 BEEPs showed a reduction in this indicator from 6.7 percent to 4.4 percent, while the region averages 1.5 percent. However, the FY10 CPFR did not find any major issues on procurement in Bank projects. The Review attributes this to the heightened supervision made possible by Bank decentralization of fiduciary staff, which has been relatively successful in helping to mitigate the risks in the portfolio as well as building capacity in government. The Report also recommends expanding the use of already acceptable elements of the country system, while seeking to strengthen others. For example, the Bank is already supporting an audit of Albania's e-procurement system with a view to certifying it for use by several development partners in the future. In the area of *financial management*, the delayed rollout of the Government's new treasury system did complicate financial management for a few projects that were mandated to use this system during the last CAS period. However, the rollout is now fully underway, supported by the IPS Trust Fund, and is expected to yield a significant improvement in financial management of the portfolio.

55. Drawing from the lessons from the current CPS and also from the CPFR, the Bank will work closely with the Government to implement the *Fiduciary Action Plan* to mitigate and manage fiduciary risks for investment lending problem projects, contract management, audit compliance, and financial management and procurement practices by the implementing entities. *Maintaining decentralized financial management and procurement staff is essential to cost efficiently sustain the intensive fiduciary supervision of the Albania portfolio, mitigate high procurement risks, and facilitate portfolio management closer to the client.*

56. *With respect to the balance of portfolio risks and development returns, two key lessons emerged from the recent Inspection Panel cases.* The first is that combination of weak property rights and widespread illegal construction in Albania pose important risks for a portfolio that supports both a substantial volume of infrastructure investments, and other institutional reforms, such as land use planning that attempt to address often highly politicized territorial management issues (see Box 2). With respect to infrastructure investments, the Bank has undertaken a close review of the portfolio from the perspective of these safeguard risks and is following up on the recommendations for better training of staff and client officials on Bank policies and better understanding of local laws and procedures by Bank staff. A training program for local staff has already been completed. The Bank has also already prepared a review of Albania's land acquisition policies in order to identify the gaps with Bank policy. This will be the basis for a training workshop for government officials in early FY11. The second lesson relates to *the quality of stakeholder engagement in project design and implementation.* As a result, the Albania program has instituted a Country Office Communications Strategy that is revised biennially and includes closer supervision of Operational Communications, greater interaction with non-governmental stakeholders, and timely responses to complaints and inquiries from the public on Bank-financed operations.

57. *With the graduation to IBRD, both the Government and the Bank agree on the need to consolidate the number of small projects in the portfolio.* Such consolidation will be important to make more efficient use of the Bank's resources and Government managerial capacities, free up needed internal resources for more analytical and advisory work with the Government on Albania's emerging challenges, and allow the Bank to selectively focus on the development of larger, coordinated donor programs over time. The aim is to continue a reduction in the portfolio from 21 projects in 2004, 15 in 2010, to 10-11 by the end of the new CPS period.

Box 2: Demolitions, Safeguard Policies and Land Use Planning in Albania

Albania continues to struggle with a widespread problem of informal construction and a weak, albeit improving, framework for land administration. In this environment, both national and municipal authorities use demolitions as a means of controlling illegal developments. In light of this, the Government has noted that it will not agree to Bank measures that would temporarily ring-fence broad geographic areas – such as the Southern Coast or entire municipalities – (as opposed to specific investment sites) from ongoing efforts to remove existing illegal structures. Such measures would, it is argued, create dual legal systems in the country on such a widespread matter and be a violation of principles of equity. Although the Bank’s safeguard policy on involuntary resettlement does not apply to land use planning activities that do not involve Bank-assisted investments requiring the taking of land, the risk of these projects being drawn into disputes over demolitions is substantial. In light of this, the Bank has withdrawn from the investments in land use planning activities in Albania, but will continue the dialogue on policy reform in this critical area through non-lending technical assistance (TA). Over time, it is expected that, as implementation of the new Territorial Planning Law advances, and improvements are made to property registration, urban planning, and construction permitting, there will be a reduction of the use of demolitions for controlling land use developments and more systematic mitigation of social costs related to these actions.

B. Lessons from the FY06-FY09 CAS Completion Report and 2010 Client Survey

58. *The implementation of the FY06-09 CAS yielded important lessons in terms of the Bank’s effectiveness in supporting Albania’s development process.* In particular, there are key lessons pertaining to the benefits of a close coordination between the Bank and IFC on lending and investment as well as on advisory services, the efficacy of maintaining a development policy dialogue notwithstanding the macroeconomic performance, lessons on safeguards implementation and on the Bank’s role in engendering transparency and consultation.

- *Close coordination between the Bank and IFC* can yield the right combination for complex private sector reforms, as seen in the privatization of the electricity distribution company. The cooperation between the IFC and the Bank proved critical in achieving donor community consensus on major regulatory issues and in structuring an attractive transaction for the private sector. The IBRD partial risk guarantee (PRG), a financial instrument designed to help governments mitigate political and regulatory risks, helped to maintain and increase investors’ interest in the privatization process. The concessions reforms which the Bank supported through policy based lending coupled with IFC’s assistance to drafting the new concession law, opened the way to IFC’s advisory services new transactions using the law. Also, licensing reform supported under a Bank project with IFC technical leadership and the *Doing Business* innovations supported by the joint Bank-IFC unit were two other important areas of successful, close cooperation between the Bank and IFC.
- *Important reform and structural progress can be made even without budget support, if there is strong ownership by the Government of the underlying reform program.* During the previous CAS period, the Bank and Government maintained a continuous policy dialogue which yielded key structural reforms, notwithstanding the eventual outcome that the DPL series was curtailed at only the first operation, because of concerns about the macroeconomic framework.
- *Safeguards policy implementation need to be prioritized to the same degree as fiduciary controls in project preparation and implementation.* First, both task teams and the client

need to have a better command of the policies and how to implement them. Second, staff responsible for reviewing safeguard policy frameworks (e.g. Resettlement Policy Framework and Environmental Management Plans) needs to have a good understanding of local laws and procedures, and their specific inconsistencies or gaps *vis a vis* Bank policies. Finally, the Bank needs to ensure that application of these policies is consistent across projects, sectors and countries, by ensuring that social development specialists, country legal teams and quality assurance staff have a common understanding of how the policy should be applied in different types of cases.

- ***The Bank has played an important role in engendering transparency and consultation in Albania, through its own actions and those related to portfolio implementation.*** Under the previous CAS period, closer Bank supervision of consultations already yielded important, albeit subtle, changes in the culture of consultation in the Albanian public service. Second, under the Inspection Panel cases, the Bank learned important and very public lessons about the need to keep communication lines open with the media and the general public, but also about how important it is that all stakeholders – general public, project beneficiaries, civil society, Parliament, government – have a deeper understanding of the way the Bank works in Albania. Third, civil society continues to look to the Bank and other international partners for an independent voice on key development issues.

59. ***In 2009/10, a client survey about opinion leaders' views of the World Bank and its work in Albania found relatively strong support for the Bank's role.*** Two hundred stakeholders – drawn from a range of opinion leaders in Albania, including government, civil society, media, private sector, and academia -- responded to the survey, a 73 percent response rate. Overall results suggest that stakeholders are quite satisfied with the Bank's work in Albania, their relationships with the Bank, the Bank's relevance in Albania, its alignment with country development priorities, and the effectiveness of Bank interventions. Just over half of respondents indicated that the Bank should be more involved in Albania's development strategies, while 44 percent said that the Bank was currently involved at an optimum level. The Bank is perceived by respondents to be focused on the areas that respondents consider top priorities. Stakeholders are concerned deeply with issues related to law, justice and governance. Survey findings suggest that the Bank's overall strategic focus in Albania (identified by respondents as primarily poverty, growth, government effectiveness, and infrastructure) is fairly well aligned with what stakeholders think the Bank should be focused on in Albania (growth, property rights, education, governance). With respect to areas for improvement the most notable findings included consistent suggestions that: (i) the Bank should work more with local government and the private sector; and (ii) the Bank should go much further in publicly disclosing the details of its work with Government.

C. Partnerships and Participation

60. ***Donor partnerships.*** The WBG continues to be the second largest donor to Albania after European Commission (EC) in terms of disbursements, with around US\$60 million per year (see Annex 7). This position has allowed the Bank Group to help the Government coordinate donor assistance and mobilizing financing for key sector programs, with considerable success. A significant share of the commitments in the current Bank portfolio is co-financed with other partners, at a ratio of 0.8 in co-financing to each dollar of Bank-financing, i.e. around \$215 million in co- or parallel-financing for around \$260 million in IDA/IBRD loans and credits. This includes one sector wide approach, the Education Excellence and Equity Project which has a ratio of 2.5 for each dollar of Bank financing. Notably, the Secondary and Local Roads Project of US\$20 million from IDA and \$15 million co-financing from the Organization of the Petroleum Exporting Countries (OPEC) Fund has been the centerpiece of a program of *parallel financing* for feeder roads reconstruction of around US\$430 million. The Bank is also managing a US\$6 million Multi-Donor Trust Fund for a group of seven donors, and an

innovative fee-based service arrangement with Albania's One UN program. Most recently, through the use of the Partial Risk Guarantee instrument for the privatization of the distribution company, the Bank has already supported private investment commitments for electricity sector at an expected ratio of approximately 3.2 for each dollar of the guarantee. IFC has also been successful in mobilizing support from among a wide range of development partners for its advisory services and technical assistance.

61. Going forward, the Bank and IFC should continue to explore with the Government innovative ways of crowding-in private development financing for key areas, in particular for private participation in infrastructure where Albania needs large amount of investments and climate adaptation considering country's high exposure to climate change. The WBG will pursue on these areas while ensuring that partnering opportunities and arrangements do not overstretch internal resources for high quality preparation and supervision, and have clear synergies with the Bank overall program. Moreover, as the EC continues to increase its support to Albania it will be critical to further expand and deepen the Bank's cooperation with the EC and Government to ensure that the Bank's global knowledge can continue to inform Albania's development efforts.

62. **Stakeholder participation.** Under the FY06-09 CAS, the Governance Filter, *inter alia*, emphasized the demand side of good governance, particularly mechanisms for advocacy and increased citizen involvement to encourage better public service delivery. The participatory approach worked particularly well in those projects that supported local services and which engaged beneficiary participation in social service delivery, irrigation, community works, forestry, coastal village and municipal infrastructure, secondary and local roads. Given this experience, the Bank should consider means of further deepening its engagement with non-governmental and civil society groups in the implementation of its program in Albania. This will not only help to build awareness around Bank-financed programs in Albania and support the rollout of the Bank's new Access to Information Policy, but perhaps demonstrate good practices for the Government in ways of effectively engaging civil society in monitoring and evaluating public programs and projects.

V. THE ALBANIA-BANK GROUP COUNTRY PARTNERSHIP PROGRAM

A. Drivers of the CPS Program

63. ***The main driver of the FY11-14 CPS is the Government's development strategy as articulated in the NSDI and the accompanying External Assistance Orientation Document (EAOD).*** The latter document, prepared by the Government in April 2008, provides development partners guidance on focusing assistance in support of the NSDI. Specifically, the EAOD calls for a greater use of programmatic approaches in development assistance and an added focus by development partners on water, environment, health and property sectors. It identifies a clear role for multilateral lenders and the challenges of IDA graduation:

“Multilateral loans are currently playing a very important role in Albania. This is especially the case in the areas that do not traditionally receive EU support, such as health, education and social reform, but also in infrastructure and natural resources. The graduation from IDA status means that the subsidy element of the loans is now less than 20%. However, multilateral loans are extremely important for Albania as the WB and other multilaterals are able to provide important expertise to complement their funding and because many of these investments provide social returns only in the long term.”

64. *The EAOD identifies key areas in which it encourages partners to maintain or increase assistance and others in which it would prefer to work using principally domestic public or private resources.* In this regard, it seeks to maintain the levels of external assistance in: (i) public administration/rule of law, but with a stronger focus on justice and public order; (ii) economic development reforms “but with a common national approach that reflects EU norms [which] IPA should play a role in defining”; (iii) social services where the Document calls for the “World Bank to continue its leadership and build on the sector wide approach (SWAp) that has been started in education”; and (iv) infrastructure, but with an increasing share to water supply and sanitation, and associated environmental management. In infrastructure, the priorities include “completing the national and rural road networks, road safety, energy efficiency, management reform in the water and sanitation at the local level along with related investments in physical assets, and building effective environmental institutions.”

Table 5: Needs and Orientation for External Assistance, by Sector

	Needs	Gaps in donor programming
Democratisation and rule of law	Will continue to require a significant share of public investment, with a critical role for external assistance.	The strong emphasis on public administration is welcome, but justice and public order should feature more strongly in donor programming.
Economic development	Urgent need to establish institutions and mechanisms, to be followed by major funding for private sector development, including rural and regional development	Gets the highest emphasis of all sectors in donor programmes, suggesting that donors are preparing for increased support, in line with NSDI priorities.
Transport	Continued top priority for the next four years at least, after which focus will shift from major to minor roads and road safety	Good support in donor program. Needs to be sustained for several more years, although domestic finance will dominate.
Water	Urgent need to improve management capacity followed by high investment needs	Attention in donor programming is relevant for the short term, but will need to increase in the longer term.
Social development	Immediate focus on reforms and institutions, to be followed by investment	The interest in donor programming documents is wider than the current support, suggesting that the support of more donors for social sectors may be realised.
Territorial development	Expanding support for local, rural and regional development will be a very significant feature of EU integration	Regional and rural development, agriculture and urban planning do not feature strongly in donor programming documents and need to be given more emphasis.

Source: Albania – External Assistance Orientation Document, April 2008

65. *The Government has recently also requested the Bank to reorient the focus of Bank financing towards supporting the fiscal challenges facing Albania over the short to medium term.* Specifically, the authorities have instructed line ministries that Bank financing should be fully integrated into the Government’s medium term budget framework and planned within, rather than in addition to, budget ceilings. This request reflects the authorities’ acute awareness that Albania’s graduation to IBRD only lending – and the accompanying trend of other partners to less concessional financing terms – requires more careful macro management of its development financing options. The Ministry of Finance noted explicitly that “IBRD funds received from the WB through CPS are at more appropriate terms than those found in the financial markets” and that their inclusion within the national budget program would not only facilitate better long term integrated planning of Albania’s development expenditures, but also encourage other donors in pursuit of this principle of the Paris Declaration. The Minister has also called on all development partners to focus over the next few years on accelerating the implementation of Albania’s substantial ongoing donor financed program to help ease fiscal constraints while maintaining critical investments for long term growth and poverty reduction.

66. ***CPS consultations were held with a broad range of stakeholders - - namely, Parliament including the opposition members, the Bank of Albania, representatives of private sector and civil society, donors and as well as government officials.*** The main feedback from the Parliamentary Commission on Economy and Finance was related to the design of conditionality for budget support which Commission Members felt should be limited to a few high priority issues. In addition, several members suggested that the Bank focus in depth on macroeconomic policy (particularly in the absence of a Fund program and local presence) and regularly publish analytic reviews on macroeconomic performance. The need for a more focused and consolidated World Bank Group program was another theme emphasized by Commission Members, who expressed concerns about the rate of project implementation. Donors welcomed the Bank's continued efforts to partner with other financiers, and invited the Bank to join in the EU-European bilateral donors *division of labor* initiative. They also urged the Bank Group to take on a larger role in addressing the informal economy and helping to raise private sector capacity. Civil society continued to request that the Bank foster more public debate on macroeconomic and broader development issues. In addition, the representatives suggested a more cross-sectoral focus in addressing key challenges, e.g. the impact of transport on school enrolment or the role of forestry management on mountain area poverty.

67. ***Integration with the European accession agenda.*** On April 14, 2010 the Government submitted Albania's response to the EC pre-accession questionnaire as the next step in the candidacy process. EU-related reforms are expected to receive greater attention over the next few years, and the Bank has been providing relevant assistance where appropriate. However, the Government has thus far based its dialogue with the Bank on the Bank's competitive and comparative advantages, rather than on harnessing Bank expertise in pursuing EU integration-related reforms. However, supporting Albania's EU agenda is expected to become a stronger priority, particularly after the results of the EU pre-accession questionnaire are published (likely in early 2011). The Bank will follow these developments closely and be prepared to further engage on important EU reforms, particularly in governance, PFM, and fiduciary matters, as well as in the central areas of the CPS program. Meanwhile, project teams will work to ensure that they are fully familiar with EU requirements, and integrate them as much as possible into lending activities.

68. ***Going forward, the ECA region is looking to deepen and broaden its partnership with the European Commission.*** The two institutions are already exploring greater interactions on country sector wide programs, but also on regional projects, building on the successful collaboration already seen in the Energy Community of South East Europe (ECSEE) and the South East Europe Transport Observatory (SEETO). In particular, for the Albania CPS program, the Bank will actively seek out areas for joint programming with the Commission, to more effectively support Albania's progress on the accession path.

B. Overview of Country Partnership Strategy

69. ***As noted earlier, Albania enters the new CPS period having weathered the global financial and economic crisis reasonably well; maintaining positive, albeit significantly reduced, growth rates in 2009 and a sound banking sector.*** Given the slower recovery in Europe and difficulties in Greece – a major economic partner for trade, investment and remittances – the next few years are likely to be less favorable than in the recent past. The key challenges to resuming high growth in this environment include: (i) the early resumption of a sound medium term fiscal framework and further strengthening of public expenditure management; (ii) improving the implementation of Albania's already broad program of regulatory reforms to boost competitiveness and investment levels; (iii) continuing to close the infrastructure gap in a fiscally sustainable manner, and (iv) deepening the private sector's access to credit. Meanwhile, the slow recovery is likely to take its toll on the most vulnerable necessitating a renewed attention to improving the effectiveness of social protection systems and safeguarding progress on social indicators. Finally, Albania is rapidly coming to terms with its climate change challenge – as the second

most vulnerable country in Europe and Central Asia – primarily relating to the management of its water resources on which the country is heavily dependent for energy and agriculture.

70. ***The joint Bank Group program presented in this CPS will help Albania to meet the abovementioned challenges, by focusing on three strategic objectives:***

- (i) ***Accelerating the recovery in Albania’s economic growth through improved competitiveness*** by strengthening macroeconomic and public expenditure management, improving business regulations and reducing compliance costs, supporting local banks and competitive local companies, and improving key infrastructure services and their financial sustainability.
- (ii) ***Broadening and sustaining Albania’s social gains*** by improving access to better quality education and health services, and increasing the effectiveness of its social protection systems
- (iii) ***Reducing Albania’s vulnerability to climate change***, by improving the conservation, management and efficient use of its water resources, and strengthening disaster preparedness.

71. ***This CPS continues the “one-World Bank Group” approach initiated under Albania previous joint CAS, and aims at an even more focused, synergistic program.*** Coordinated IBRD-IFC engagements are targeted in the following priority sectors: (i) national infrastructure – energy and roads; and (ii) municipal infrastructure, mainly water supply and solid waste management; and (iii) the business environment.

72. ***In addition, the CPS program also reflects a deepening sub-regional focus in the Western Balkans and South East Europe.*** Already Albania has and is benefiting from projects in the regional Trade and Transport Facilitation in South East Europe program and the Energy Community of South East Europe. During this CPS period, the Bank expects to expand and further develop the Catastrophe Risk Insurance Facility, of which Albania is a founding member. In addition, Albania will continue to benefit from a move towards regional economic and sector work (ESW) as a means of utilizing available World Bank resources for knowledge generation more efficiently. Key areas in this regard include poverty analysis, social policy, transport, water, climate change and financial sector. Going forward, new priorities could be added, based on client demand and the amenability of the topic/sector to a regional rather than a country approach.

73. ***The CPS program will also continue to support governance improvements in Albania*** by refining the Governance Filter (initially developed under the FY06-09 CAS) to focus on a clear set of requirements for Bank-financed projects aimed at deepening the impact on the public expenditure management, administrative efficiency, fiduciary and public disclosure practices across government ministries.

74. ***The main approach of the CPS will be to focus on improving and accelerating the implementation of the large ongoing portfolio of Bank-financed projects in Albania, which are already addressing the country’s key challenges, while selectively adding new projects, in a reduced number of critical sectors.*** This focus on the existing portfolio is needed in order to deliver the expected results and development impact, while improving the pace of resource transfer to the Government as it faces new fiscal constraints. An important part of this first approach will be to further integrate Bank-financed programs into the budget and administrative framework of government so as to yield added benefits in terms of public expenditure management, fiduciary and administrative capacities.

75. ***This lending strategy also aims to complete the consolidation of the investment portfolio to 10-12 operations by FY14*** (from 21 projects in FY04). The consolidation strategy reflects a Government’s request for the Bank to focus on fewer, larger projects and to continue to mobilizing large coordinated donor programs in key development areas. The move to consolidate the portfolio also reflects the need

for a more efficient use of the Bank’s resources and Government managerial capacities for supporting the Albania program, and to free up needed internal Bank resources for more analytical and advisory work with Government on Albania’s emerging challenges. Meanwhile the Bank and IFC will support regulatory reform aimed at improve the prospects for raising private sector financing for key infrastructure bottlenecks.

Table 6: IDA/IBRD Investment Program* FY11-Y14

Accelerating the Recovery in Growth through Competitiveness		Broadening and Sustaining Social Gains		Reducing Vulnerability to Climate Change	
Ongoing investment projects (closing date)					
Power Sector Generation	FY11	Education, Excel & Equity	FY12	Natural Resources Devt	FY11
Business Env Reform	FY11	Social Services Delivery	FY13	Avian Influenza	FY11
Transport	FY11	Health System Mod	FY13	Intg Coastal Zone Mgmt	FY13
Land Admin & Mgmt	FY12			Lake Shkodra Ecosystem	FY13
ECSEE APL2 Transmission	FY12			Disaster Risk Mitigation	FY13
Intg Planning System MDTF	FY12				
Secondary & Local Roads	FY13				
ECSEE APL5 Dam Safety	FY14				
Planned investment projects (delivery date)					
Water Resource & Irrigation	FY12	Social Assistance Inv	FY12	Municipal Water Supply	FY11
Road Maintenance & Safety	FY13	Education	FY14	Environmental Services	FY13
Public Sector Reform	FY14	Health Sector	FY14		

* The program will also include annual DPLs and the ongoing PRG.

C. Strategic Objectives and Results

76. The objective of the CPS is to support Albania’s development through three strategic objectives and continuing the use of a cross-cutting Governance Filter. The strategic objectives include: (i) accelerating Albania’s recovery to high growth in a post-crisis Europe; (ii) broadening and sustaining Albania’s social gains; (iii) reducing Albania’s vulnerability to climate change. Details on the nature of each strategic objective, including principal ongoing and proposed instruments, are described below.

Strategic Objective 1: Accelerating the recovery in Albania’s economic growth through improved competitiveness

- (i) Sound macroeconomic management and improved public expenditure management*
- (ii) Improved business regulations and reduced compliance costs for the private sector costs*
- (iii) Improved, and more financially sustainable, infrastructure services in roads, energy, and irrigation*
- (iv) Stronger banks and micro-finance institutions and support for competitive local companies*

(i) Sound macroeconomic management and improved public expenditure management

77. The Bank will support Government’s efforts to strengthen its macro – especially fiscal – performance and public expenditure management. Bank support would be provided principally through a series of policy-based loans together with a range of ongoing and new analytical and advisory services, and followed by a planned *Public Sector Reform* project in FY14. The main focus of this support would be to help Albania: (a) improve the credibility and contestability of fiscal policy; (b) complete the framework for safeguarding financial sector stability; (c) continue improvements in public expenditure

management and fiduciary performance; and (d) deepen the possibilities for citizen engagement with public policy-making.

78. The proposed *Social Services* (FY11) and *Growth* (FY12-FY14) *Development Policy Loans* (DPL) of \$25 million each would address, *inter alia*, reforms in fiscal policy and public expenditure, including improving the efficiency of social expenditures (Social Services DPL) and establishment of a fiscal rule or equivalent anchor to entrench prudent fiscal policy (Growth DPLs).

79. Efforts to improve the credibility and contestability of fiscal policy would center around: (a) the Bank's renewed engagement in a transparent and public dialogue on fiscal policy and (b) the deepening of the Bank's involvement in the monitoring and analysis of sectoral expenditure patterns and outcomes as part of its project portfolio management. The former would start with the dissemination of the recently completed *Country Economic Memorandum (CEM)*, followed by the Bank publication of quarterly economic reviews analyzing macroeconomic developments. These reports would be critical given the absence of an IMF program, but even if one were adopted the reports could continue to support more detailed debates on public expenditure policy – at both the structural and sectoral levels. The sectoral analyses would require the Bank's macroeconomic and sector teams to undertake some public expenditure and institutional analyses as part of project preparation of supervision in key ministries. These analyses would support greater integration of Bank-financed projects into the medium-term budget planning (MTBP) as well as provide additional analytical basis for the Government's annual budget review process.

80. Efforts to improve public expenditure management systems would be based primarily in the ongoing *Integrated Planning System Multi-Donor Trust Fund (MDTF)*, which has already enabled Albania to further improve its MTBP processes with links to the national strategy. This grant is also supporting: (i) the Treasury systems rollout; (ii) development of an Albania Financial Management Information System (AMFIS) to link the monitoring of development outcomes with budget execution; and potentially (iii) some capacity building for the Institute of National Statistics, in particular, on the production of national accounts. Analytical work to take stock of developments and future needs would include a new *Public Expenditure and Financial Accountability (PEFA)* in FY12³ and updates of the Report on the Observations of Standards and Codes (ROSCs) on Fiscal Transparency and Data Quality Assessment Framework, in conjunction with the IMF.

81. In terms of the governance of public spending, Albania has already made progress in public procurement and financial management leading to the use of some national systems by the Bank. Additional support will be provided under the ongoing *Governance Partnership Facility (GPF) Grant* for further development of the procurement and financial management systems (see Box 3, below). The rollout of the Treasury systems and AFMIS will play an important role in strengthening capacities for improved budget reporting, cash accounting and financial management, meanwhile reforms related to internal audit and control are fully supported under the EU Instrument for Pre-Accession program.

(ii) Improved business regulations and reduced compliance costs for the private sector

82. Albania has taken major steps to upgrade the framework for private investment through a broad program of regulatory reform, but significant gaps remain between new regulations and their implementation in practice as evidenced by persistently high “time tax” reported in the recent BEEPS and ICA. *The strategic focus for the Bank Group under this CPS will be complete ongoing reforms related to land administration and business inspections aimed at reducing the “time tax”, and to put in place a modern system for better preparation of regulatory reforms prior to their adoption.*

³ The last PEFA for Albania was prepared in 2006.

83. The ongoing *Business Environment Reform and Institutional Strengthening Project* (BERIS) is supporting the introduction of a Regulatory Impact Assessment (RIA) tool and the reform of Albania's framework for business inspections, while the ongoing *Land Administration and Management Project* (LAMP) is financing the modernization of the Immoveable Property Rights Office and the registration of 75 percent of unregistered urban properties. The main activities are complemented by a *Doing Business Reform Initiative for South East Europe*, and by *IFC's Tax Simplification Project, Subnational Competitiveness Program and Trade Logistics Program*.

84. ***The CPS program will also continue implementation of a range of smaller programs aimed at strengthening private sector capacities for complying with EU and international requirements.*** These include:

- A planned *Regional Program for Accounting Reform and Institutional Standards (REPARIS) Corporate Reporting Enhancement Project* aimed at strengthening the corporate sector financial reporting in line with EU and international requirements; and complemented by *IFC's Corporate Governance program* which provides direct assistance to local enterprises to improve their internal governance arrangements;
- The *BERIS project* which is also supporting an upgrade of Albania's metrology and technical standards infrastructure, and is complemented by *an IFC program on International Standards and Technical Regulations* which provides direct assistance to small businesses in complying with technical standards;
- An *Extractive Industries Transparency Initiative* trust fund supporting the internationally recognized participatory framework for revenue transparency in the mining sector, supported by IFC investments in the growing mining sector; and
- An Institutional Development Fund (IDF) grant supporting implementation of the UN Aarhus Convention on transparency and participation in environmental permitting and decision making.

(iii) Improved, and more financially sustainable, infrastructure services in roads, energy, and irrigation

85. Given fiscal constraints and limited Bank resources, ***the CPS strategy under this objective is to (a) consolidate current reforms and complete ongoing investments in the energy and road sectors, while working to gradually crowd in new and private financing mechanisms, where possible, and (b) and continue investments in the irrigation system.*** The Government's request for a gradual shift toward municipal water supply will be addressed under the Strategic Objective 3 on reducing Albania's vulnerability to climate change through improvement management, conservation and more efficient use of its water resources.

86. In the **energy sector**, the CPS will focus on consolidating results from the large ongoing portfolio which includes four Bank projects and two IFC programs. On the Bank side, the ongoing (i) *Power Sector Generation and Reconstruction Project* is expected to achieve, shortly, the commercial operations of the new Vlora Thermal Power Plant to provide an additional 700 GWh in diversified electricity generation capacity for Albania; (ii) the *ECSEE Adaptable Program Loan (APL) 2 Transmission Project* is financing the replacement of three aging substations critical to improving the quality, reliability and efficiency of the bulk power transmission system and building capacity in the newly unbundled Transmission System Operator; and (iii) the *ECSEE APL 5 Dam Safety Project* is supporting efficiency improvements on Albania's largest hydropower cascade, and helping to spur private investment in hydropower. In addition, the recently approved *Partial Risk Guarantee* for the privatized electricity

distribution company remains critical to ensuring regulatory stability in this sector and facilitated critical investments by the new operator.

87. Meanwhile IFC will continue the ongoing *Residential Energy Efficiency Performance-Based Grant Initiative* aimed at leveraging up to 7,000 micro loans of around \$28 million for energy efficiency improvements by households with a target of 24,500 megawatt-hours of energy savings and up to 30,000 tons per year of greenhouse gases (GHG) avoided by FY12. IFC is also embarking on a *Renewable Energy Program for Small Hydro Power Plants* to improve existing regulatory framework, provide capacity development to investors and work with selected financial institutions to strengthen the supply of project financing for small hydropower plants. Where possible, following on recent successful privatizations in the sector, IFC will consider support for power distribution and power generation private companies,

88. In the **transport sector**, the CPS will focus on completion of two ongoing projects: the *Transport Project* which is financing construction of the new Milot-Rreshen section of the road to Kosovo and the *Secondary and Local Roads Project* which underpins the Government's ongoing \$430 million Secondary and Tertiary Roads program. After this, the Bank Group will support the institutional development and capacity building for the maintenance of the national road network. Indeed, the ongoing Transport Project is also piloting the use of performance-based maintenance contracts which should lay the basis for a planned *Road Maintenance and Safety Project* in FY13 to support the creation of coordinated donor program for completing rehabilitation and establishing routine maintenance for the national road network. In the same vein, IFC has planned advisory services for a *Public Private Partnership* for the completion, maintenance and operation of the new road to Morine on the Kosovo border. IFC will continue to encourage the government to attract private sector investments in ports through PPPs and concessions. Where possible, IFC will support private sector financing for projects in the transportation sector following privatization.

89. The planned *Water Resources and Irrigation Project* (FY11) will build on the lessons of past investments in irrigation, where still one-third of the national network remains in need of rehabilitation, to also address upstream safety and efficiency of irrigation reservoirs, introduce more efficient water distribution mechanisms and consolidate recent reforms in irrigation system management and cost recovery.

(iv) Supporting banks and competitive companies

90. Given the global financial crisis, IFC will increase its support for the **banking sector** with a focus on broadening access to finance, especially for MSMEs. IFC will provide a wide variety of products tailored to needs of local banks including credit lines, partial guarantee product, and energy efficiency and renewable energy products. If needed, IFC will consider support to strengthen banks' capitalization to facilitate their lending activities to the real sector. In addition, IFC will contribute to strengthening of the microfinance institutions, addressing the economic disparity between rural/semi-urban and urban development.

91. The banks have become more risk-averse and the country has been experiencing a slowdown in the banks' lending to the local companies. In this environment, one of IFC's challenges in the country is to partially ease the impact of the crisis by providing adequate lending products to the local companies. Since most of the companies in the real sector are MSMEs, IFC will provide its support mainly through the banking sector. IFC will seek to expand its financing to improve the competitiveness of local companies in sectors that can successfully compete with their exports in the regional market. In addition, IFC will support good regional companies that would like to expand their operations in Albania.

Strategic Objective 2: Broadening and sustaining Albania's social gains

- (i) Broader access to education, particularly secondary and higher education, and improved quality at all levels;**
- (ii) Improved access to quality primary health care and more efficient of spending on public health care**
- (iii) Improved targeting and efficiency in Albania's social protection system;**

92. Albania has made good strides on reducing absolute poverty in both urban and rural areas. However latest results show that there are emerging pockets of persistent poverty. Moreover, in light of the likely slow recovery toward high growth rates, there are risks that recent gains in poverty may stagnate. The new CPS includes a continued engagement in broadening access to better quality education (in particular at the secondary and higher levels, where Albania's enrolment rates are significantly lower than regional standards) and health services (where Albania's outcomes also lags behind its neighbors and the region). The CPS also refocuses new attention on the effectiveness of Albania's social protection services, where there are opportunities to improve targeting and administration.

(i) Broader access to education, particularly secondary and higher education, and improved quality at all levels

93. The CPS program will continue to support improvements to education and skills development through the ongoing *Education, Excellence and Equity Project* as part of Albania's first sector-wide approach program. The program supports improvements in the quality of secondary education aimed at increasing enrolment, reforming higher education management and financing, and strengthening the capacity for overall management of the education system. Quality improvements are expected to emerge from efforts to: (i) improve school management through training, the establishment of school boards and a school grants program; (ii) construct new and extended school buildings to reduce overcrowding; (iii) introduce new curricula, textbooks, labs, computers and internet access; and (iv) improve teacher training, licensing and continuous professional development. Given the depth of the needs to be addressed and the Government's expressed demand for the Bank to continue to be engaged in this social sector, a follow-on *Education Project* is planned for FY14. However, the scope of this project is expected to be refined over the next couple years, and its outcomes are expected to be achieved in the next CPS.

(ii) Improved access to quality primary health care and more efficient public spending on health care

94. The Bank is already supporting key reforms in the health care sector aimed at increasing access to quality primary health care services, particularly among the poor, and improving the efficiency of public spending on health care. Under this CPS, the Bank will continue to support ongoing reforms in the health care sector through the ongoing *Health Sector Modernization Project* including: (i) reforming primary health care provision and financing, including by introducing a Basics Benefit Package and universal enrolment with family health providers; (ii) improving quality of primary health care services through an extensive re-training and re-equipping program, equipment for primary health care providers; (iii) improving the incentives for greater efficiency through performance- and incentive- based contracting; and (iv) strengthening hospital governance and management. Given the large unfinished agenda in this area, a follow-on *Health Sector Project* is planned for FY14. The outcomes are expected in the next CPS.

(iii) Improved targeting and efficiency in Albania's social protection systems

95. The CPS will support continued improvements in social protection through the ongoing *Social Service Delivery Project* which was extended and restructured to establishment an information system, undertake administrative improvements and build capacity for pension system reforms; and ongoing

analytical work under the *Programmatic Poverty Analysis and Advisory Program* and the recent *Economic Governance of Utilities United Nations Development Programme (UNDP) Fee-Based Service* which is supporting the review and revision of the social protection mechanisms for electricity and water tariffs.

96. However, the main focus of the CPS program will be in two planned new operations, a *Social Services Development Policy Loan* (FY11) to be followed by a *Social Assistance Investment Project* (FY12) which would aim to consolidate reforms in social assistance benefit targeting and administration, supported by the DPL, and consolidate improvements in Albania's ability as a middle income country to protect its most poor and vulnerable populations. Proposed reforms include: (i) revising eligibility criteria and targeting mechanisms for the main social assistance and disability benefits programs; and (ii) increasing transparency and efficiency in the allocation of social assistance resources.

Strategic Objective 3: *Reducing Albania's vulnerability to climate change*

- (i) *Improved conservation, management and efficient use of Albania's water resources***
- (ii) *Decreased vulnerability to natural and manmade disasters***

(i) Improved the conservation, management and efficient use of Albania's water resources

97. *The CPS program will support Albania in meeting the challenges of climate change by improving the conservation, management and efficient use of its water resources.* The strategy focuses on building institutions and putting in place investments to improve the efficiency of water resource use through the ongoing portfolio of five investment projects, while gradually incorporating three new investments in the areas of integrated water resource management and irrigation, municipal water supply and sanitation, and environmental services.

98. The ongoing portfolio includes: (i) *Natural Resources Development Project* which supports community-based forest, pasture and micro-catchment conservation planning and investments in over 230 upland and mountainous communities where erosion is prevalent; and is piloting integrated management of three out of Albania's seven watersheds; (ii) a *Natural Regeneration Bio-Carbon Trust Fund* which is also piloting the first-ever purchase of carbon-sequestered from natural regeneration that can help to restore degraded lands, reduce soil erosion, and improve water quality; (iii) *Integrated Coastal Zone Management and Clean-Up Project* (ICZMCP) which is supporting environmental infrastructure along the southern coast, including pollution remediation at a former chemical plant site, water supply and sanitation upgrades in two coastal municipalities, construction of an EU-compliant solid waste landfill and the development of a management plan for Albania's most important Ramsar⁴ site; (iv) a joint Albania-Montenegro *Lake Shkoder Integrated Ecosystem Management Global Environment Facility (GEF) Project* that is establishing a Bilateral Lake Management framework for this important shared water resource; and (v) following on its successful recycling and linkages program, proposed *IFC advisory services for private participation in solid waste management*, complemented where possible with financing of concessionaires or direct financing of municipalities for developing regional sanitary landfills in line with new national legislation and relevant EU Directives.

99. Two new projects are planned to extend this agenda, under the CPS. The first two: the *Municipal Water Supply Reform & Investment Project* (FY11) will build on the Bank's previous experience in water/wastewater sector and respond to the Government's call for increased donor support in this area. The project will form the Bank's main contribution to a donor-wide sector program under preparation by

⁴ The "Ramsar" Convention on Wetlands is an intergovernmental treaty that embodies the commitments to maintain the ecological character of their Wetlands of International Importance.

the Government (in conjunction with KfW/GTZ, Austrian Development Corporation and the Bank) and will focus on a policy reform to be defined jointly with Government for both the national and local levels and introduce a demand management program in the water sector to facilitate municipal investments by a wide range of donor partners. In addition, the project will likely support improvements, and possible private participation in one of Albania's two largest municipal water systems. Meanwhile IFC is actively seeking to support through advisory services, private participation in eligible municipal utilities. The proposed *Environmental Services Project* (FY13) will be a follow-up to the *Natural Resources Development* and *Bio-Carbon* projects above and will aim to further address upstream erosion and other degradation issues that impact Albania's sustainable development. In addition, this project should also be an avenue for also crowding external private and public resources toward Albania's efforts at climate change mitigation and adaptation.

100. Finally, the *Water Resources and Irrigation Project* (FY12) described above, is mainly part of the infrastructure agenda (see paragraph 89) but will also serve this objective of strengthening Albania's water resource management framework.

(ii) Decreased vulnerability to natural and man-made disasters

101. The Bank will support Albania's efforts to strengthen its disaster preparedness, by focusing on the implementation of the two ongoing projects and the emergency component of another project which has recently been restructured under to respond to the floods in January. Under the *Disaster Risk Mitigation and Adaptation Project*, the Bank is contributing to updating Albania's disaster response strategies, improving its weather forecasting services, revising building codes to be EU-compliant for seismic risks, and establishing the Southeast Europe Catastrophic Risk Insurance Facility which will promote the provision of disaster and weather risk insurance products in the subregional market. The Bank will also complete ongoing support under the *Avian Influenza Control and Human Pandemic Preparedness and Response Project*, and complete investments to repair and upgrade damaged flood protection and other infrastructure in northern Albania under the restructure *Land Administration and Management Project*.

D. The Governance Filter v2.0

102. *Under the last CAS, Albania introduced a Governance Filter aimed at mainstreaming a focus on four key governance areas⁵ into each and every Bank intervention.* The Filter was instrumental in maintaining the focus on governance issues across the portfolio and in the design of each new project. On balance, the contribution of the projects to the creation of stronger institutional mechanisms for governance in individual sectors was substantial, including for example, transparent processes for road selection, improved licensing of health care providers, blind testing for university entrance and better supervision of financial institutions (see Annex 2 for more details). This was later reinforced and further enhanced by the Bank's Country Governance and Anti-Corruption (CGAC) strategy in 2007. Three key lessons from the implementation of this Filter and the later CGAC program are (i) the need to strengthen the analytical basis for efforts on governance; (ii) focus on approaches and interventions that are more tangible to Government officials (and indeed task teams), i.e. more synergies with the ongoing Bank-supported activities and reforms; and (iii) create the space for smaller, more just-in-time interventions as opportunities arise.

⁵ The Governance Pillars were (i) increased transparency of public spending; (ii) depoliticization of public administration and strengthening of independent agencies; (iii) understanding the challenges of local government; and (iv) greater citizen participation and demand-side mechanisms for good governance.

103. *These lessons were incorporated into Albania’s proposal for a Window 1 allocation from the Bank’s new Governance Partnership Facility (described below in Box 3) and have helped to refine the focus of the Governance Filter for the new CPS.* Albania’s proposal was notable in that the approach to improving governance is essentially one of working through the portfolio in an effort, not only to improve implementation of Bank-financed projects, but to effect broader change on the government systems in which those projects are embedded. The revised approach seeks to capitalize on the potential of Bank projects to enhance the effectiveness of government bodies by bringing expertise to bear on expenditure and administrative matters, as a complement sectoral reforms and investments. The Filter specifies requirements for the lending program related to: (i) public expenditure management; (ii) administrative arrangement; (iii) use, or partial use of some government fiduciary systems; and (iv) public disclosure and civil society engagement.

104. First, *each project should be fully integrated into the Government’s Medium Term Budget Program and the preparation of new projects will require teams to undertake public expenditure analysis of government spending in the key ministry or sector.* Projects should demonstrate how they respond to at least one key public expenditure policy challenge of that sector. During supervision, project teams will be required to periodically monitor the implementation of the overall sector budget and performance on the identified public expenditure policy challenge together with the line ministry. Sector teams will have to liaise and cooperate closely with Poverty Reduction and Economic Management Network (PREM) colleagues to feed this information into the Bank’s policy dialogue on fiscal management and public expenditure policy. Overall, such an integration of project preparation and supervision in the government’s budget processes will help to support, over time, more evidence-based resource allocation and increased transparency of public expenditure.

105. Second, *each new project should undertake a brief administrative review as part of the design of “mainstreamed” implementation arrangements.* This requirement responds to the lessons learned under the previous CAS. These reviews will help to better identify potential bottlenecks in project implementation as well as other capacity building goals that the project may address, through mainstreaming. The Government has already started a process of streamlining the responsibilities for donor-financed project management in each line ministry into a single department. The Bank will also support the development of new arrangements, through the projects, wherever possible.

<p>Box 3: Albania Country Governance and Anti-Corruption Program Governance Partnership Facility Grant</p> <p><i>US\$ 1.5 million of parent funds from DFID, Netherlands, and Norway</i> <i>March 2009-April 2012</i></p> <p>1. Governance Diagnostics (macro and micro studies on governance) - <i>completed</i></p> <ul style="list-style-type: none"> ● <i>Country Governance Review</i> ● <i>Accountability in the Education and Health sectors</i> <p>2. Strengthening Country Systems</p> <ul style="list-style-type: none"> ● <i>Fiduciary Action Plan:</i> <ul style="list-style-type: none"> • <i>Country Portfolio Fiduciary Review - completed</i> • <i>Procurement monitoring system for Bank portfolio;</i> • <i>Capacity building for counterparts and seminars for local business on bidding for Bank-financed contracts,</i> • <i>Model procurement specialist contracts with expended performance and capacity building responsibilities;</i> • <i>Preparation of a tax guide on donor-financed government-executed service contracts</i> • <i>Technical assistance for establishing EU-compliant complaints mechanism for public procurement and concessions</i> • <i>Support for expanding the use of government’s e-procurement system</i> ● <i>Safeguards Review of legal framework for land acquisition framework and implementation</i>
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<p>practices for expropriations safeguards</p> <ul style="list-style-type: none"> • <i>e-Government</i> strategy and technical assistance <p>3. Building Demand for better governance and accountability</p> <ul style="list-style-type: none"> • Fund for Civil Society Organizations' (CSO) Engagement in Supervision of the Bank portfolio • Mini Albania Development Marketplace for Governance (with the British Council) <p>4. Just-in-time Small Sectoral Governance Interventions</p> <ul style="list-style-type: none"> • Study of governance in the small-scale mining sector (complementary to Extractive Industries Transparency Initiative EITI) • Technical assistance to review draft secondary legislation for Territorial Planning Law • <i>Other activities, to be decided</i>
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106. The third requirement relates to the *use, or partial use, of the elements of the country procurement and/or financial management systems that have been approved by Bank's Regional Procurement and Financial Management*. Albania has made progress on reforms in public procurement and financial management. Both these fiduciary systems continue to receive support under the IPS MDTF and the GPF Fiduciary Action Plan. Notably, the Bank is in the process of auditing Albania's e-procurement system, which will outline improvements required for Bank and other IFI certification of the system. The automated Treasury system and development of the External Assistance Information System also present the opportunity for full integration of Bank financing into the Government's financial management systems. The Bank will continue this support so that, increasingly, projects can move to using the e-procurement and Treasury systems.

107. Fourth, as a supplement to the Bank's new Access to Information Policy, *new and ongoing projects will be required to explore mechanisms for involving civil society into the supervision and monitoring of implementation*. A pilot program on such mechanisms is supported by the CGAC-GPF.

108. *Expected outcomes from the use of the Governance Filter v2.0 in the Albania portfolio relate mainly to government effectiveness rather than to anti-corruption, per se*. One key outcome would be better public expenditure and financial management in central government, as evidenced by a gradual improvement in PEFA indicators, particularly those relating to monitoring and reporting on budget execution and donor financing. A second outcome relates to implementation of the Paris Declaration on development effectiveness, in particular a reduction in the number of free-standing project implementation units and greater use of accredited country fiduciary systems, which is monitored by the Albanian authorities in the biannual Survey on the Paris Declaration. The final outcome of the Governance Filter v2.0 relates to improved disclosure of the Bank's work with government (not simply project outcomes), as evidenced by an improvement in relevant indicators in the periodic Bank Client Survey in Albania.

E. The CPS Financing Program

109. *New IBRD lending to Albania over the CPS period is expected to amount to about US\$275 million, contingent on IBRD's financial's capacity*. The Bank financing program comprises:

- (i) completion of *15 ongoing investment projects and large multi-donor trust fund*, and
- (ii) preparation of *8 new investment projects and a series of annual development policy loans*.

The CPS is planned to include policy-based lending of around US\$100 million (or US\$25 million per year) but would need to remain flexible given uncertainty in macroeconomic policy and the potential for worse-than-expected external economic shocks. The proposed DPL operations are planned to focus on sectoral reforms in social services in FY11, and on broader reforms supporting growth and

competitiveness during FY12-FY14. However, the amount of budget support lending will necessarily be highly dependent on Albania's macroeconomic performance and stability over the CPS period. For example, DPL lending could be reduced and the freed-up IBRD resources reallocated to investment lending in the event that the Government fails to make necessary the fiscal adjustments to return to a lower-debt trajectory during the CPS period. Conversely, the Bank should also be prepared for much larger DPL support to Albania if the country is hit hard by Eurozone economic events, despite satisfactory macroeconomic management. Planned investment operations would then either be postponed or dropped. Finally, besides macroeconomic performance, the levels of planned budget support lending will also be subject to IBRD's financial capacity. Should there be a need for any significant changes to the DPL lending currently proposed as a result of these or other factors alternative scenarios would be discussed with Management and presented to the Board in the CPS progress report or via another appropriate strategy memorandum, together with new operations.

110. Depending on the market conditions during the next four years, *IFC expects to invest about \$120-150 million in the private sector in Albania* and to use its advisory services to secure private financing for road maintenance, water supply, solid waste management, and renewable energy. IFC investment in the private sector will be channeled through direct financing in a variety of projects ranging from agribusiness to, energy, and social sectors. In the financial sector investments will range from strengthening banks' capitalization (where needed), long term financing for MSMEs, and renewable energy and energy efficiency products.

Table 7: Proposed Indicative IBRD Lending Program by Fiscal Year

	FY11	US\$m
Social Services DPL		25
Municipal Water Supply		40
	FY11 Total	65
	FY 12	
Growth DPL		25
Water Resources and Irrigation		40
Social Assistance Investment		25
	FY12 Total	90
	FY13	
Growth DPL		25
Road Maintenance & Safety		30
Environmental Services		10+
	FY13 Total	65
	FY14	
Growth DPL		25
Health		10+
Education		10+
Public Sector Reform		10+
	FY14 Total	55
	TOTAL	275

+ The number and volume of investment operations in FY13-FY14 will be revisited during the CPS Progress Report and will depend on progress in consolidating the portfolio as well as IBRD financial capacity.

F. The CPS Knowledge Program

111. *The 2010 Client Survey and the CPS consultation process noted the support among all stakeholders for a continued contribution by the Bank to the transparent and public policy dialogue on the development challenges facing Albania.* The Bank Group will continue to provide analytical and advisory services to help Albania meet the challenges in the coming years, but also to ensure greater

public engagement in the discussion of these challenges. The recently completed Country Economic Memorandum, Investment Climate Assessment, Country Governance Review will be fully disseminated in FY11, and then followed by a series of quarterly economic reviews aimed to opening up the dialogue on macroeconomic policies. The Bank will also continue its biennial series of local Albania Bank Conferences on Development Economics (ABCDE), started under the last CAS, to provide a periodic, and neutral, venue for public debate on these and other issues.

112. ***The Bank and IFC's knowledge programs are also helping to move forward regional integration in the Western Balkans.*** IFC will continue the implementation of its mainly regional program of advisory services in Albania. These are aimed, not only to strengthen the business environment and the capacities of the local private sector to compete in a more integrated European and international markets, and to make progress on EU approximation in a number of areas, but also to help further integrate Albania more with neighboring countries in the sub-region through a sharing of reform experiences. On the Bank side, Albania will benefit from more regional economic and sector work. Specifically, the Bank has an ongoing program of regional work on poverty analysis and the financial sector that focus on regional priorities, and a revolving fund for regional sector work. The recent focus of this fund has been on management of local roads and an assessment of the railway sector under the SEETO making way for a new regional treaty, energy issues related to the ECSEE, the impact of climate change on regional water resources and, most recently, shared experiences and challenges in social policy. Future areas will be defined as needs and potential synergies emerge.

G. Monitoring and Evaluation

113. ***The CPS will rely on a combination of existing and developing monitoring and evaluation mechanisms.*** First, the Bank will continue its longstanding programmatic support for poverty monitoring and analysis in Albania, while emphasizing more explicitly its attention to monitoring and analyzing gender disparities. Albania has a well-established program of household based and living standards surveys which are conducted every three years, to which the Bank has traditionally provided technical support. Similarly, the Bank will expand its regular program of macroeconomic monitoring to include the production of public quarterly economic briefs as long as Albania remains on a non-programmatic relationship with the IMF. The need for such briefs will be reevaluated from time to time in light of growing market access and market information. Finally, the Bank is supporting the development of the Government's own monitoring and evaluation (M&E) mechanisms for the national development strategy through the IPS MDTF. In terms of program implementation, the Bank will undertake annual joint portfolio reviews with the Government and the joint preparation of the CPS Progress Report in FY13.

VI. MANAGING RISKS

114. Implementation of the CPS program identified in the previous chapter is subject to four main risks as follows:

115. ***Potential deterioration of the macroeconomic situation.*** The fragility of Albania's external environment and the country's current macroeconomic framework and fiscal policy stance present critical risks for the Country Partnership Strategy. A further worsening of the external environment and financing opportunities, and/or less than adequate policy responses would be addressed through an adjustment of the Bank's program of budget support loans either to meet urgent financing needs or to delay or reduce programmed budget support (para 109). The Bank has already intensified its dialogue on macroeconomic policy, given the absence of a disbursing IMF program. In addition, the Bank will coordinate closely with the EC on monitoring the macroeconomic situation and on the proposed policy

responses. Nevertheless, given the high levels of uncertainty, some flexibility will be needed to program appropriate financing responses over the short-to-medium term.

116. ***Persistent political tensions.*** Although Albania has already made considerable strides in consolidating multi-party democracy and peaceful transitions of power, the political climate remains very polarized. With local elections approaching, there are fears that a current stand-off between the government and opposition parties over alleged electoral irregularities could persist or new politically divisive issues could emerge. This in turn would have obvious negative implications for CPS implementation, both because the attention of central and local governments would shift from development to political issues and also because project and policy decision-making could come to a standstill in cases where multi-party boards, joint evaluation committees and the like are part of the implementation process. Still, the context of the EU accession agenda with its strong political criteria and broad-based support in Albania – across political parties and the general public – should provide incentives for early resolution of political issues.

117. ***Bank role in supporting development in Albania.*** Given that new IBRD lending is relatively small and increasingly selective it is possible that our ability to influence sectoral reforms through policy dialogue and institutional development could be reduced, especially as concessional financing from the EU becomes more readily available. This, however, need not necessarily affect the achievement of results on the ground as the Bank Group will continue to provide analytic and advisory services to help Albania meet its development challenges. Moreover, the Bank will continue its ongoing practice of partnering with other external partners including the EU to engage in policy dialogue on key issues in a coordinated manner.

118. ***Persistent implementation challenges.*** Albania needs to accelerate its implementation of donor-financed projects, including those financed by the Bank. However, there are still significant capacity weaknesses, not least in intergovernmental coordination, that hinder timely implementation of the portfolio. Such challenges may persist, and even intensify, as the Government moves ahead on the challenging agenda of EU approximation. The CPS approach of simplifying and streamlining the portfolio is meant precisely to reduce the complexity of Bank support to Albania and thereby reduce the administrative burden for Government. As such, the Bank will ensure that while moving to a smaller number of larger operations, efforts will be made to avoid increasing the internal complexity of individual operations. In addition, the Government has recently established a new mechanism at the Cabinet level to focus periodically on key constraints in externally-assisted operations in an effort to resolve bottlenecks and accelerate implementation of investment projects across the various sectors.

ANNEX 1: RESULTS MATRIX FOR THE COUNTRY PARTNERSHIP STRATEGY

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (**for Governance Filter v2.0)	WBG INSTRUMENT
Strategic Objective 1: Accelerating the recovery in Albania’s economic growth through improved competitiveness				
<i>(i) Sound macroeconomic management and improved public expenditure management</i>				
<p>“Macroeconomic stability will be maintained through fiscal consolidation, continuous reduction of domestic debt, improvement of the current balance and fiscal policy design in agreement with monetary policy” NSDI, p.17</p>	<p>Albania needs to strengthen the credibility and contestability of fiscal policy and the budget process, including by introducing more ex post monitoring and analysis of expenditures and development outcomes, and improving the quality of national statistics. Meanwhile continued progress on fiduciary reforms is essential to improve the governance of public expenditures.</p>	<p>Improved credibility and contestability of fiscal policy, national economic statistics, reporting on development outcomes and governance of public spending, as indicated by:</p> <ol style="list-style-type: none"> 1. Adoption of a fiscal rule or equivalent anchor for fiscal policy by 2014 2. MTBP process includes institutionalized program for ex-post budget analysis by 2013** 3. NSDI Progress Reports include reporting on: (i) budget execution and (ii) independent statistical information on targets and outcomes. 4. All public investment planned through new procedures and fully integrated in the MTBP process by 2013 5. Further reduction in reported share of contract value that respondent firms report paying to obtain government contracts (status: 4.4%, target: closer to sub-regional averages) 	<p>Automated treasury system fully implemented across and used by all central government ministries and agencies for payments, receipts, commitments and asset management**</p> <p>Albanian Financial Management Information System established in central government</p> <p>Detailed and consolidated government in-year budget execution reports published monthly on-line by 2012</p> <p>All Bank-finance projects budgeted fully in the MTBP, using Treasury System for financial management, and reported on in government financial reports**</p> <p>Fully functional EU-compliant procurement complaints review mechanism in place</p> <p>e-procurement system certified for use by some donor-financed projects, including World Bank**</p>	<p>Integrated Planning System MDTF</p> <p>Governance Partnership Facility - Fiduciary Action Plan</p> <p>REPARIS Corporate Finance Reporting Enhancement Project</p> <p>Social Services DPL (FY11)</p> <p>Growth DPLs (FY12-FY14)</p> <p><i>Governance Filter v2.0</i></p> <p><i>Quarterly Econ Reviews</i></p> <p><i>PEFA (FY12)</i></p> <p><i>ROSC on Fiscal Transparency (FY12)</i></p> <p><i>ROSC on Data Quality Assessment Framework (FY13)</i></p>
<i>(ii) Improving business regulations and reducing compliance costs for the private sector</i>				

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (**for Governance Filter v2.0)	WBG INSTRUMENT
<p>“A favorable business climate will be created for the dynamic development of private enterprise and the attraction of foreign investment” NSDI, p.17</p>	<p>The cost of doing business in Albania remains a high in part due to administrative corruption and a high “time tax”, Albania’s investment climate is undermined by inadequate property administration and weaknesses in urban land administration.</p>	<p>Reduce the cost of business, as evidenced by:</p> <ol style="list-style-type: none"> 6. Two full Regulatory Impact Assessment conducted per year by 2013. 7. Decrease in the number of inspections per business per year (status: 32 in 2009; target: 12 in 2011). 8. Decrease in time to receive a building permit (status: 180 days in 2007; target: 100 days at end-2011) 	<p>Increase in government officials trained in regulatory review techniques (status: 3 in 2008; target: 375 in 2011)</p> <p>Regulatory framework for inspections revised and adopted</p> <p>Increase in number of titles issued in urban areas (status: 130,000 in 2009; target: 320,000 at end-2011)</p> <p>Complete computerization of Immovable Property Registration Office.</p>	<p>Business Environment Reform and Inst Strengthening Project</p> <p>Land Administration and Management Project</p> <p><i>Governance Partnership Facility Expropriations & Safeguards TA</i></p> <p><i>IFC Trade Logistics Program</i></p> <p><i>IFC Tax Simplification Project</i></p> <p><i>IFC Sub-national Competitiveness Program</i></p> <p><i>SEE Doing Business initiative</i></p>
<p>“By 2013, Albania will reach the same level as Central and Eastern European countries on the year they became members of the EU, on <i>Doing Business</i> indicators, which is prepared by the World Bank” NSDI, p.18</p>	<p>Albania is slowly introducing EU and international standards for the private sector, but there is a need to reinforce the implementation and strengthen private sectors ability to comply with these requirements</p>	<p>Improving private sector compliance with selected EU and international requirements, as indicated by:</p> <ol style="list-style-type: none"> 9. Public oversight architecture established in line with new auditing law and EU directives 10. Extractive Industries Transparency Initiative validation by 2012. 11. Increase in labs accredited in European Accreditation Standards (status: 13 in 2009; target: 30 in 2011) 12. Public electronic disclosure of 15% of environmental permit applications by 2012 	<p>By-laws and regulations developed for a audit oversight system in line with EU directives.</p> <p>National Accounting Council regularly publishes updated International Financial Reporting Standards (IFRS)</p> <p>EU-compliant National Metrology Laboratory fully operational</p> <p>Train staff in 50 calibration areas by 2011.</p> <p>Public, on-line database on environmental permit applications in place by Dec 2012</p> <p>Increase in number of individuals and organizations trained in AaC principles (status: 0 in 2010; target: 250 in 2012)</p>	<p>Business Environment Reform & Inst Strengthening Project</p> <p>REPARIS Corporate Finance Reporting Enhancement Project</p> <p>Aarhus Convention Compliance IDF</p> <p>Extractive Industry Transparency Initiative MTDF</p> <p><i>IFC International Standards & Technical Regulations Program</i></p>
<p><i>(iii) Improved and more financially sustainable, infrastructure services in roads, energy, and irrigation</i></p>				
<p>“The energy system</p>	<p>Albania’s energy sector</p>	<p>Improved domestic energy supply, transmissions</p>	<p>Complete construction and initiate</p>	<p>Power Sector Gen &</p>

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (**for Governance Filter v2.0)	WBG INSTRUMENT
<p>will be developed based on market principles, the domestic market will be open and liberalized, and will be integrated with the regional and European energy market. The capacity to produce energy will increase with the aim to cover the aggregate demand for energy” NSDI, p.17</p>	<p>continues to face technical and financial challenges, in part owing to an unfinished reform agenda. Recent reforms including unbundling of the system, privatization of the retail supply and investments in strengthening generation and transmission capacities need to be brought to fruition before the impacts can be felt.</p>	<p>system operation, safety and operational efficiency of hydropower dams, and distribution system cost recovery, as indicated by:</p> <ol style="list-style-type: none"> 13. Increased and diversified capacity to generate electricity of 700 GWh per annum 14. Development of 150 MW of new hydropower potential from small and medium sized plants 15. Reduction in residential energy consumption by 20,000 Kwh from micro-loans for energy efficiency improvements 16. Increase in the availability of rehabilitated substations (availability rate status: 85.4% ; target 98.5% in 2013) 17. Increase in electricity output from hydropower plant equipment rehabilitation & improving reservoir optimization procedures (status: 0 GWh in 2008; target: 30 GWh in 2013) 18. Full implementation of cost recovery tariffs by 2014 	<p>commercial operations of Vlore Thermal Power Plant.</p> <p>Rehabilitation of six substations completed.</p> <p>Complete restructuring of Transmission System Operator and business plan including new tariffs approved.</p> <p>Remedial measures of high and medium priority targeting spillways and other dam infrastructure completed.</p> <p>Timely tariff adjustments approved for Distribution System Operator and Retail Public Supplier in conformity with the agreed Regulatory Statement</p> <p>Cooperation Agreements signed with five banks to implement the Residential Energy Efficiency program.</p> <p>Revised step-in rights law encourages banks to finance Small Hydro Power Plants (SHPPs).</p>	<p>Restructuring Project</p> <p>ECSEE Energy APL2 Transmission Project</p> <p>ECSEE APL5 Dam Safety Project</p> <p>Partial Risk Guarantee for Privatization of Distribution System Operator</p> <p>IFC Renewable Energy Program for Small Hydro Power Plants</p> <p>IFC Residential Energy Efficiency Micro Loans</p> <p>IFC direct investments & specialized financial products in clean and renewable energy</p> <p><i>Economic Governance of Utilities - UNDP Fee-based service</i></p>
<p>“Transport infrastructure, in particular road transport will be improved and enable the creation of an integrated economic space... support to the maintenance of national roads will grow... about 6000 km of</p>	<p>Albania’s competitiveness is impaired by inadequate road infrastructure. Over 75% of the local network is in poor condition. There has been a significant increase in road investments requiring commensurate increases in provisions and the efficiency of road maintenance. Efforts to improve road management institutions are underway and need to be consolidate.</p>	<p>Improved road conditions and sustainability of road investments as indicated by:</p> <ol style="list-style-type: none"> 19. 26 communities with improved road access to services and markets (status: 0 in 2010; target: 26 in 2012) 20. Increase in share of regional and local roads in better conditions (status: 0 km in 2009; project target: 108 in 2012; program target 1,700 in 2014) 21. Percentage of the national road network covered by performance based maintenance contract (status 0 in 2009; target 10% in 	<p>108 km in local and secondary roads reconstructed/rehabilitated (by Bank project);</p> <p>1,700 km of regional and local roads reconstructed/ rehabilitated (by the entire multi-donor funded program);</p> <p>Creation of an asset management systems for secondary local roads and Albania National Road Authority.</p> <p>Operation and Management PPP contract for the Milot-Morine road tendered and signed</p>	<p>Transport Project</p> <p>Secondary & Local Roads Project</p> <p>Road Maintenance & Safety (FY13)</p> <p><i>IFC’s advisory for PPPs in Road Operation and Maintenance</i></p>

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (**for Governance Filter v2.0)	WBG INSTRUMENT
rural roads will be rehabilitated by 2013” NSDI, p.16		2014)		
Increased agricultural productivity by improving irrigation system	Albania has high potential for agriculture, but faces significant rainfall variability, and irrigation and water management practices are fragmented and inefficient.	Improved irrigation services as indicated by: 22. Number of irrigated and drained ha of land in rehabilitated schemes (<i>Baselines and targets to be determined during project preparation</i>)	Irrigation Policy and Strategy submitted to the Council of Ministers Reservoir, irrigation and drainage infrastructure rehabilitated Number of irrigation reservoirs in compliance with dam safety regulations (<i>baselines and targets to be decided</i>)	Water Resources and Irrigation Project (FY12) <i>Climate Change Pilot on Adaptation in Agriculture TA</i>
(iv) Stronger banks and micro-finance institutions and support for competitive local companies				
Given the global financial crisis, IFC will increase its support for the banking sector with a focus on broadening access to finance, especially for MSMEs.	Private banks have become more risk-averse and the country has been experiencing a slowdown in the banks’ lending to local companies. There is economic disparity between rural/semi-urban and urban development. Existing micro finance institutions are unable to meet the growing needs for loans and other services	Local banks' portfolios are stronger, more efficient and diversified More loans are made to local companies especially MSMEs, and services to clients have improved The service quality of micro finance institutions has improved and their lending has increased, especially in remote rural areas	The balance between the demand and supply for lending has improved Banks have improved compliance with BoA regulations for managing NPLs. Banks' loan portfolios are more diversified The network of MFIs has expanded throughout Albania and offers more diversified products. Improved MFIs internal rules and regulations to comply with BoA guidelines	IFC’s support to banks through credit lines, partial guarantee product, energy efficiency and renewable energy products and, if needed, strengthen their capitalization IFC’ debt, equity and Advisory Services
Strategic Objective 2: Broadening and sustaining Albania’s social gains				
(i) Broader access to education, particularly secondary and higher education, and improved quality at levels				
“Establish a good quality, inclusive and flexible education system that will respond to the demands of the	Albania needs to broaden its sources of productivity and employment growth through more effective investments in human capital – secondary enrollment is low in part due to poor quality and learning	Improved access to and quality of secondary education, as indicated by: 23. Increase in secondary enrollment (status: 60% in 2009; target: 100% at end-2014) 24. Triple shifts eliminated; double shifts	Complete reform of all three grades of secondary curricula. Increase in teachers participating in continuous professional development (status: 25% in 2009; target: 70% at end-2010)	Education, Excellence, and Equity Project Education Project (FY14) (<i>outcomes expected next CPS</i>)

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (**for Governance Filter v2.0)	WBG INSTRUMENT
market” NSDI, p.18	outcomes , and tertiary education needs to be more market-responsive.	reduced in secondary schools by 2014 Reform of higher education institutions as indicated by: 25. Fully functioning quality assurance system for higher education.	Construction of 12 new schools; extension of 8 existing schools; and rehabilitation of 10 schools completed by end-2013. Performance based financing in place for all (11) public universities by 2014. 100 university labs provided with modern didactic equipment.	
<i>(ii) Improved access to quality primary health care and more efficient of public spending on health care</i>				
“The public health system will offer a basic, good quality and effective service for all through managerial improvements” NSDI, p.18	Access to quality primary health care services is inadequate in Albania, particularly among the poor. Health care financing and governance is fragmented, and an inefficient distribution of facilities impairs effective delivery of care.	Improved access to quality primary health care, as evidenced by: 26. Increase in the population enrolled in health insurance (status: <10% in 2009; target: 70% in 2014) 27. 100% of Ndhme Ekonomike recipients receiving Basic Benefits Package Improve the efficiency of public spending on health care, as evidenced by: 28. Decrease in the share of public sector spending on hospital care (status: 58%; target: 48%)	Universal re-training of PHC providers completed Basic Benefits Package established and implemented. Unification of primary and secondary health care purchasing under the Health Insurance Institute. Adoption and initiation of implementation of rationalization plan for the health sector. All public hospitals financed under performance-based contracts	Health System Modernization Project Health Project (FY14) <i>outcomes expected next CPS</i>
<i>(iii) Improved targeting and effectiveness of Albania’s social protection systems</i>				
“The inclusion of poor individuals and households in the Ndhme Ekonomike will be guaranteed and the programme will better cover the needs of the beneficiaries.” “The public pension system will be restructured and reformed”	Poverty impact of Ndhme Ekonomike is low, in part due to the need for better targeting. Meanwhile, the administration of social benefits is inefficient, and spending on non-contributory disability program is disproportionate. Pension system has significant long term fiscal deficits and low coverage.	Improved efficiency of social assistance expenditure and benefit administration, as indicated by: 29. Increase % of the poor receiving means-based social assistance (status: 22% in 2008; target 40% in 2014) 30. Parametric reform of the pension system, to improve participation and the long term fiscal deficit, under implementation	Assessment procedures and eligibility criteria revised for disability benefits (including disability pensions). Electronic central registry of beneficiaries introduced and fully operational. Improved financial management systems and fraud and error controls for NE full operational. Pension reform strategy adopted.	Social Service Delivery Project Social Services DPL (FY11) Social Assistance Investment Project (FY12) Growth DPLs (FY12-14) <i>Programmatic Poverty Analysis</i> <i>Economic Governance of</i>

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (**for Governance Filter v2.0)	WBG INSTRUMENT
NSDI, p.18				<i>Utilities - UNDP Fee-based service</i>
Strategic Objective 3: Reducing Albania's vulnerabilities to climate change				
<i>(i) Improved the conversation, management and efficient use of Albania's water resources</i>				
"To protect and enhance the environment through the sustainable management of natural resources in rural areas" NSDI, p.73	Forests and water catchments in mountainous regions face increasing pressures from erosion, illegal logging, and development, but local capacity to manage resources is limited.	Reduce upstream risks of erosion by improving management of Albania's wetlands, forest and pasture resources and water catchments, as indicated by. 31. 25% increase in income earned from forest activities in communal forest and pasture lands 32. 400,000 tons of erosion reduced	Continued implementation of community-based micro-catchment management plans in 30 communes and community-based forest and pastures management plans in 239 communes. Restructured forestry extension services. Increased carbon sequestration from sustainable forestry activities (status: est 45,000 tons CO2 sequestered in 2009; target: 181,000 tons in 2014)	Natural Resources Development Project Natural Regeneration Bio Carbon TF Environmental Services Project (FY13)
Improved coastal infrastructure and services to conserve tourism potential and ensure development in a sustainable manner	Lack of critical environmental infrastructure and services in the Southern Coast risk damaging coastal resources and jeopardizing tourism development.	Improved critical public environmental infrastructure and municipal services as evidenced by 33. Tons of household waste safely disposed in accordance with EU standards in South Coast (status: 0 tons, target: at least 5000 tons of household waste)) 34. Tons of treated sewage in coastal cities (status : 0 in 2010; target: 48,000 in 2012)	Completed remediation of one of the most contaminated coastal sites at Porto Romano Operational landfill near Saranda and transfer center in Himara. Completed extensions to the sewage network and wastewater outlet in Saranda; and sewage and treatment infrastructure in Himara. Land-filling and encapsulation of 45,000 m3 of hazardous waste at Porto Romano Adoption of new management plan for Butrint National Park and wetlands in line with Ramsar Convention.	Integrated Coastal Zone Mngt & Clean-Up
Improved water resource management toward more efficient and sustainable use of Albania's water	Albania will likely face significant impacts from climate change on the availability and pattern of its water resources which it needs for energy, municipal water	Improvements in the framework for management of water resources as indicated by: 35. National Integrated Water Resources Management Strategy submitted to the Council of Ministers	Water Cadastre [completed] Capacity building programs provided to the National Water Council, water user associations, and drainage boards Joint Albania/ Montenegro Lake Shkodra	Lake Shkodra Integrated Ecosystem Mgmt GEF Disaster Risk Mitigation & Adaptation Project Water Resources and

COUNTRY DEVT GOALS (from the NSDI)	ISSUES AND OBSTACLES	OUTCOMES THE WBG PROGRAM IS EXPECTED TO INFLUENCE	MILESTONES (**for Governance Filter v2.0)	WBG INSTRUMENT
resources.	and irrigation, meanwhile water resources management practices are fragmented and inefficient.	36. Preparation of two River Basin Management Plans underway	management cross border institution fully operational.	Irrigation Project (FY12) <i>Climate Change: Pilots for Regional Water Resources and Agriculture</i>
“The water supply and sanitation system will be developed according to EU standards” NSDI, p.17	Albania is well endowed with water resources but faces serious shortfalls of supply in critical economic areas, such as Durres (available only 6 hours), low metering coverage (34%), and utility cost recovery problems (63% non-revenue water).	Improved water supply and cost recovery in Durres as indicated by: 37. Increase in daily duration (hours/day) of residential water supply 38. Increase cost recovery (Baselines and targets to be determined during project preparation)	Construction of 52km water supply pipeline for Durres Waste water treatment plant completed and in operation. National Water Demand Management Program instituted and applied in Durres Increase metering coverage in Durres by 80%	Municipal Water Supply Ref & Investment Project (FY11) <i>IFC Water Supply Systems Advisory Services</i> <i>Economic Governance of Utilities - UNDP Fee-based service</i>
(ii) Decreased vulnerability to natural and man-made disasters				
Improved disaster preparedness and mitigation	Albania faces growing threats to manmade and natural disasters, particularly floods and earthquakes, but predictive and response capacities are limited, fiscal resources strained, and building codes inadequate.	39. Increase in catastrophe risk insurance penetration rate: (status: 0% in 2008; target: 10% in 2014) 40. Improved weather forecasts (status: not measured in 2010; target: US\$0.5 million annually by 2011)	Disaster Risk Management Strategy and Investment Program developed and implemented. New Building Codes EU complaint for seismic risk developed and adopted	Disaster Risk Mitigation and Adaptation Project Avian Influenza Project Land Administration and Management Project

ANNEX 2: FY06-FY09 CAS COMPLETION REPORT

CAS Board discussion: January 10, 2006
CAS Progress Report Board discussion: May 25, 2008
Period covered by CAS Completion Report: January 2006- December 2009

I. Introduction

This Country Assistance Strategy Completion Report (CAS CR) takes stock of the effectiveness of the Bank Group's assistance to Albania during FY06-09 and draws lessons for the preparation of the forthcoming Country Partnership Strategy. Where appropriate – i.e., in areas where there is a high degree of continuity between the FY06-09 Country Assistance Strategy (CAS) and Bank Group-supported activities under previous CASs (e.g., establishing a private sector-led growth model, improving public sector management) -- the review takes a medium-term look at the impact of Bank assistance rather than limiting itself to the last CAS period. It is the team's view that this allows for a fuller understanding of the Bank role and impact in these areas. For the preparation of this CAS CR the team has:

- Examined the alignment between the CAS design and the stated objectives of the Government program
- Reviewed progress towards the long-term development objectives of the country
- Reviewed the Bank's role in supporting observed progress towards these longer term objectives
- Undertook an intensive review of project documentation and AAA
- Extensively discussed and consulted with relevant Government officials, other Albanian stakeholders, donor representatives and Bank operational staff

This report benefited from discussions with the Independent Evaluation Group (IEG) team that worked on its independent evaluation of the Albania FY06-09 CAS, including undertaking a mission to Albania in February 2010. It also draws on key reviews undertaken during the implementation period, most notably the CAS Progress Report (CAS PR FY08), project completion reports and ISRs. The CASPR, which was discussed in-depth with Government, Parliament and other stakeholders, also made formal adjustments to the strategy taking into account realities on the ground. These changes have been taken into account in this CAS CR's assessment of Bank's performance in Albania.

II. National Development Goals and Links to the CAS objectives

Since 1992, when Albania began its transition from decades of political, economic and social isolation, successive governments have placed the achievement of better integration with its South-East European (SEE) neighbors and eventual EU accession at the top of their development agendas. This goal has widespread political support within Albanian society and, to a notable degree, has acted as a unifying element in an otherwise often-polarized political environment. After the recovery from the pyramid crisis of the late 1990s, the current millennium, and particularly the last 4-5 years, has seen greater momentum in Albanian efforts to achieve EU integration. In July 2006, the country signed a Stabilization and Association Agreement with the EU. Since then, in mid December 2009, Albania received the formal questionnaire which is the official start of the EU candidacy review process and an extensive response submitted by the Albanian Government is currently under consideration by the EU.

Within the overarching goal of SEE and EU integration, the main elements of Albania's development strategy are laid out in the National Strategy for Social and Economic Development (NSSED), which was first adopted by the Government in 2001, and subsequently updated/revised and readopted as the NSDI in 2007. The NSSED/NSDI is a comprehensive medium-term strategy which shifts the national agenda from short-term crisis management to establishing conditions for long-term growth, poverty reduction and integration with the EU. The strategy has strong government ownership and was prepared through a robust participatory process involving diverse stakeholders from throughout Albanian society. In summary, the strategy comprises three pillars as follows: (i) improving governance, (ii) promoting private sector-led growth, and (iii) fostering human development. The NSSED and NSDI both recognize that weak governance and institutions are at the root of Albania's developmental problems. The NSSED/NSDI also accords high priority to the task of reducing poverty, raising standards of living, and accelerating the attainment of the MDGs, identifying rapid, private sector-led growth as a principal means of achieving these objectives.

In turn, the World Bank Group Country Assistance Strategy for FYs06-09, which was developed in close partnership with Government and other stakeholders, was fully aligned with the NSSED/NSDI and aimed to support the achievement of the outcomes (including those pertaining to EU integration) contained therein. Support was organized around two pillars: (i) continued economic growth through support to private sector development; and (ii) improving public service delivery, particularly in the social sectors. Improved governance was planned to be interwoven throughout the entire CAS program through the application of a "Governance Filter" to all Bank-supported interventions including lending, analytical work and technical assistance. Application of the Governance Filter to Bank-supported products meant that every product was reviewed not only on its technical and strategic merits but also on whether or not it contributed to: (i) greater transparency in the use of public resources; (ii) increased autonomy and de-politicization of key public sector counterpart organizations; (iii) more analysis of the roles of local governments including activities to develop their capacity; and (iv) stronger mechanisms for advocacy and more citizen involvement. It was recognized from the outset that better governance and institutional strengthening is essentially a longer-term activity, likely exceeding the CAS by several years. The importance of the issue however justified its inclusion in the CAS even in the absence of specified end-outcomes by the end of the CAS period.

Each pillar of the CAS served as an umbrella for actions in a number of mutually-reinforcing or complementary areas which, taken together, would ensure achievement of the main aim(s) of the pillar. As such, the Pillar 1 objective of accelerated private sector-led growth was to be achieved through concerted action in six main areas: (i) maintaining macroeconomic stability; (ii) strengthening the financial sector and financial intermediation; (iii) enhancing the business climate; (iv) establishing clear property rights and deepening the land market; (v) building and maintaining Albania's infrastructure including through private participation; and (vi) raising agricultural productivity. Similarly CAS efforts to strengthen the delivery of services for human development under Pillar 2 involved several mutually reinforcing initiatives including improving accountability in the education system, strengthening technical and organization capacities in the health sector, addressing the fiscal sustainability of the social insurance system, and improving water supply and sanitation services in both urban and rural areas.

The CAS included a results matrix with clearly defined outcomes and milestones for each of the two main pillars, but the matrix was formally revised through the CASPR, since implementation experience suggested the need to (i) streamline the number of indicators to be monitored and (ii) ensure that the milestones and outcome indicators were better aligned with desired CAS goals. The outcomes and milestones identified in the CAS results matrix were drawn directly from the project development objectives across the portfolio and were therefore carefully specified and generally relevant in terms of the areas of influence of Bank activities in achieving development goals. However, because they had initially been developed to measure project results, several of the indicators were too narrow in scope vis a vis the CAS's broader objectives (compared with the goals for specific projects),

leading to the need either for a multitude of indicators per CAS outcome or, sometimes, to a disconnect between the indicators chosen and the desired goal. For example, reduction of financial and distribution losses in the power sector (outcome indicators included in the matrix) cannot have any appreciable impact on the CAS goal of raising private sector investment unless also accompanied by improvements in the reliability of power supply – an indicator not included in the CAS results matrix. Similarly, a number of input indicators in education were included in the results matrix to serve as a proxy for quality in the absence of assessment tools for direct quality measurement. Monitoring of CAS outcomes during the early years of CAS implementation also suggested that there was a need to streamline and better align the indicators being monitored, as a critical means of focusing the Government’s and Bank’s attention on the most important development goals supported by the CAS. To this end, the FY08 CAS Progress Report involved a systematic effort to streamline the results matrix in consultation with the Government and other stakeholders, keeping only the most strategic indicators and thereby enhancing the potential for achieving a credible assessment of the impact of CAS activities. The consolidated CAS PR matrix focuses on 46 outcomes: 30 for the first pillar and 16 for the second.

III. Achievement of CAS Outcomes and Milestones

Table 1:	Outcomes				Milestones			
	Achieved	Partly	Not Achieved	Total	Achieved	Partly	Not Achieved	Total
Pillar I: Economic Growth through Support to Private Sector	13	12	5	30	21	14	4	39
	43%	40%	17%		54%	36%	10%	
1.1 Effective economic management and planning	2	1	1	4	4	2	0	6
1.2 Enhance effectiveness of public sector and governance structures to support private sector development	0	4	1	5	3	2	1	6
1.3 Conducive business environment to attract higher levels of both domestic and foreign investments	1	1	1	3	2	3	1	6
1.4 Enhance national infrastructure	4	1	1	6	7	3	0	10
1.5 Establish efficient land markets and spatial planning to support rural and urban development	1	4	1	6	2	2	1	5
1.6 Support sustainable rural development to ensure continued economic growth and poverty reduction	5	1	0	6	3	2	1	6
Pillar II: Improved Service Delivery for Poverty Reduction	9	7	0	16	17	4	3	24
	56%	44%	0%		71%	17%	12%	
2.1 Improved quality of, and equity in access to, education services	4	1	0	5	4	1	1	6
2.2 Improved quality and accessibility of health services	1	3	0	4	2	2	1	5
2.3 Improve provision of social security and assistance services and their sustainability	1	2	0	3	4	1	0	5
2.4 Poverty reduction through income increases and improved service delivery in both urban and rural areas	3	1	0	4	7	0	1	8
TOTAL	22	19	5	46	38	18	7	63
	48%	41%	11%		60%	29%	11%	

Overall, progress towards achievement of CAS results has been very strong, with 48 percent of specified CAS outcomes having been fully achieved, and another 41 percent partially achieved or

clearly on track (Table 1). As might be expected, progress on the milestones – linked directly to Bank-supported activities – has been even higher, with 60 percent achieved, and about 29 percent on track to be achieved. When reviewed in terms of achievement of, or progress towards, the results specified in the CAS PR matrix, performance appears to be strongest under the second pillar (improved service delivery for poverty reduction, particularly in the social sectors).

When measured in terms of achievement of specified outcomes and milestones, the Bank made its best contribution in the social sectors (Pillar 2), where all twelve outcomes were achieved or partially achieved. In education, substantial progress was made in improving inputs to basic and secondary education including reform of the curriculum, establishment of local management and school boards in about 15 percent of schools and increased equity in the distribution of public resources per student. Targets for increased secondary school enrolment were also partially met, with enrollment rising about 8-9 percent by the end of the CAS period. In health, a major shift in the financing and production of health services was initiated through the step-wise introduction of reforms to health insurance, provider payment mechanisms, a new co-payment scheme for patients and training of health system managers. These steps are expected to have a significant impact on efficiency of services and eventually, lower costs to patients. Moreover, steps were taken to increase the quality of care provided through primary care facilities through the training of physicians and nurses in 7 of 13 regions and the development of evidence-based Clinical Practice Guidelines for the 32 most common diseases/sicknesses in Albania. However, health indicators in Albania still remain lower than in comparable neighboring countries, and continued attention to access, quality and management improvements will be necessary going forward. In education, too, it is critical that reforms continue to increase the number of individuals who have the skills and productivity to innovate and creatively solve problems. This is fundamental to the Government's core objective of raising productivity as a principal means of sustaining the impressive economic growth achieved thus far.

CAS activities aimed at poverty reduction and rural development were also very successful in relation to identified indicators. All ten indicators identified in this area (under 1.6 and 2.4) were achieved or partially achieved. Success with respect to rural development and, hence, reduction of the urban-rural poverty gap appears to have been closely related to the participatory approach adopted in the design and implementation of several relevant projects – National Resources Development, Water Resources Management, Fishery Development, Agricultural Services, Second Community Works and Social Services Delivery. Moreover, the participatory and decentralized approaches (i.e., substantial involvement of local government partners), adopted for several of these operations also had a strong positive impact on social service delivery. Recent poverty results show an accelerated reduction of poverty rates in rural areas with headcount poverty declining from 24 to 17 percent during 2005-08. In addition to growth and human capital investments which helped reduce poverty, the CAS period saw a substantial increase in the access of the most vulnerable groups (those with labor-scarcity or other constraints that limit ability to benefit from growth) to social assistance services including both social care and targeted income transfers for the poorest households. Reform and development of social assistance is a continuing priority as is the re-starting of pension reform to ensure sustainable support to the nation's elderly population.

Achievement of results was also broadly satisfactory under Pillar 1, although progress lagged in a few areas. As discussed in greater detail below, Albania grew rapidly for much of the past ten years (and including the first 2.5 years of this CAS), achieving a growth rate as high as 6.5 percent in 2008 before slowing again to an estimated 2.3% in 2009, in the wake of the global financial and economic crisis. Nonetheless, the fact that Albania was able to continue growing through 2009 is in itself remarkable, especially when viewed against the backdrop of other ECA economies which for the most part suffered declines in GDP. Indeed, Albania was one of only two European countries that was able to maintain positive growth throughout the current global recession. Moreover, a broadly sound macro-economic framework was maintained until 2008 and a Poverty Reduction Growth Facility-Extended Fund Facility (PRGF-EFF) program agreed with the IMF remained on track throughout the CAS

period. By 2008-09, however, the road to better quality fiscal adjustment was marred by two key issues: (i) the contracting and implementation of the Rreshen-Kalimash segment of the Durres-Kukes road, which placed major pressures on the national budget and (ii) the management of the electricity sector which reverted to deteriorating financial performance throughout the CAS period. These two factors in effect reversed Albania's long tradition of fiscal consolidation, although not to the point of impairing macroeconomic stability. The success in managing the impact of the global crisis through 2009 should not, however, lead to complacency: continuing troubles in key European economies – especially Greece and Italy – suggests that Albania and other developing countries are now facing a different international landscape including greater awareness of the risks of high sovereign debt which will demand policy adjustments. As such, macro-management remains an area in which the Bank should remain closely engaged through policy dialogue, AAA and possible policy-based lending.

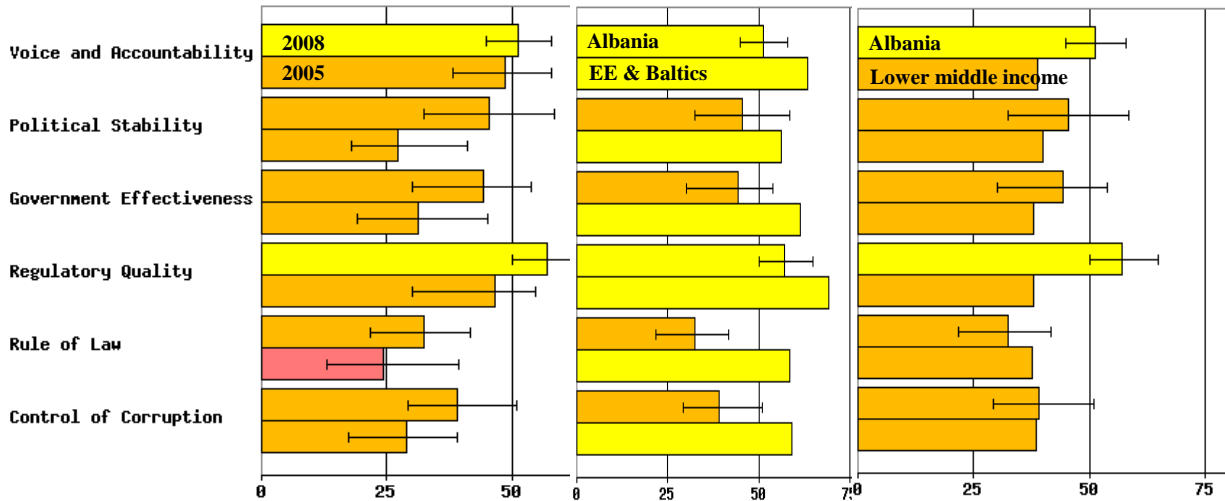
The Pillar 1 CAS program was instrumental in supporting the creation of a number of important building blocks on which to move future progress in public sector management. The CAS period saw a continuation of the broadly positive trends across all major aspects of governance including: (i) strengthening voice and accountability; (ii) improving the quality of economic regulation as evidenced by improved rankings in the Global Competitiveness Index and Doing Business; (iii) policy coordination, public expenditure management, procurement improvements and better internal and external audit. More specifically the CAS period saw critical reforms in public expenditure management including a new budget law, procurement law and public investment management procedures, privatization of the electricity distribution company, inspections reform under BERIS. The new Territorial Planning Law and ongoing support for land registration has also been important although significant efforts will continue to be necessary for some time to come. However, efforts to strengthen the civil service have thus far been only marginally effective, if at all. The key area of failure has been in the area of civil service law implementation and the de-politicization of public administrations, notwithstanding a strong effort under the CAS program.

The infrastructure goals under Pillar 1 of the CAS program were largely met with respect to transport but progress on energy has been relatively slow and difficult -- although sustained effort appears to finally be bearing fruit. Transport activities under the CAS focused on roads maintenance, roads quality (reduced roughness), road safety and increased efficiency through introduction of private contracts for road maintenance. Stated CAS objectives were met or surpassed in each of these areas. Moreover, the Bank played an important role in supporting the Government to rehabilitate and expand its network of secondary and local roads, both through a Bank-financed project and, equally importantly, through catalyzing around US\$400 million from other external partners for road improvement and construction. Improvement in the electricity sector has been relatively slower and more difficult but sustained efforts are beginning to have some positive impacts – most notably the unbundling of the electricity system and privatization of the distribution company (through joint World Bank Group support) as well as reduction in energy losses and investment in transmission rehab and thermal power generation.

Finally, results with respect to the governance filter show progress across the board (see Chart1), with notable successes in terms of institution-strengthening on a sectoral basis but slower-than-hoped-for progress on system-wide efforts to improve the rule of law, including controlling corruption vis a vis businesses. All projects and the majority of the non-lending services during the CAS period included a governance focus or components and attempted to address institutional strengthening in some way. On balance, it would appear that the contribution of the projects to the creation of stronger mechanisms for governance in individual sectors was substantial. Especially noteworthy examples in terms of improved transparency and management of the sectors include: (i) in education, the introduction of school boards and blind testing for university entrance exams; (ii) better licensing of providers and introduction of performance contracts in the health system; (iii) strengthened community management of forests, (iv) establishment of user associations in irrigation and fisheries; (v) improved management of social care centers; (vi) better supervision of the financial sector, including

microcredit and insurance providers; (vii) substantially improved pensions records; and (viii) more transparent and more technically sound selection of road investments. By contrast, none of the systemic outcomes under the second country development goal of: “enhancing effectiveness of public sector and governance structures to support private sector development” was fully achieved, notwithstanding an active CAS program in this area and some progress in building the blocks for future improvement. Overall however, there can be little doubt that while much remains to be done, governance improvements already made – especially in the effectiveness of public administration – have been instrumental in the country’s impressive economic performance and improved human development outcomes.

Chart 1: WGI for Albania (2005-08) & comparison with region & lower middle income countries



Detailed Results

PILLAR 1: Continued Economic Growth through Support to Private Sector Development

1.1 Country Development Goal: Effective economic management and planning

Albania continued on its trajectory of strong growth during the CAS period and joined the middle income group in 2008. During 2006-08, Albania saw growth rates of 6 percent on average and was one of the few countries in the region to maintain a positive rate of real growth in 2009, estimated at about 2.3 percent. The economy has achieved robust non-inflationary growth, albeit with increasing external imbalances. Sound macroeconomic management continued until 2007, including sustained efforts to achieve fiscal consolidation, debt reduction, and improvements in external balances. Fiscal balances were constrained below real growth rates, at around 3 percent. Tax revenue increased by over 2 percentage points of GDP in 2008, despite a cut in corporate and personal income tax rates. As part of a better, more integrated policy-framework, improvements in public debt management took place and led to a reduction in the debt-to-GDP ratio from 56 percent in 2006 to 53 percent in 2007, and to a doubling of the average maturity of public debt. Clearance of the majority of arrears on inoperative historical external debt has taken place, with a few outstanding agreements to be finalized. Despite elevated levels of CAD, the Albanian foreign position has remained sustainable throughout the CAS period.

As already mentioned, Albania has been one of the few European countries to maintain positive growth after the onset of the global financial and economic crisis, due in large part to its limited exposure to international markets as well as to the expansionary fiscal policy initiated before the crisis. In 2007, Albania embarked on a very large – and geopolitically strategic – infrastructure project which has ultimately caused a deviation from its long-standing policy of fiscal consolidation. In 2009, together

with some pre-election spending on wage and pension increases, this infrastructure project formed the basis of a fiscal expansion (approximately 8.2 percent of GDP) that would ease the impact of the global financial crisis. However, in the latter half 2009, when the real impact of lower remittances and falling exports began to emerge, the Government was slow in adjusting its spending policies in line with falling revenues. The fiscal deficit jumped to 6.9 percent of GDP in 2009 and public debt approached 60 percent of GDP, up from 53.7 percent in 2007. Government has since been forced to cut both capital and recurrent expenditures. While the authorities remain committed to bringing fiscal policy back into line, expenditure adjustments are less than orderly and could potentially tarnish Albania's reputation for sound fiscal management. Despite these deviations, public debt remains sustainable, if the government maintains its commitment to return to fiscal consolidation.

Cross-country analysis of expenditure efficiency shows that while levels of public investments and employment (wage bill) are broadly appropriate, the country could achieve better outcomes with its current level of spending. Nevertheless, under-funding of non-wage inputs reduces productivity and is associated with low levels of educational achievements and inadequate health care.

CAS Outcome: Integration of various policy frameworks into a single medium-term development plan aligned with budget and MTEF/MTBP [Achieved]

In general, Albania has achieved better alignment of its budget with medium term development objectives and strategic policy choices. In 2007, the Government undertook a major updating of its national development plan, now called NSDI. This process included the development of 32 sectoral and cross-cutting development strategies which were consulted with the private sector, civil society and development partners. Meanwhile, the IPS has been adopted and is being implemented to integrate the various programs, projects and strategies of the NSDI with the Medium Term and annual budget processes. In 2008, with support from the Bank under the Development Policy Reform Program, the Parliament adopted the new organic budget law to formalize a series of improved budgeting procedures that have been underway in the medium term budget process for several years. Meanwhile, the IPS has achieved a significant level of systematization with the production of annual progress reports, including an External Assistance Orientation document for donors.⁶ Future progress should focus on better integration of public investment planning into the MTBP, deepen consultation with non-governmental actors, and further enhance the information systems that link development plans with public expenditures. Progress on the latter is supported by a Bank-supervised, multi-donor trust fund

CAS Outcome: Broad stakeholders, including NGOs and the private sector, are consulted for major policy formulation [Partially Achieved]

The World Bank, together with other development partners, has been instrumental in spreading the culture of public consultation into public projects and programs in Albania. Progress remains incipient, but promising. A broad consultation process was conducted for the NSDI: each of 32 sub-strategies was individually discussed with civil society, private sector and development partners, demonstrating that the consultation process -- begun in the PRSP process under the previous CAS -- is now fully established in Albania and has been internalized by the Albanian Government as well as many other stakeholders. Some notable examples of the effective use of consultation in CAS-supported legislative and policy reforms include the processes associated with developing the Law on Local Government Borrowing, the Health Care Law, the Territorial Planning Law and the South Coast Development Plan. Most of these involved several months, (and in the case of the Territorial Planning Law and the Health Care Law, several years) of consultations with Parliamentary committees, national

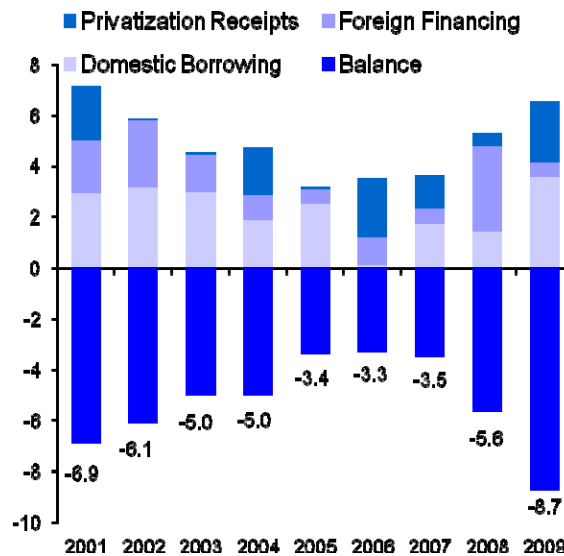
⁶ For example, the Bank-supported Report on Standards and Compliance (ROSC) Accounting and Audit Country Action Plan was later formalized by Government into an additional NSDI strategy for accounting and audit. Likewise, preparation of a new donor-coordinated effort to support water and wastewater investments nationwide is being preceded by a revision of the national water and wastewater strategy to improve its policy content.

and local government and local communities. Consultations for the South Coast Development Plan have been hailed by the national government, local beneficiaries, and the local Aarhus Convention Centre as a best practice in Albania. In the social sectors, the Bank has supported successful consultations on social policy for vulnerable groups through the Social Services Delivery Project and multi-party dialogue on pension reform for several months, at the request of Government. Although the latter did not yield reform consensus, the political leadership on all sides now recognizes the need for systematic dialogue to arrive at a workable reform strategy.

Notwithstanding the above, this CAS outcome is considered *Partially Achieved* in part because of the challenges on the government-private sector dialogue front. Although the Government reopened discussions with the Business Consultative Council (established in 2002) in 2006, these have since lapsed and been less than effective. BERIS project has emphasized consultations with the private sector in its preparation, and subsequent support for licensing and inspections reform and the establishment of a regulatory impact assessment system. Although such assistance is now getting traction, the Government has moved ahead too rapidly with an under-prepared and under-consulted reform of licensing from which the Bank had to withdraw support. Likewise, during 2008-09, the Government undertook a series of fast-tracked regulatory changes, e.g. in tax and other policies, with little or no consultation or public discussion – in effect creating an emerging climate of some regulatory instability.

CAS Outcome: Improved quality of fiscal adjustment, as evidenced by increasing the share of non-wage recurrent spending [Not Achieved]

As targeted, the fiscal criteria of the new IMF program were achieved for most of the program period leading to the closure of the Fund’s 3-year PRGF-EFF program in early 2009. Public finances have strengthened, largely due to improved tax reform and improved tax administration. The share of non-wage spending in the recurrent budget has increased marginally (add numbers). However, over the CAS period, Albania did reverse its trend toward fiscal consolidation toward increasing deficits associated with the ballooning expenditures for the Rreshen-Kalimash section on the road to Kosovo, and increasing fiscal transfers to cover the deficits at the electricity company. Within-year fiscal adjustments to emerging constraints remain somewhat ad hoc as part of a budget process that has involved persistent supplementary budgets.



CAS Outcomes: Public investments are planned and prioritized in a contestable process based on solid analysis. [Achieved]

Albania now has a realistic, coherent and authoritative basis for the planning and prioritization of public investment projects. The NSDI and its component parts have been developed within a realistic macroeconomic and fiscal framework. Specific guidance on economic infrastructure (transport, energy, wastewater and sanitation, and environment) is provided by sector. Nevertheless the quality and coverage of the various strategies are variable and further effort is required to improve the strategic focus and therefore the guidance for annual investment budgeting. On the institutional side, the Government introduced budgetary reviews of investment projects, developed a register of public investment projects and adopted new Public Investment Management Procedures in 2008. These are gradually being internalized by line ministries in budget preparation. In 2007, the Government introduced a competitive mechanism for distribution of grants to local governments for municipal investments.

In the roads sector, public investments are informed by a regularly updated Albania National Transport Plan and analyzed carefully by the General Roads Directorate (GRD). The Bank also has supported the establishment of a road asset management system and investment allocation system for a large donor-finance investment program on secondary and local roads. However, there remain instances when new investments are introduced in an *ad hoc* manner. In energy, the selection of largely donor-financed projects has been guided by the Power Sector Action Plan, whereas in the municipal water sector, it has largely been *ad hoc*. The Government is now preparing a master water sector investment plan. Support for the preparation of a hospital master plan is provided by the Health Sector Modernization Project. Meanwhile Education Excellence and Equity Project (EEEP) has assisted MoES to include demographic analysis for its school investment choices, to strengthen its investment department, establish new building standards for schools, and in the ongoing preparation of a school mapping plan

1.2 Country Development Goal: Enhance effectiveness of public sector and governance structures to support private sector development

Governance has been improving very gradually in Albania over the years, but the situation still calls for further improvement. Worldwide Governance Indicators (WGI) percentile ranking on the indicator of government effectiveness has improved from 31 to 45 between 2005 and 2008 while that of regulatory quality rose from 47 to 57, and rule of law from 24 to 33. It should be noted that these indicators remain low for a middle income country. On perceptions of corruption, Albania's rank improved from 108 out of 146 countries with a score of 2.5 in 2004 (on a scale of 1 – 10 where 10 is the best) on Transparency International's Corruption Perceptions Index (CPI) to 95 out of 180 countries with a score of 3.2 in 2009.

Only modest progress has been made towards creating a public administration based on meritocracy and professionalism, an important goal for the CAS. The organizational structures of line ministries are slowly improving with support from individual projects, but implementation of the broader civil service law has deteriorated. High turnover of public officials following changes in ministerial leadership remains a hallmark of the Albanian civil service and continues to hinder the ability of the public sector to implement reform agendas systematically over time. New laws on procurement (enacted in 2006) and public concessions (2007) are helping to improve interactions between the State and the private sector, but there continues to be a need to strengthen institutional capacity and strengthen adherence to the rule of law in government decision-making.

CAS Outcomes: Computerized treasury system is fully operational and begins to expand to selected spending ministries [Partially Achieved]

A modern treasury system has been set up in Albania since 2005 with support from the Public Administrative Reform Project (PARP, closed in 2006), and further supported under the multi-donor

IPS trust fund since mid 2008. However efforts to fully computerize the system and to expand it to other parts of government have been substantially delayed, largely because of insufficient political commitment and significant weaknesses in project management and technical skills in the central departments. The Bank did not extend the PARP in 2007, when it closed, due to this lack of commitment. However, there had been a trend towards improved progress at the tail end of the project and it remains a question as to whether a fifth year of implementation and Bank supervision, could have accelerated progress at that time. The lack of a fully functioning treasury system put at risk the integrity of the public financial management system and affected disbursements in Bank projects which, under this CAS, moved to use country systems in financial management. However, it is expected that the computerized system will be fully operational in early 2010 after renewed efforts in recent months. Links to the Human Resources Management Information System, technical extensions needed for the IPS, and donor support to expand the system to other parts of government, remain hampered by the delays in finalizing full computerization of the treasury system.

CAS Outcomes: Public procurement is conducted in accordance with a law meeting European standards. [Partially Achieved]

A new Public Procurement Law was enacted in 2006 and became effective in 2007, as part of the Development Policy Operation reform program. The new law is aligned with EU legislation, except for the structure of the complaints mechanism. After being addressed through the DPO II reform program, the issue of the complaints mechanism is being finally resolved with support from EU, owing in part to a discrepancy between Bank and EU approaches to the issue.

Nevertheless, the new law addressed several bottlenecks in the previous legislation such as overuse of direct procurement and the lack of transparency in procedures. The new law has in fact significantly reduced the use of direct procurement. According to the Public Procurement Agency (PPA), in 2008, 8.8 percent of procurement contracts over US\$4000 were carried out by direct contracting compared with close to a quarter of all contracts in 2005 (*check OECD DAC which should have figures*). Open tendering (national and international) is now the most commonly used procurement method, representing 56 percent of the total number of procurement contracts in 2008, compared with 38 percent in 2004. Regarding transparency, all contract notices, bidding documents and awards are published in the PPA website and Albania has rolled out a new e-government procurement system (EPS) to most of its contracting authorities in 2009 with support from US – MCC program.

The passage of the new procurement law allowed the Bank to partially use some elements of the country system for project procurement. This is now the case for all the projects approved under this CAS. The Bank remains an important partner for Albania in the improvement in public procurement. Having encouraged the Donor Technical Secretariat to expand joint work on fiduciary systems, in line with Paris Declaration, the Bank now sits on the advisory group for the UNDP –financed 2nd OECD DAC procurement Assessment. Meanwhile, the Bank is in the process of evaluating the EPS for use in Bank and other donor-financed projects which are recipient-executed, and will support further refinements under the Governance Partnership Facility Window 1 Program. The Bank, together with other donors has and is also supporting training in public procurement for public administration students at the University of Tirana.

CAS Outcomes: All new concessions are implemented in line with transparent and effective legal framework. [Partially Achieved]

The Bank and IFC supported the preparation and enactment of the new concessions law in December 2006 requiring competition including a more transparent treatment of unsolicited bids. IFC subsequently supported the preparation of two open competitions, for the Ashta Hydropower Plant which was successfully awarded in 2009, and the Durres Port container terminal which was halted by Government also in 2009. In 2009, as part of the preparation of the (subsequently-cancelled) DPO II,

the Bank supported a review of the implementation of the law. The review found that while in general the law was being implemented in line with its legal provisions, the process of granting concessions was not fully effective in terms of maximizing the public value of the concessions awarded. Notably, the government has demonstrated a tendency to accelerate the process of granting concessions, despite very limited technical preparation on its side to ensure that the final concessions maximize public value. Since passage of the law, the majority of concessions awarded were initiated by unsolicited bids⁷, instead of by government-prepared open competitions. As a result, there has been a series of government actions to reevaluate previously granted concessions, on the basis of either non-compliance of private operators with the agreements, or questions on the process of awards. This also points to the lack of preparatory work and quality assurance on the public sector side. The lesson here is that following such a major legal reform in an important area of governance for Albania, there is a need for continued implementation support not only to strengthen institutional capacities but also to continue to reinforce political commitment at the highest levels.

CAS Outcomes: Configuration of public sector institutions adjusted to reflect mandates and functions. [Partially Achieved]

Under the Public Administration Reform Project (PARP), functional reviews were prepared for each line ministry. In early 2006, the Government issued a decree revising the public sector salary structure and revising the structures of almost all the ministries, generally in line with the recommendations of these reviews. It also began implementing the recommendations to enhance policy formulation and coordination, including the strengthening and improving the transparency of the cabinet, donor coordination and the establishment of an IPS. While few of the functional reviews prepared under the PARP were implemented, several line ministries have benefited from substantial institutional development through individual Bank-financed projects, including in budget, treasury, public investment and debt management departments and the Financial Supervisory Authority in the Ministry of Finance, policy, quality assurance and investment departments of education and health in their respective Ministries, roads and maritime transport, water in the Ministry of Public Works, Transport and Telecom, forestry in the Ministry of Environment, Public Procurement Agency, and the Ministry of Economy, Trade and Energy in the areas of regulatory management. Nevertheless a handful of ministries continue to be plagued by frequent reorganizations and structural changes that hinder policy reform and strategy implementation.

CAS Outcomes: Consistent implementation of the civil service law. [Not Achieved]

Under the former CAS period, Albania approved a Civil Service Law in 1999, which is in line with good international practice, and subsequently, in 2000, established a new Department of Public Administration (DoPA) and a Civil Service Commission (CSC). Initially, the Law did help to improve practices in some ministries and to influence the behavior and the incentive structure for decisions on civil service appointments and dismissals. However, since 2005, compliance has deteriorated to the point of being extremely uneven and ad hoc. The Department of Public Administration was downgraded, and decisions of the CSC and ultimately the courts have been frequently disregarded by government bodies. The high turnover of senior staff remains a hallmark of each change of minister, even between electoral periods and without a change of political party, with the result that Government is losing its ability to retain highly qualified and experienced staff in key technical positions for long periods of time. Meanwhile, the DoPA has not been able to stop the increase in the use of term contracts to hire civil servants, nor to ensure implementation of CSC decisions and to exercise its authority as the managing authority of the civil service system. The Bank, through the PARP, the DPO program and other instruments, supported the implementation of the civil service law in a polarized and tense political environment, limited institutional capacity, and several changes in heads of key

⁷ The concessions launched by unsolicited bid include major projects such as the 350 MW Devoll hydropower plant, launched with a minimum of preparation on the government side after receipt of the unsolicited bid.

implementing agencies. Failure to comply fully with the civil service reform agenda led to delays in the second DPO which was eventually cancelled.

1.3 Country Development Goal: Business environment is conducive to attracting higher levels of both domestic and foreign investment

Domestic private investment increased from 19 percent of GDP in 2005 to an estimated 21 percent in 2009. However, at least half of this investment is devoted to a single sector -- construction. While, FDI rose significantly from 3.3 percent of GDP in 2005 to 8.2 percent in 2009, its absolute level still remains among the lowest in the sub-region. Albania improved its ranking on the Doing Business indicator from 120th in the 2006 index (which measured performance in 2005) to 82nd in the 2010 index (which measures performance in 2009). The basis for this improvement was significant reforms in time and cost of registering a business, trading across borders (including reducing bribery in customs) and improvements in the regulations for getting credit and protection of shareholders. Albania's percentile ranking on the WGI indicator of regulatory quality increased from 49 to 57 between 2005 and 2008, rule of law from 16 to 24 and control of corruption from 29 to 39. As such, Albania still has a long way to go to attain a conducive business environment for domestic and foreign investment.

CAS Outcome: Improved regulation and supervision of insurance and micro-credit institutions [Achieved]

Licensing, regulation, and supervision of microcredit institutions have been strengthened with the issuance by the Bank of Albania (BoA) of a regulation "On the Granting of License to Non Bank Financial Subjects" and a regulation "On Supervision Norms of Microcredit Institutions" in 2009. Moreover, BoA has prepared updated onsite and offsite supervision manuals and reporting formats for microcredit institutions and credit unions. Meanwhile, in 2006, the independent supervisor for the non-banking sector, the Financial Supervisory Authority was established, became fully operational and is implementing measures to improve the performance of insurance companies. FSA has recently introduced supervision manuals, minimum capital tests, set of financial ratios to improve supervision and performance of insurance companies and its transition to a risk based supervisory approach. Other instruments include the actuarial valuation of non-life claims with intervention ladder, claims management policy handling the claims payment specifically focusing to policy-holders protection and the 5 year road map for transition period. The supervision of the insurance sector will become gradually better and efficient after the implementation of these steps. Another noteworthy development in the sector is the introduction of a series of serious steps in motor insurance mainly in motor third party liability (i.e establishment of a motor insurance information center; developing a data base including premium and claims history and issuing regulation for establishing stricter criteria on the quality of reinsurers; etc). The new draft insurance law has been prepared in accordance with the EU legal framework while technical regulations have been under preparation. All these improvements were supported by technical assistance under the FIRST program.

CAS Outcome: Improved investor perceptions and reductions in time and costs for compliance with business licensing and inspections as measured by ARCS, Doing Business, BEEPs, and/or ICA [Not Achieved]

Albania has taken important steps to upgrade the regulatory framework for businesses and to remove harmful administrative barriers, with notable results in some respects. The Government has been successful in implementing a comprehensive reform program to establish of an efficient, sustainable and transparent regulatory system, with the goal of increasing investment levels, enhancing competition and stimulating business growth. These efforts are reflected in the improving Doing Business indicators

and ranking: Albania moved from 136th in 2007 to 82nd in 2010 and achieved the second-highest rank among the top ten reformers worldwide in 2009. Albania's overall improvement in Doing Business rankings does however mask considerable variation in ranking on individual indicators. For example, the country's rankings ranged from 15th for protection of minority shareholder rights, to 91st on enforcing contracts, to 173rd on getting construction permits. However, a significant gap remains between officially adopted regulatory policies and their implementation and enforcement. The recent CEM and ICA note that this significantly reduces the otherwise high returns to private investment in Albania, deterring both foreign and local investors. Informal enforcement practices, including inconsistent and unpredictable interpretation of regulation or arbitrary enforcement by the judicial system, impose a burdensome "time tax" and "bribe tax" on firms, thus eroding the benefits of regulatory reform. Notably, 58 percent of Albanian firms report the need to pay bribes to government officials to "get things done" – a far higher share than in comparator countries. The time tax is also more burdensome in Albania than in comparator countries, with a reported 19 percent of Albanian managers' time spent dealing with government regulations and, for example, an average of 5.5 visits by tax officials experienced per year. Overall, Albania performs very poorly in terms of regulatory quality, control of corruption and rule of law, dimensions of the globally-estimated WGI that capture the informal regulatory environment.

CAS Outcome: Improved accounting and auditing standards and disclosure of corporate information in line with EU requirements [Partially Achieved]

During this CAS period, Albania put in place several elements of a modern corporate financial reporting framework, including adopting the Country Action Plan to Enhance Corporate Financial Reporting in Albania in February 2009 (based on the 2006 Accounting and Audit ROSC) and passing a new Auditing Law in March 2009. In 2008, Albania also enacted amendments to its company law which focus on shareholder rights to information about company performance, and include access to consolidated accounts and reports. The increased banking penetration and the increased number of international audit companies doing business in Albania suggest that a larger proportion of firms are now complying with financial reporting obligations and International Financial Reporting Standards, which are required for Public Interested entities as per 2004 Accounting Law. Nevertheless, there remains a sizeable gap between written legislation and its implementation.

1.4 Country Development Goal: Enhance national infrastructure necessary for economic growth and private sector development

The Government formally adopted the Albanian National Transport Plan (ANTP) in 2005 and the Transport Sector Policy and Strategy in 2007. The ANTP, prepared with support from the EU, and agreed with the international financial institutions (IFIs), provides the basis for an overarching framework for the sector and guidance to resource allocation in the sector. However, the link to the overall strategic planning and budgeting frameworks needs to be strengthened further. Improvement is required to increase efficiency and accountability in public spending by improving the planning, budgeting, and execution of public investment projects, in particular those financed with government resources only. During the CAS period, the Bank has been involved in the transport sector through one closed and two ongoing operations.

Improvement in the electricity sector has been very slow and difficult, but sustained efforts over a relatively long period started to have a positive impact by the end of the CAS period. With World Bank Group support, Albania joined the Energy Community of South East Europe during the CAS period. Meanwhile energy losses declined, billing collections improved (although very marginally), rehabilitation of transmission was initiated, public investment in thermal power generation was undertaken, the electricity system was unbundled, and the distribution system privatized. Nevertheless the public electricity company was in difficult financial straits on an almost continuous basis. The successful privatization of the distribution company in 2009, supported by IFC as transaction advisor,

and with a Bank Partial Risk Guarantee, was a critical reform that is expected to help to ease cash flow in the sector in the future. Finally, efforts to safeguard the country's major hydroelectric plants and to improve their operational efficiency are now underway.

CAS Outcome: Annual 5% increase in real budgets for road maintenance and introduction of private sector maintenance contracts [Achieved]

The Bank supported this sector through the Road Maintenance Project (already completed) and the ongoing Transport Project. Under the former project, a condition requiring the government to increase the annual budget of the GRD for maintenance by no less than 5 percent per year, was systematically met. Still, by end-2006, according to the Bank's Public Expenditure Institutional Review (PEIR), Albania spent approximately 40 percent less than required on maintenance of the national road network. Subsequently, under the Transport Project the covenant was increased to achieve a 10 percent increase in funding for road maintenance annually and has also been systematically met. The Transport Project is also supporting the introduction of output- and performance-based road maintenance for 10 percent of the national road network, for which contracts have recently been signed for two pilot regions.

CAS Outcome: Reduced roughness index of 1,000 km of main and rural roads from 9.79 in 2002 to 7.4 in mid-2007 [Achieved]

A reduction in the roads roughness index has been achieved and continues to be pursued. The Road Maintenance Project contributed to reducing the roughness index from 10 for national roads and 19 for rural roads to 5 and 8, respectively. Moreover, the new Transport Project (approved in 2007) is aiming to reduce roughness levels even further before its completion in 2012 with output- and performance-based maintenance contracts for 310km or 10 percent of the national road network.

CAS Outcome: 1,000 km of secondary and local roads rehabilitated or reconstructed by 2010 [Partially Achieved]

Under the Secondary and Local Roads Project, the Bank is financing rehabilitation/improvement of 110 km of secondary and local roads, which are expected to be completed by the third quarter of 2010. With this project, the Bank has also catalyzed around US\$400 million in commitments from other donors for rehabilitating and improving additional 1,000-1,500 km of the secondary and local roads network.

CAS Outcome: Reductions in road accident and fatality rates by addressing accident black-spots [Achieved]

Road accident fatality rates in Albania have been reduced from 15.12 per 10,000 registered vehicles in 2000 to 8.64 at the end of 2006. This improvement was better than the target of "10 % reduction" pursued by the Bank-financed Road Maintenance Project and the Transport Project. To reduce accidents, a multi-agency safety program was implemented. Road safety barriers at various locations in selected national roads were installed and 60 black-spots were improved. Directorate Road Safety reports have been disseminated to the public as a way of promoting awareness. Nevertheless, these rates are still one of the highest in the region and more than eight-fold higher than the European best.

CAS Outcome: Increase domestic power generation capacity by 15 percent [Achieved]

The Bank, together with EBRD and European Investment Bank (EIB) has supported the construction of the Vlora Thermal Power Plant which represents the first significant investment in domestic power generation in over 25 years in Albania. With an installed capacity of 750 GWh, the plant, which was commissioned in early 2010, bring an 18 percent increase in average domestic power generation capacity. Furthermore under the Dam Safety Project, the Bank will contribute to further increases by supporting the optimized utilization of the cascade of dams on the Drini river, which are responsible for the largest share of domestic generation.

CAS Outcome: Achievement of annually agreed Power Sector Action Plan targets for reductions in transmission and distribution losses [Not Achieved]

This outcome has not been achieved. The Power Sector Action Plan has been in place for very limited periods during the CAS implementation. From 2005-06, a coordinated suspension of donor financing was required to ensure its implementation by Government. And again in 2008, no final agreement was ever reached on plan targets with government. Nevertheless, intermediate indicators/milestones have been achieved, including the gradual reduction of transmission and distribution losses, from about 42 percent in 2007 to 34 percent in 2009; and the privatization of the distribution network with, among others, a target to further reduce losses to 15 percent and improving collections by 2014. These improvements have not, however, been sufficient to reduce the unreliability and increase the quality of electricity supplies to households and businesses. In 2008, businesses in Albania experienced 32 power outages per month on average and 80% of firms reported owning or sharing a generator, in turn supplying about 30% of the power consumed by them. Despite low nominal tariffs for electricity (10Lek per Kwh – more or less stable over the CAS period) the actual cost to firms is about 3 times higher because of the high cost of using diesel generators. As a result, the broader CAS objective of attracting more private investment will require much more reliable supplies of electricity from the national grid.

1.5 Country Development Goal: Establish efficient land markets and spatial planning to support rural and urban development

The land market in Albania is gradually becoming more efficient but property rights are not yet secure. Progress is being made on improving land registration and the share of land parcels that are titled, albeit much more slowly than anticipated. Meanwhile, no progress has been achieved on planned pilots on property valuation and taxation, and on legislative reforms to strengthen property rights. Weaknesses in institutional coordination and frequent legislative changes, that are only partial solutions, seemed to be underpinned by a lack of political will to relinquish territorial control from longstanding governance problems. In terms of spatial planning, the Bank supporting for land use planning in both urban and southern coastal areas has now been cancelled owing in part to emerging safeguard risks related to the use of demolitions to enforce development controls, and, as well, to the limited capacities and commitment at the national level. Nevertheless, the passage of the new Territorial Planning Law and the South Coast Development Plan and regulations, provide important building blocks for Albania's continued improvement in this area.

CAS Outcome: Accelerate completion of urban and rural cadastral zones (Target: 50% urban, 75% rural—currently 81% rural completed) [Partially Achieved]

The target for rural zones was already been achieved by the time of the CAS Progress Report in 2008, but there has not yet been any significant progress on the urban areas because of delays in the contracting of registration packages under the Land Administration and Management Project. Nevertheless, the detailed inventories of unregistered properties in the 83 cadastral zones are complete, and three large registration contracts are under implementation with related work on quality control. Upon completion, these should result in the registration of around 410,000 properties representing 47 percent of total urban properties or 62 percent of unregistered urban properties.

CAS Outcome: Reductions in the time for registration of land transfers from 47 days to 10 days [Partially Achieved]

Registration of land transfers is down from 47 days in 2005 to 30 days for properties not previously registered and 5-7 days for previously registered properties, in 2009⁸. A protracted, and later

⁸ Doing Business data for 2010 show a reduction to only 42 days, but this is measured both with a lag and in the capital city only.

redesigned, procurement of information systems for the Immovable Properties Registration Office under the LAMP was been a major factor in the slow progress to date.

CAS Outcome: Development of urban regulatory plans for Tirana and 8 key secondary cities [Partially Achieved]

After a four-year-long process supported by a Bank-supervised trust fund from the Netherlands government, the new Tirana urban regulatory plan was completed in 2009. However, owing to protracted disputes between the national and municipal governments, it has not yet been approved nor, notably, has the consulting firm been paid for its services. Nevertheless, under the Land Administration and Management Project, after another protracted contracting process new regulatory planning exercises were launched and are underway for eight additional municipalities.

CAS Outcome: 150 km of coastal zone with orderly land-use plans [Not Achieved]

Following the adoption of the South Coast Development Plan and regulations, and as a result of an Inspection Panel case, Bank-support for preparation of land use plans in the southern coast of Albania has been cancelled. It is expected that the Government will continue with these planning exercises, but given the limited capacity in this area at both the national and local government levels, progress is expected to be relatively slower than it might have been with Bank involvement.

CAS Outcome: Provision of key secondary cities with improved urban infrastructure [Partially Achieved]

Under the Municipal Water and Wastewater Project (closed in 2009), the Integrated Water and Ecosystem Management Project (closed in 2009), and the Integrated Coastal Zone Management and Clean-Up Project, the Bank supported significant improvements in water supply and investments in sewerage and wastewater treatment in Durres, Fier, Lezha, Himara and Saranda. Delays under the infrastructure component on the Land Administration and Management Project, meant that no infrastructure has been yet completed for the eight cities under the project.

CAS Outcome: Provision of coastal communities with improved infrastructure to help support environmentally sustainable tourism [Achieved]

Under the ICZMCP, three coastal municipalities and twelve coastal villages benefited from small infrastructure projects. These infrastructure improvements included several access roads to the beach or historical monuments (castle and monastery), repairing or extension of water supply systems and sewage water collection, as well parking places and rehabilitation or re-surfacing of village roads. Larger investments are ongoing to upgrade the passenger ferry terminal in Saranda port, construct a regional solid waste landfill in Saranda and transfer station in Himara, and a sewage and water supply extension within the tourist area in Saranda.

1.6 Country Development Goal: Support sustainable rural development to ensure continued economic poverty reduction

Over the last decade rural poverty has declined steadily. While the national incidence of poverty fell from 18 percent in 2005 to 12.4 percent in 2008, in rural areas the reduction was almost twice as fast, falling from 24.2 to 14.6 percent. The depth and severity of poverty showed similar sustained declines. Extreme poverty in rural areas is now only around 1.2 percent. In the central rural and coastal rural areas, where the majority of the rural population is concentrated, poverty incidence has fallen to 11

percent (from 26 in 2005) and 15 percent (from 20 in 2005), respectively. Poverty still remains highest in the rural mountain areas, although it has declined from 50 to 30 percent between 2002-2005.

The agricultural sector has been growing steadily in recent years but at lower rates than the overall economy. From 2000-08 it has grown at an average rate of 4 percent per year.

The CAS program included several projects aimed at increasing rural incomes and productivity: Water Resource Management, Second Community Development, Fishery Development, Agricultural Services, but also the Natural Resources Development Project (see also Country Development Goal 2.4,) and more recently Secondary and Local Roads (see Pillar 1.4).

CAS Outcomes: Crop yield increases of 45%, 70%, and 40% for maize, alfalfa, and vegetables in rehabilitated irrigation areas [Partially Achieved]

The increases in crop yields were 42%, 55%, 23% for maize, alfalfa and vegetables. So, the targets are substantially achieved, with the exception of vegetables.⁹

CAS Outcomes: 100% of rehabilitated irrigation canals managed by user associations [Achieved]

Under the Water Resources Management Project (closed in 2009) 36,000 ha of land was returned to irrigation compared with a target of 50,000 ha, and over 34,500 ha were drained. All of the rehabilitated channels are currently managed by either new pilot Water User Organizations or the earlier established Water Unit Associations, with operating costs of about 44 percent of irrigation areas paid in full (at least \$12 per hectare) by users. In addition, 33 dams and reservoirs were rehabilitated, exceeding the target of 13 under the project. The rehabilitated dams and reservoirs improved the irrigable land downstream by about 26,860 ha.

CAS Outcomes: Increased supply of improved planting materials—25% rise in multiplication of basic seeds by research stations [Achieved]

Under the Agricultural Services Project, an increased access to improved seed supplies and planting materials has taken place as measured by the number of varieties available and the increased availability of high quality seeds. The number of varieties tested and available in National seed catalogue are 81.48% of the farmers use certified seeds. There has been an increase in the local production of breeder seeds and a multiplication of basic seeds by seed research stations. The planned increases in the availability of seeds/planting materials per research station (Lushnja, Korca or Shkodra) and varieties established in the Agriculture Service Project have been reached in most cases.

CAS Outcomes: Promotion of agricultural innovation —at least 100 farmer groups witness productivity gains by use of new technology, diversification, or access to new markets [Achieved]

Under the Agricultural Services Project, the Bank supported a competitive grants program which provided grants of up to US\$15,000 to farmers for using new technologies and accessing new markets. Each recipient was also required to share these experiences through training, brochures and other methods with other farmers. One hundred thirty-four (136) farmer groups grant-financed projects were implemented and over 21,000 farmers were exposed to improved technology. Around 85 percent of the direct beneficiaries obtained increases in annual income, with 30 percent showing increases of greater than 10 percent.

CAS Outcomes: Annual increases of 20% in volume and diversity of goods traded in constructed markets [Achieved]

⁹ Data reported in the CAS Progress Report erroneously referred to the pilot water users organizations, only.

The volume of trade in the four completed markets¹⁰ in Korca, Lushnja, Vlora and Shkodra increased by more than 200 percent from an average of 50 tons per day in 2004 to 122 tons in 2008. The number of traders increased by 60 percent; the number of farmers by 700 percent; contracted covered stores reached 87 percent. The diversity of agricultural products traded increased from an average of 5 product varieties in 2004 to 28 in 2008.

CAS Outcomes: Increase in sustainable marine and inland fish catch [Achieved]

The size and associated value of the marine fish catch has grown systematically from 2004 to 2008 -- at an average increase in value of US\$1.2 million per annum -- supported by the Bank through a Fishery Development Project (closed in 2007). Four marine ports (Saranda, Vlora, Shengjin and Durres) were rehabilitated and are being managed by community-based fishermen's associations. Rehabilitation of three lake fish landing sites was completed, but the ones on Lakes Ohrid and Shkodra are not yet self-financing. Increased capacity for aquaculture development has been pursued: carp fingerlings (Koran at Lake Ohrid) are released yearly; estimated lake catch increased by 30%, and lake productivity increased threefold. A total of 1,482 individuals, representing vessel owners and fishery workers, and in-land fishermen are registered as members of 13 Fishery Management Organizations. Training at the Shkodra Lake was completed and improved surveillance takes place with the introduction of vessel-tracking systems linked with coast guards.

PILLAR 2: Improved Service Delivery, particularly in the Social Sectors

2.1 Country Development Goal: Improved quality of, and equity in access to, education services

Overall progress toward this country goal was modest over the CAS period, but perceptible. The Bank has contributed to this goal through Albania's first SWAp project – the Education, Excellence and Equity Project, which was mainstreamed into the Ministry of Education. The project has had some delays but is associated with a number of institutional developments across the sector.

Administrative data show that between 2005 and 2009 enrolment rates at every level increased, e.g., from 48 to 50 percent in early childhood development services, from 54 to 60 percent in secondary education (project target is 75 percent), and by more than 20 percent for higher education. The standard deviation of per student expenditure in pre-university education across regions has declined from 4,435 Lek in 2005 to 2,388 Lek in 2009, but rural secondary enrolment rates remains less than one-third of urban. Rural students also perform worse than their urban peers, scoring on average 7 points less on the Matura literature exam, for example.

Learning conditions have been improving – particularly the problem of over-crowding. The share of students in multiple-shift classrooms fell from 34.5 to 17.7 percent in primary schools and from 7.7 to 5.7 in secondary schools. School infrastructure planning and investments under the Education Excellence and Equity Project, albeit delayed, should help to further to decreasing over-crowding.

New curricula have been introduced in basic and secondary education. The latter has started on a rolling basis, is modular and allows greater choice of content. New textbooks have been developed and distributed in support of this curriculum and teachers have been familiarized with the new materials. An Information and Communication Technologies (ICT) curriculum was introduced in 2009, all ICT teachers have been trained, and over 2000 basic and secondary schools have been equipped with computer labs. The students per computer ratio fell from 61 in 2005 to 25 in 2009, while in rural areas it

¹⁰ Under the Agricultural Services Project, the Bank initiated financing of a fifth market with project savings, but the project was closed before its completion, owing to delays and governance issues.

has improved even more dramatically from 148 into 27. However, more progress is needed with respect to strengthening digital libraries and e-schools.

At the higher education level, the project is supporting a management/governance reform effort under which all of the public universities have established public boards and 70 percent have prepared new strategic plans.

CAS Outcome: Net secondary enrollment increases from 53% in 2005 to 72% in 2009 [Partially Achieved]

The net secondary enrollment rate increased from 53 percent in 2005 to 60 percent in 2009. However, this indicator may understate the improvement for several reasons. First, the school system was changed in 2008 from 8 years of basic and 4 years of secondary, to 9 and 3 years, respectively. As a result the number of secondary classrooms increased by 25 percent, and the improved conditions are reported to have encouraged some further enrollment: 11 percent more secondary students were graduated in 2009 than 2008. Second, population projections may not have captured the rapid demographic movements in recent years. Concerns remain about the rural areas, where enrollment remained at 26 percent in 2009 (the target is 32 percent) compared with 88 percent in urban areas (exceeding that target by 3 percent).

CAS Outcome: Completion of curriculum reform in basic education by 2008 [Achieved]

Since 2008, all basic schools are implementing a new 9-grade curriculum, for which students have the relevant textbooks and teachers have been trained.

CAS Outcome: Completion of curriculum reform in secondary education by 2010 [Achieved]

The new curriculum for the first grade of secondary education has been approved and is being implemented during the 2009-2010 school year. The curriculum reform for second and thirds grades of secondary school has been launched in 2009 and the new curricula will be implemented in 2010-11, and 2011-12, respectively.

CAS Outcome: 15% of schools with functioning school boards and school improvement plans by 2009 [Achieved]

In 2008, Albania introduced school boards in all of its 2,015 schools. To date, about 400 of these school boards (20 percent) have developed school improvement plans.

CAS Outcome: Standard deviation of per capita student expenditures by regions reduced from 4,000 Lek to 3,000 Lek by 2009 [Achieved]

By end 2008, the standard deviation of per student expenditure in pre-university education was 2,238 Lek.

2.2 Country Development Goal: Improved quality and accessibility of health services

Albania's health indicators show improvement, although they remain low for a lower middle income country. The estimated infant mortality rate for Albania is 10.3 deaths per 1,000 live births in 2009 compared with 15.1 in 2004. The MDG for 2005 was 14.7. The maternal mortality rate is estimated at 0 deaths in 2009, compared with 16.7 deaths per 100,000 live births in 2006 and 21.3 deaths in 2003. However, the Bank contribution to this goal through the Health System Modernization Project has been limited to institutional and capacity improvements outlined below, owing to delays in its implementation. The 2006 PEIR indicated that although public health expenditures remain low, critical improvements in the health financing and spending mechanisms were recommended to precede any

increase in public financing. This study informed the design of the Health Sector Management Project (HSMP) to focus on quality and efficiency improvements as a first step. Nevertheless, in some regions, access to essential hospital services has improved due to investments in road infrastructure, notably in Vlora and Shkodra under the Road Maintenance Project. It is expected that such improvements will continue with the Secondary and Local Roads program which has as one of the investment allocation criteria, travelling time for local communities to schools and hospitals. Under the Bank financed emergency Avian Influenza Project, Albania benefited from improvements in diagnostic capacity at the Institute of Public Health, and the regular vaccination of at-risk populations against the seasonal influenza.

CAS Outcome: Allocation of public funding based on health needs and primary care providers—target: establishment of performance contracts with 5 hospitals by 2009 [Partially Achieved]

The Health Insurance Institute (HII) assumed responsibility for funding all operating costs for primary health care in 2000. The financing arrangements with primary health care providers include performance incentives. In addition, since 2009, the HII has taken over the responsibility of funding all hospitals as well. Currently contracts are in place between HII and the hospitals, but performance incentives are not yet being implemented. Meanwhile, steps are being taken to improve health sector management and governance, with a view of allowing health care providers more autonomy in resource allocation and decision-making. University training of 12 trainers has been completed in hospital management and financial management. These trainers have successfully completed training of 150 health system managers while training of other 100 managers is under implementation.

CAS Outcome: Establishment of formal co-payment system yielding 20% reduction in reported informal payments in target regions by 2009 [Partially Achieved]

A modern legislative framework for health financing is being introduced. As a related and necessary step, the new Health Care Law was adopted in 2009 replacing a 1967 law on the books. This new law includes a system for physician licensing and private health care provision. The Government has introduced co-payments for prescription drugs for all beneficiaries, established a more controlled list of drugs eligible for coverage, and revised its policy to limit reimbursement to drugs that have similar therapeutic effects and are the cheapest available. Results of the Living Standards Measurement Study (LSMS) on co-payments or informal payments are forthcoming, but sector experts surmise that the 20 percent reduction has not yet been achieved.

CAS Outcome: Improved quality of health care services through use of evidence-based Clinical Practice Guidelines (CPGs) in 32 key diseases [Partially Achieved]

The institutional framework has been established for development of CPG. After careful analysis of the disease pattern in Albania, it was agreed that the target of developing CPGs for 32 diseases was not appropriate, and that it was more important to focus only on six key diseases. So far, CPGs for five key diseases have been developed and are currently under implementation, while work is in progress for the sixth one. Training is being provided to practitioners with the objective of reaching 70 % compliance with CPGs by end 2010.

CAS Outcome: Complete training of 100% Primary Health Care physicians and nurses in 7 regions by 2009 [Achieved]

The quality improvement training for primary care providers is under implementation. So far, all primary health care physicians and nurses have been trained in 6 regions, while work is in progress for the remaining 6 regions in the country. The licensing system with basic requirements for all health care institutions and professionals has been established. The objective is that all physicians are licensed

based on licensing guidelines. About 210 staff members have been trained and the licensing and accreditation function is already integrated into the Center for Quality and Accreditation.

2.3 Country Development Goal: Improve provision of social security and assistance services and their sustainability

Improvement in selected areas has taken place. While some measures, including reduction of payroll contributions from 39 to 24 percent and reduction of fraud leading to lower expenditures, were undertaken the remaining reforms needed to secure fiscal sustainability have yet to be agreed or initiated. Moreover, the Government has continued with *ad hoc* pension increases that limit the future space for reform. On the other hand, significant progress has been made in social assistance and social services, supported by the Social Services Delivery Project (SSDP). The national strategy for social services and assistance was prepared and is under implementation. New national service standards for all vulnerable groups were produced and are being implemented. The number of recipient of these social care services has increased more than ten-fold. Local governments have assumed full financial responsibility for and are replicating the social care centers established under SSDP. An assessment of the factors underlying targeting performance indicates that much is owed to the efforts of local officials to reach their poor, except in rural areas where the efforts of the center and local officials contribute equally. In the Government's main social assistance program NE a large share of the benefits is still captured by wealthier households, and the NE benefits represent a modest share of the total pre-transfer consumption of the poor because the NE benefits are low, due to limited funding. Major improvements are needed to improve targeting. The Government has plans for a major overhaul of the social assistance system which will be supported under the new CPS. The main focus of the reform potentially would include the improvement in eligibility criteria, administration of benefits, monitoring and evaluation, and the computerization of the system.

CAS Outcomes: Improved delivery of social care services through (a) a 50% increase in access of vulnerable groups to effective social care services in at least 8 regions, and (b) 70% of social care services in selected regions to meet their performance targets by 2009 [Achieved]

There has been a substantial increase in the access of vulnerable groups to daily social care services. A total of 43 daily care centers are in place in 8 regions, established under the SSDP, servicing almost 25,000 persons (directly and indirectly). This should be compared with 26 centers servicing 1,300 persons in 2000. The quality of care in residential services has been increased with 19 out of 26 residential care centers (73 percent) provide services in accordance with standards of social care and/or specific standards for elderly and disabled.

CAS Outcomes: Improvements in targeted cash transfers for social assistance: (a) at least 30% of poor households receive cash social assistance, and (b) 90% of social assistance goes to poor households [Partially Achieved]

There has been some progress regarding public policy planning which has been translated into policy making and outcomes. Options for improved targeting for cash social assistance have been identified and appraised. A national strategy on the NE is completed and approved by the Government. LSMS 2008 results show that over 30 percent of the poor households currently receive NE assistance but no data is yet available to confirm that 90 percent of social assistance goes to poor households.

CAS Outcomes: Adoption of a pension policy and administrative reform program to achieve fiscal sustainability [Partially Achieved]

Some achievements have been made in pension administration but no policy reform proposal or strategy has yet been agreed by Government. Bank support to pension reforms and administrative improvements has been channeled through the SSDP and the DPO reform program. Although a policy

option paper was completed and adopted by the Strategic Planning Committee, there were significant delays in the formation of the pension policy working group to develop more specific reform proposals. The working group was subsequently expanded to include members of opposition parties in recognition that a broad-based consensus on the objectives and specific reforms is critical. However, its work was halted by the 2009 elections and has yet to be revitalized. Meanwhile, the Social Insurance Institute has moved to reduce fraud by securing records and improving the registration of contributions. With Bank support, the Social Insurance Institute is refurbishing and expanding its archives and has started the digitalization of its records. The Bank has also supported, with TA, revisions of the legal framework for the voluntary pension system in 2009.

2.4 Country Development Goal: Poverty reduction through income increases and improved service delivery in both urban and rural areas

The period 2005-08 witnessed a particularly strong reduction of poverty, with the incidence declining from 24.2 to 14.6 percent. At the same time extreme poverty has fallen to 1.2 percent. These reductions are in line with the goal of lowering poverty incidence to 10 percent and eradicating extreme poverty by 2015. While the majority of the poor still live in rural areas, that share has fallen from 68 percent to 60 percent between 2002 and 2008. There are however emerging tiny pockets of extreme urban poverty with rates higher than in some rural areas.

The CAS program has contributed to improving infrastructural service delivery and incomes through projects supporting municipal water and wastewater, forestry, community works, municipal and coastal infrastructure. Good progress on water and sanitation has been made during the CAS period. The share of the population connected to the piped water network is around 74 percent (87 percent in urban municipalities and 47 percent in the rural communes). The corresponding coverage of sewerage is only 47 percent (68 percent in municipalities but only 3 percent in the rural communes). Improvements in the rural and peri-urban infrastructure are taking place, and the Government's objective to reach 45 percent of the population with access to waste water treatment by 2013 seems feasible. Clarification of responsibilities across agencies and communities for provision and maintenance of rural transport infrastructure is in progress under the ongoing Secondary and Local Roads Project with Bank financing.

CAS Outcomes: Improved access to and quality of urban water supply for 300,000 people in Durres, Saranda, Fier, and Lezhe [Achieved]

Through the Municipal Water and Waste Water Project, the Bank assisted Albania to improve water and sanitation services in four participating cities and achieve financial viability. A new incentive-based multi-city management contract approach was introduced. Participating water utilities engaged a private operator through management contract to take over operation and maintenance of existing facilities. Water availability increased in participating municipalities: the average hours increase 2-3 times in most cases (availability is between 3 and 20 hours per day, depending on the municipality). Percentage of total connected population in service area receiving at minimum 2 hours of water supply per day is about 100 percent in these cities. Collection rates are between 56 and 81 percent, which requires further improvement although it is much better than in the past. Wastage and over-consumption of water has been reduced. This has had a positive impact on the finances of the public utilities. Management of the broader water and waste water sector is improving. All 54 water and waste water utilities are monitored on a monthly basis. A Monitoring and Benchmarking Unit (within Government) issues six-monthly and annual reports.

CAS Outcomes: Improved access to urban sanitation in Saranda municipality and wastewater treatment in Durres, Saranda, and Lezhe/Shengjin [Partially Achieved]

The Bank contributed to these CAS outcomes through the Global Environment Project for Integrated Water and Ecosystem Management (US\$5million) which twinned with EIB to support the development of three large sewerage treatment plants in the three coastal areas. The project closed with an

unsatisfactory rating in December 2009, because the plants have yet to be complete owing to delays in Government counterpart financing for EIB co-financing and EC parallel financing. Nevertheless it is anticipated that by mid 2011, through this support, Albania will have significantly increased the coverage of wastewater treatment in these environmentally and economically critical coastal areas.

CAS Outcomes: Local community management of 660,000 ha of upland erosion-prone land using sustainable natural resource management plans [Achieved]

With Bank, GEF and Swedish Government assistance under the Natural Resources Development Project (NRDP), the participatory communal forest and pasture management plans (which include defined, agreed and mapped usufruct rights) have been introduced in 250 communes that cover 644,739 ha. To support this measure, the Government transferred in 2008, ownership of 60 percent of country's forest and pasture lands or 754,148 ha to local governments. Erosion reduction measures have been established; erosion reduction is estimated at 150,000 tons to date. The target for the year 2010 is to reduce erosion by 200,000 ton, which is likely to be achieved given that implementation of micro-catchment plans is ongoing in 30 communes and forest and management plans in 190 communes.

CAS Outcomes: 10% increase in economic benefits from sustainable use of natural resources at the commune or village level [Achieved]

The implementation of the plans financed under NRDP provides much needed seasonal employment opportunities to the rural poor, involving some 6000 workers, including 1900 women and 1900 beneficiary families, from Project start up to the present time. Preliminary assessment shows a 41 percent increase in average annual household income derived from sustainable use of forest and pasture resources. Another promising result relates to the fact that communes started establishing grazing fees from January 2009. The Project is also supporting carbon sequestration measures in degraded lands through tree planting, assisted natural regeneration and control of animal grazing in 24 communes (6272.36 ha) that are among the poorest in the country, with a median poverty rate of 42 percent. Almost two-thirds of them rank in the lowest third of the poverty distribution as measured by “percent families poor”.

World Bank portfolio performance

As of end-December 2009, there were 15 active projects with an average size of US\$18 million, and original commitment of \$268 million in the Albania portfolio. This does not include an additional US\$78 million Partial Risk Guarantee for the electricity distribution privatization. Since the beginning of the CAS period, eleven other projects (including a GEF and DPL) were completed. The total commitment during the CAS period was US\$400 million for 25 projects with an average size of US\$16 million.

As of end December 2009, 78 percent of the commitments on the ongoing portfolio have satisfactory performance. Two projects in the transport sector are rated as *highly satisfactory*, four others as *satisfactory*, and six as *moderately satisfactory*, on implementation performance. All three projects which are rated *unsatisfactory* have recently been restructured. As such, proactivity over the CPS period was 100 percent. Eighty-six (86) percent of the completed commitments were rated *satisfactory* or *moderately satisfactory*. Of the ten completed projects, two were rated *unsatisfactory*, three *moderately satisfactory* and five *satisfactory*.

Project	Type	ISR/ICR rating	IEG rating	Closing Date
1. Integ Water & Ecosystems Mgmt	GEF	U	..	31-Dec-09
2. Municipal Water & Wastewater	Investment	MS	..	31-Dec-09
3. Water Resources Management	Investment	S	..	31-Dec-09
4. Community Works 2	Investment	S		30-Sep-08
5. Agriculture Services	Investment	S	S	31-Mar-08
6. Development Policy Loan	Devt Policy	S	..	31-Dec-07
7. Pilot Fishery Development	Investment	MS	MS	30-Sep-07
8. Road Maintenance	Investment	S	S	30-Jun-07
9. Power Sector Rehab & Restruct	Investment	MS	MS	31-Dec-06
10. Public Administration Reform	Investment	MU	MU	15-Dec-06

Albania received just over 50 percent more IDA commitments than programmed, mainly on account of its high level of demand, but contracting two projects with regional significance in FY08 – Disaster Risk Mitigation and Dam Safety.¹¹ On the other hand, *IBRD lending was around half that programmed* (not including the Partial Risk Guarantee), in part because of the withdrawal of remaining DPO series.

The lending program proceeded as anticipated with three notable exceptions. The second and third operations in the Development Policy series were ultimately dropped. Two essentially “global public good” operations were committed: the emergency Avian Influenza Preparedness (FY05) and Disaster Risk Mitigation and Adaptation (FY08)¹². And finally, the ICZMCP II was replaced with Secondary and Local Roads Project.

		US\$ mn		
		IDA	IBRD	Total
FY06	Health System Modernization	15.4		15.4
	Education Excellence and Equity	15.0		15.0
	Business Env Ref & Inst Support	3.7	5.6	9.3
	Avian Influenza	5.0		5.0
	Total for FY06	39.1	5.6	44.7
FY07	First Devt Policy Operation	10.0		10.0
	Land Admin & Management	15.0	20.0	35.0
	Transport	5.0	20.0	25.0
	Total for FY07	30.0	40.0	70.0
FY08	Disaster Risk Mitigation & Adaptation	6.1	3.0	9.1
	ECSEE APL 5 - Dam Safety	34.9		34.9
	Secondary and Local Roads	20.0		20.0
	Total for FY08	61.0	3.0	64.0
FY09	Soc Services Delivery – Add Fin		5.0	5.0
	Elec Dist - Partial Risk Guarantee		78.0	78.0
	Total for FY09		83.0	83.0
Total for FY06-09 (incl PRG)		130.1	131.6	261.7
Total for FY06-09 (incl PRG)		130.1	53.6	183.7
Original CAS lending allocation		86	90-110	176 - 196

¹¹ Optimization of Albania’s immense hydropower generating capacity will support more efficient balancing of power in the region, once complete.

¹² As part of this operation, Albania is the first country in Eastern Europe to contract a loan for entry into the Climate Change Risk Insurance Facility, and was an early demander for the Catastrophic Deferred Drawdown Operation, until the exposure rules were changed which made this contingent financing a much less attractive lending instrument.

There is little evidence of reduced demand for Bank lending in view of the graduation from IDA in 2009. But, as expected, technical assistance components are more carefully scrutinized by the authorities, and the Bank has been encouraged to partner with the remaining concessional windows available to Albania. In this regard, ***7 of the 10 new loan/credits¹³ committed in the CAS benefit from substantial co-financing or coordinated parallel financing.*** The most notable are the Sector Wide Approach Program in the education sector (Bank financing is one-fifth of a US\$75 million sector program) and the Secondary and Local Roads Project (Bank-financed project of US\$20 million has triggered a program of nearing US\$350 million in parallel financing).

Efforts to consolidate the portfolio toward the CAS target of 12 projects were delayed by the continued high demand in the face of a gradually closing window for IDA resources, and addition of two small projects related to global and regional public goods (namely Avian Influenza and Disaster Risk Mitigation and Adaptation Program). However, the current portfolio of 15 projects averaging \$18 million continued the trend toward larger projects. It compares with the portfolio at the onset of the 2002 CAS which had 21 projects averaging US\$13 million, and in 2005 with 15 projects averaging US\$15 million.

The country program also included 26 trust funds and one Fee-Based Service during the CAS period, including several grant co-financing trust funds for projects and the Japan Policy and Human Resources Development Fund (PHRD) preparation grants. This does not include full sized Global Environmental Projects, of which Albania has benefited from three during the CAS period (one is now closed). Of these 16 are ongoing, of which 11 are project co-financing grants,

The average age of projects in portfolio is 4.5 years, slightly higher than the Bank and ECA at 3.7, 3.8 years, respectively. There are two significantly older projects. The Social Service Delivery Project, at 8.6 years, was extended from its original 6 year implementation period to utilize cost savings and later additional financing for investments in pension administration. The Power Sector Generation and Restructuring Project is 5.8 years but is expected to close in the next few months.

The disbursement rate in the CAS period, and as well in FY09, was 21 percent, compared with 18-19 percent in Europe and Central Asia and 24-27 percent Bank-wide. Disbursement rates fluctuated during the CAS period, but have on average remained rather low, reflecting in part delays associated with the mainstreaming of project implementation into line ministries forgoing the use of free-standing PIUs, – (Education, Health, Natural Resources, and Business Environment), and several protracted procurement for larger contracts, such as for transmission substations, regulatory impact assessment TA, and computerization for property registry office and health information system.

	FY05	FY06	FY07	FY08	FY09	FY05-09 (%) Weighted Disbursement Ratio
Albania	25.7	17.4	25.1	17.5	20.7	20.1
ECA	23.8	17.0	18.8	18.2	17.8	18.8
Bank-wide	23.4	23.9	22.8	22.2	26.5	23.8

The completion cost of loans/credits has declined during the CPS period, from \$422,000 per operation in FY06 to \$348,000 in FY09¹⁴. Together with the increasing average loan/credit size and project/program size, this suggests an increasing efficiency in the delivery of the lending program.

¹³ Not including the SSDP Additional Financing and the Partial Risk Guarantee

¹⁴ The information refers to “completion costs”, that is cumulative costs of operations approved in the referred years, including expenditures incurred in previous years. Therefore this cost refers to projects delivered during the CAS period and not to all projects under implementation. The same criteria were used for AAAs.

However, the average cost \$382,000 to deliver a loan/credit during the CAS period was 40 percent over the regional reference cost or “coefficient”, mainly on account of five high cost deliveries DPL II, Transport, LAMP, BERIS, HSMP, and EEEP. The Bank spent around \$86,000 per project in supervision during this CAS period, close to the reference point. A decision was taken mid CAS period to allocate more resources to more complex or riskier projects such as the EEEP, ICZMCP and LAMP. Meanwhile, decentralization which led to local task team leadership of seven of the 25 projects covered during the CAS period and helped to contain costs. The costs of analytical and advisory activities (AAA) were more irregular. The average cost of an AAA task was \$150,000, exceeding the “coefficient” or reference by 25 percent. Finally, “overhead” costs (“other”) as a proportion of the annual budget for delivering the Albania CAS program have been increasing in relative terms: it went from about 12 percent in FY06 to about 22 percent in FY08 and FY09¹⁵. The overall budget is contracting faster than “other” costs. In any case, an “overhead” cost of over 20 percent seems on the high side and needs to be examined.

Mainstreaming project implementation.

Under the CAS, the Bank continued to mainstream project implementation into line ministry structures though this sometimes caused temporary delays as ministry staff coped with unfamiliar Bank procedures.. While this effort has helped to build capacity in line ministries – notably, Ministries of Finance, Education and Economy, Trade & Energy, Public Works – and in KESH, in many cases it resulted in a slowing of project disbursements as ministry staff struggled to meet additional burden of project administration. The most notable examples are in the Education SWAp, the Health Sector Modernization Project, Land Administration and Management Project, Business Environment Reform and Institutional Support Project and the Disaster Risk Mitigation and Adaptation Project.

From the Bank side, project design often did not take into sufficient account the challenges of mainstreaming. The most notable case is in Health Sector Modernization Project where the original procurement plan included a very large number of small packages whose processing was being mainstreamed into a ministry with traditionally weak capacity. In Ministry of Education (Education Excellence and Equity Project) and the Ministry of Economy, Trade and Energy (Business Environment Reform and Institutional Strengthening Project) the plethora of administrative steps in ministry decision making apparatus ultimately led to the Bank making recommendations on the client’s own procedural functions to ease project implementation. Another case is that of the LAMP which is being implemented across three ministries, where the project encountered the perennial problem of inter-ministerial coordination which is not yet firmly embedded in Albanian public administration. One lesson is that, in addition, to fiduciary assessments, the Bank might require a much more integrated assessment of functional and administrative capacities in beneficiary agencies where project implementation is to be mainstreamed.

In the still politicized public sector, mainstreaming also meant that projects were vulnerable to the high turnover of public officials; again Ministry of Health is a notable example where the minister has been changed five times, to date, during project implementation, but similar situations also took place in KESH, Ministry of Public Works, and Ministry of Education. While it is near impossible to anticipate such changes, measures might be taken during supervision to ensure that a broad swath of ministry staff understand the project in some detail.

Notwithstanding the above, the benefits of mainstreaming are clearly apparent. In the energy and roads sectors, long engagement with Bank-financed projects and strong donor coordination, has led to the establishment of Government-staffed project implementation structures that are familiar with donor requirements and efficiently implement multiple donor programs. This includes the joint project unit in KESH, the General Roads Directorate in the Ministry of Public Works, the Albanian Development

¹⁵ This is based on annual spending, which is not the same as the spending based on completion costs.

Fund, and Central Financing and Contracting Unit in the Ministry of Finance. Even in other ministries where the number of donor-financed projects is few, such as Ministries of Education and Economy, a recent Bank fiduciary review suggests that ministries have internalized some of the disciplines of Bank project procedures.

Improving governance

To strengthen Albania's weak governance – a critical development constraint -- the CAS foresaw two main instruments: (i) systematic application of a governance filter; and (ii) implementation of a set of fiduciary measures. The governance filter approach specified key governance areas relevant for Albania and aimed at mainstreaming them, i.e. ensuring that all CAS interventions included a specific focus on one or more of them. Most of the projects approved after the CAS¹⁶ had been discussed at the Board included explicit commitments to the application of the Filter, while in older projects, the Filter served to reemphasize the importance of components dealing with governance and institutional development. This approach is currently being evaluated, inter alia, in a Governance Review which is currently under preparation. The second instrument was a set of fiduciary measures geared to protect Bank-financed projects but also to support the development of better country fiduciary systems. The latter has since blossomed into a Fiduciary Action Plan, currently being implemented with support from the Governance Partnership Facility. In terms of the various pillars of the Filter, Box 2 of the CAS Progress Report summarizes most of the interventions up to that time. Since then, Albania has benefitted as a CGAC country from some additional resources in FY08 used for starting implementation on the Fiduciary Action Plan, training media, civil society and watchdog institutions on governance indicators, procurement system reform and some sectoral interventions. Albania now has a Bank-executed Governance Partnership Facility Window 1 program under implementation – which focuses on more thorough governance diagnostics at the macro and micro level, implementation of the Fiduciary Action Plan (mentioned above) and increasing interactions with civil society including in project supervision.

Box 1: Albania's protracted Treasury system development and its impact on the portfolio

The development of the Albania treasury system under the Public Administration Reform Project was first under prepared during project design when a belated decision to introduce this component was agreed. The subproject subsequently ran into implementation delays on account of the lack of preparation and in particular client readiness. After several design changes, the system became operational in the first half of 2007, just after the project closed. IEG's Project Evaluation notes "The Treasury Department is currently running the system in parallel with the previous system, and the full operation is planned from January 2008. The implementation of the system is at a critical juncture." In anticipation of full operation, the Bank agreed to financial reporting of a number of new projects in this CAS through the Treasury system, provided additional support from local Financial Management officer and later through it supervision of the IPS Trust Fund. Today in by early 2010, full operation of the system has not yet been achieved. Meanwhile, delays in financial reporting have contributed to disbursement levels in a number of the Bank-financed projects which rely on the system. With hindsight, a few lessons are important to note. First, four-year implementation period for automation was too limited for a complex automation of this type. Second, although portfolio management dictated the on-time closure of the project, it may have been better for the Bank to extend its support for some months to help the Government ensure full operation of the system. Third, the impact of the client's lack of readiness to undertake such a project at the onset has persisted beyond the project closure.

The fiduciary commitments under this CAS included decentralization of financial management and procurement staff; adjusting procurement thresholds to better reflect country risk; more procurement

¹⁶ With the exception of the emergency Avian Influenza Project.

audits and reviews; continuing support to audit and procurement agencies; and vigorously investigating fraud. For most of the CAS period local FM and procurement staff were in place¹⁷. A recent Country Fiduciary Review reports that (i) as a result of these actions, there has been a much closer degree of scrutiny and ‘hand-holding’ of the Albania portfolio that is seen across the ECA region; (ii) this more intensive supervision effort associated with local staffing and lower prior review thresholds has paid off in terms of governance and capacity building— a number of good/best practices by contracting agencies were identified, and (iii) fiduciary staff decentralization helped to contain the costs of this more intensive supervision. Some lessons include the need to now improve contract management and to share lessons/information across government. The added advantage of local fiduciary presence was the ability to keep up the dialogue on the broader fiduciary reform agenda, in particular on Treasury system development, procurement, and accounting and audit reform.

Safeguards policy implementation

During the CAS period, two Inspection Panel cases were investigated in Albania which yielded some important lessons for project implementation as a whole. Investigations were undertaken on the Integrated Coastal Zone Management and Clean-Up Project and the Power Sector Generation and Restructuring Project (“Vlore Power Plant”). In both cases, the findings of the Panel focused on implementation of safeguard policies on (environment and resettlement). The main lessons from the ICZMCP panel case pertain mainly to managerial and staffing issues, including that of carefully matching team leadership/composition as well as the level of managerial oversight to project complexity and risk, and of maintaining an environment conducive to frank discussion and resolution of risks. However, in both cases, there are some lessons for program implementation, namely:

- (i) the need to raise the importance of safeguards implementation to the same level already afforded to fiduciary controls in project preparation and implementation.
- (ii) the role of the Bank in supervising the quality of consultations undertaken by the client in project preparation and implementation;
- (iii) the need for a renewed focus on social risks in Albania, in particular with respect to land and property rights which remain an area of contention;
- (iv) the need to fully explain the Bank’s policies, in particular on social risk mitigation, not only to senior officials but all levels of project staffing especially in mainstreamed projects;
- (v) the need to continuously update the Bank’s knowledge of local laws and regulations when it pertains to implementation of safeguard policies, both environmental and otherwise;
- (vi) the importance of systematically addressing complaints from the public, including through a proactive media and communications program that mitigates reputational risks; and
- (vii) in small countries such as Albania to pay close attention to either perceived or actual conflict of interests in project staffing.

Analytical and Advisory Services

The CAS lending program was accompanied by a substantial program of analytical and advisory services and non-lending technical assistance from both the Bank and IFC. Overall the products were well aligned with country and CAS goals. Several key economic and sector work products were important forerunners to key lending operations and reform dialogues – notably

- the public expenditure review – *Restructuring Public Expenditure to Sustain Growth* – influenced the design of the Health Sector Modernization Project, budget reforms under the

¹⁷ In recent months they have not been replaced after moving to other posts with some impact on portfolio management.

DPO program and the annual work programs under the Education Excellence and Equity Project;

- the policy note on *Managing and Financing of Local Roads* laid the framework for the Secondary and Local Roads Project;
- the *Urban Sector Review* and *The Status of Land Reform and Real Property Markets* influenced the design of the Land Administration and Management Project; and
- the *Social Insurance Review* and Social Policy Technical Assistance informed the pension reform debate, Social Services Delivery Project Additional Financing and the forthcoming Social Services DPL.

The Bank and IFC were very as responsive, as evidenced by quick response to government demand on

- the Doing Business agenda that yielded Albania's performance as top two reformer in 2009,
- work on concessions in which IFC supported the development of the new law, and two instances of its implementation in the concessioning of the Ashta hydropower plant and the planned concession of the Durres container terminal; and
- the Mining Sector Reform, Restructuring and Future Support which started as short mission in response to a request from Government, and has yielded Albania's candidacy for the Extractive Industries Transparency Initiative.

The most recent AAA work is relevant to deal with the aftermath of the global crisis, namely the CEM, Investment Climate Assessment (with a focus on innovation) and Social Policy technical assistance. Finally there has been continuous flow of analysis and technical assistance on fiduciary agenda, ROSC accounting and audit, corporate governance and alternative dispute resolution (ADR), a Governance Review and study on accountability in the social sectors to help further refine the governance agenda in the future.

Box 2: Albania -World Bank Conference on Development Economics.

In June 2008, a local version of the Annual Bank Conference on Development Economics (ABCDE) was organized in Tirana. The purpose was (i) to showcase the Bank's analytical work; (ii) to help bridge a widening gap between the local academia and policy-makers; and (iii) to provide a politically neutral environment for debating Albania's development challenges. The agenda supplemented two years of Bank economic and sector work, including Development Economics (DEC) working paper, with a selection from an international call for papers on Albania among development partners, researchers and academia. The Conference also financed attendance by a few Albanian academics in the *diaspora* whose work was less unknown locally. The two day event was well attended and the next edition is programmed for June 2010.

IFC

IFC and World Bank activities strategically complemented each other particularly in the energy sector and in private sector development. As of April 2009, IFC committed portfolio in Albania was US\$81.7 million, allocated to the general manufacturing sector (98 percent) and the financial sector (2 percent). During FY07-09, IFC has financed 5 projects for a total of US\$96.5 million as compared to US\$76.9 million in 3 projects during FY04-06. IFC's main strategic objective during FY06-09 was to

support Albania's continued economic growth through strengthening financial intermediation, supporting the privatization of strategic sectors by introducing "best practice" precedents for future PPPs in the country and helping the country to build the infrastructure necessary for growth, enhancing the business climate and competitiveness, and outsourcing services to the private sector.

IFC supports financial institutions to develop new products through providing its financial support and, where possible, providing in parallel technical assistance support. The advisory services components aimed at improving project implementation capacity at the client level as well as improving the investment climate and promoting private sector development. It is helping financial institutions to develop housing finance and renewable energy finance products. To support housing finance, IFC provided its advisory services to equip the client banks with best practices. Simultaneously, IFC extended its advisory services to the Ministry of Public Works to revise the regulatory framework and helped the Central Bank to establish monitoring instruments. IFC financed two local banks, Banka Popullore and NCBank with about US\$40 million long-term loans. IFC's loans were cancelled last year due to the strong liquidity position of the banks by that time.

IFC supports local SME's through its direct financing and advisory services. For the first time, IFC has directly financed two local small and medium enterprises (SMEs) in Albania, one in the construction materials sector and the other in real estate development sector. Both projects support the construction industry, which has been the key sector for economic growth. In addition to financing, IFC provided these companies with advisory services in the form of global knowledge transfer, including guidelines for better corporate governance and social and environmental best practices. IFC provided long-term funds required for a green-field cement project ensuring that environmental issues were adequately addressed. This investment is expected to encourage foreign investment.

During the last 3 years IFC has been successful in implementing the PPP approach, as a way to attract private sector in infrastructure. After assisting the government with drafting the new Concession law and establishing the first Concession Unit in the country, IFC has been the lead advisor to the government in two major private sector participation (PSP) transactions. Regarding the Ashta hydro power project, following a strong response by the international investors' community and a competitive and transparent bidding process, the Government signed a concession agreement with Verbund, Austria's largest electricity company. Also, IFC advised the government on the unbundling of the power distribution activities from the country's electricity conglomerate, the establishment of the Electricity Distribution System Operator, the structuring of the privatization transaction, and the implementation of a transparent competitive bidding process. ČEZ Group, an integrated electricity conglomerate based in the Czech Republic, with operations in Central and Eastern Europe, was selected the winning bidder in October 2008.

As part of its advisory services, IFC has provided technical assistance in three strategic areas: (i) business enabling environment; (ii) access to finance; (iii) SME support and recycling linkages program. The Recycling Linkages program supported marginalized Roma population to access micro lending and assisted recycling companies to raise about US\$14.8 million in financing. Through its International Standards program IFC supported companies to improve their competitiveness and increase sales by around US\$57million. Through its Corporate Governance program working directly with private companies, IFC managed to introduce best practices in corporate governance. IFC assisted in creating of a pilot commercial mediation center which resolved 54 commercial cases within the Alternative Dispute Resolution program. The Housing Finance program has supported the preparation of Condominium Law, approved in May 2009, as well introduced a mortgage toolkit to the banking sector which helped to improve banking sector lending practices. In addition, assistance was provided to the Registry Office, Ministry of Justice to improve the processing and documentation of 1st and 2nd mortgage lien. More recently, IFC's Foreign Investment Advisory Service (FIAS) undertook a survey at the sub-national level to capture differences in regulations and enforcement, foster competition among cities and pinpoint bottlenecks, and provide information on good practices that can easily be

replicated. IFC has also been engaged in assisting the Albanian Investment and Promotion Agency and in following up on Doing Business reports to analyze investment constraints in Albania, especially at the sub-national level. In close cooperation with the Bank, IFC contributed to Albania's improvement in the 2009 Doing Business ranking.

Main Lessons

Several lessons have been learnt from implementation of the FY06-09 CAS. Going forward, these lessons should be useful in selecting and designing activities/operations, to their implementation and to the way resources are allocated:

- ***Coordination between IDA-IFC*** can yield the right combination for complex private sector reforms, as in the privatization of the electricity distribution company, concessions reforms, and *Doing Business*.
- Not surprisingly, ***the participatory approach works well for poverty reduction***. First, this is the case when beneficiaries are more directly involved in projects (communal and participatory forest and pasture management, Water Resource Management, Community Works, Fishery Development) and when local governments are key counterparts.
- ***Safeguards policy implementation need to be treated with the same level of priority in project preparation and implementation, as fiduciary controls***. First, there is a need for both staff and client to have a better command of the policies and how to implement them. Second, the preparation of safeguard policy frameworks (e.g. request for proposals and environmental management plans) need to take full account of local laws and procedures, in order to complement where appropriate, rather than simply supplant them. The latter is easier, but does not contribute to the development of country systems. (Indeed, one of the outcomes of mainstreaming project implementation has been to be able to see at a finer level of detail where Bank and country systems depart and potentially how to close the gaps in the future). Finally, there is a need for the Bank to move quickly to replicate the sort of "jurisprudence" that has already been developed for the environmental safeguard policy, for the social safeguard policies where the application to date has been much more idiosyncratic.
- ***Decentralization of fiduciary management can have big payoffs***. Local financial management and procurement analysts helped to support both capacity building in mainstreamed projects and development of country systems without the benefit of stand-alone activities budgeted for this purpose. In this way, the Bank has been able to maintain both dialogue and support for the development of country systems in the fiduciary agenda which is so critical to improved governance in Albania.
- ***The capacity building agenda of mainstreaming should be explicitly considered (i) in project design, (ii) in relation to other project development objectives, and (iii) for risks related to the continued politicization of Albania public administration***.

Regarding the first: (a) project preparation should include a formal institutional assessment of the line ministry, including work flows etc that might impact project implementation; and (b) project design should explicitly take into account capacities of the implementing agency, for example in the phasing of activities or structure of the procurement plan.

Regarding the second, although it is difficult to quantify or specify results indicators related to capacity building, these should be explicitly considered at project appraisal so that they

can be measured as an explicit product or by product of a project during and after implementation.

Regarding the third, mainstreaming has generally worked better in institutions where the Bank has already had a long engagement, but is still not immune to politically-based changes of public officials. Mainstreaming which builds up a broad-based awareness about, and engagement with, a project across a wide range of line ministry staff can help to mitigate the effect of individual staff replacements. Indeed, wholesale changes of ministry staff are becoming less frequent.

- ***Less complex projects tend to be implemented more efficiently and are more effective in achieving results on the ground.*** Two key reasons argue for less complex project in Albania. First, complex projects usually entail coordination across line ministries which remains a challenge for the Albanian public administration because of political realities. As such, the portfolio should limit the number of complex projects that are under implementation at any time. A sequence of simpler, shorter interventions/projects is preferable and would allow more flexibility in adjusting the portfolio when things go wrong. As shown by the Secondary and Local Roads project, such interventions are not inconsistent with maintaining the Bank's own role in helping the Government to convene and guide large coordinated programs among its development partners.
- ***The Bank has an important role to play in engendering transparency and consultation in Albania, through its own actions related to the portfolio.*** First, under this CAS period, closer Bank supervision of consultations has already yielded important, albeit, subtle changes in the culture toward public consultation in Albanian public service (see p. 5). Second, under the Inspection Panel cases, the Bank has experienced important and very public lessons about the need to keep communication lines open with the media and the general public, but also about how important it is that the client in all its myriad forms – general public, project beneficiaries, civil society, Parliament, government – have a deeper understanding of the way the Bank works in Albania. Third, civil society continues to look to the Bank and other international partners for an independent voice on key development issues. And finally, the new disclosure policy will require even more of this in the future.
- ***Standard portfolio management indicators while important can sometimes conflict with the long term achievement of results.*** In the case of the Public Administration Project a four year implementation period was unrealistic for treasury system subcomponent, meanwhile the choice to extend the SSDP project, notwithstanding *over-age* considerations, has resulted in a cost effective use of savings and additional finance to address urgent needs in pension administration. A second potential conflict is in the treatment of disbursement. The Albania portfolio includes some projects that have had low disbursements for three key reasons – unsatisfactory Borrower performance, an initial “build-up” of mainstreamed capacity, lumpy and complex procurements. All require managerial attention but with a different focus. Such focus could be sharper if projects were evaluated against realistic disbursement profiles agreed at preparation/approval, and *annual country program targets* based on the above, rather than Bank-wide average targets.
- ***The Bank continues to play an important role in convening other development partners, however the partnership arrangements should be considered carefully.*** The Bank has been engaged in a wide range of partnership arrangements, from the traditional co-financing and parallel financing arrangements, to Sector Wide Program, multi-donor Trust Fund supervision, even Fee-Based Service, in Albania. There is still demand on the part of the Government for the Bank to convene and guide other development partners in large coordinated programs, in particular in cross-sectoral areas. One key lesson, however, is

that each partnership arrangement including alternatives must be considered carefully from a resource management, as well as development effectiveness point of view. For example, the Bank's role in supervising EIB's \$15 million co-financing of the Integrated Water and Ecosystem Management Project while helpful in allowing EIB to engage with the water sector in Albania for the first time, placed a burden on a declining budget. Likewise, the SWAp arrangement for EEEP has resulted in Bank rules and supervision required for an entire \$75 million program. Moreover substantial delays were experienced when the need to coordinate across donors resulted in the approval by the Bank team of an operations manual and annual plans that were inconsistent with the original PAD and legal documents. Meanwhile the essentially parallel financing arrangement of the Secondary and Local Roads Program has allowed the Bank to have a well performing small operation which did trigger and has guided a much larger financing package in a critical area of feeder roads.

- ***Success may exist even in problem projects.*** Partial success or accomplishments should be valued as sometimes they constitute a needed "investment" in building blocks needed for full success over a longer period (Health Modernization, Public Administration). In this cases, it is preferable to not to overstate project objectives so as not to dilute efforts to put in place robust foundation for future, more long term reforms.

FY06-FY09 ALBANIA CAS COMPLETION REPORT –RESULTS MATRIX (MAR 4, 2009)

- ✓ Achieved
- ≈ Partially Achieved (on track)
- ✗ Not Achieved

(1) Country Development Goals	(2) CAS Outcomes	(3) Milestones	(4) Bank Group Program
PILLAR I: CONTINUED ECONOMIC GROWTH THROUGH SUPPORT TO PRIVATE SECTOR DEVELOPMENT			
<p>1. Continued economic growth through effective economic management and planning:</p> <ul style="list-style-type: none"> • Economic growth of 6–7% per year • <i>Macroeconomic stability through continued fiscal consolidation and debt reduction, and improvement in external balances.</i> • <i>Efficient public expenditure management.</i> 	<ul style="list-style-type: none"> ✓ Integration of various policy frameworks into a single medium-term development plan aligned with budget and MTEF. ≈ Broad stakeholders, including NGOs and private sector, are consulted for major policy formulation. ✗ Improved quality of fiscal adjustment, as evidenced by increasing share of non-wage recurrent spending. ✓ Public investments are planned and prioritized in a contestable process based on solid analysis. 	<ul style="list-style-type: none"> ≈ Meeting all fiscal criteria of the new IMF program. ✓ Integrated Planning System established and being implemented. ✓ New Organic Budget Law passed. ✓ New procedures for public investment planning being implemented across government. ✓ Debt Management Strategy clearly articulated and implemented. ≈ Clearance of all arrears on inoperative external debt. 	<p>AAA:</p> <p>CFA & updates (FY06–08)</p> <p>PEFA (FY07)</p> <p>PEIR (FY06) & Prog PEIR (FY07–08)</p> <p>Debt Management Assessment (FY07)</p> <p>IPS Trust Fund (FY08)</p> <p>CEM (FY09)</p> <p>Lending:</p> <p>DPLs (FY07–09)</p> <p>BERIS (FY06)</p>
<p>2. Enhance effectiveness of public sector and governance structures to support private sector development:</p> <p>NSSSED:</p> <ul style="list-style-type: none"> • Effective and efficient public administration (WGIs on government effectiveness increase from 41 in 2004 to 58 in 2010). • Strengthened rule of law (WGI rule of law index increases from 25.1 in 2004 to 57 in 2010). <p>NSDI focus:</p>	<ul style="list-style-type: none"> ≈ Computerized treasury system is fully operational and begins to expand to select spending ministries. ≈ Public procurement is conducted in accordance with a law meeting European standards ≈ All new concessions are implemented in line with transparent and effective legal framework. ≈ Configuration of public sector institutions adjusted to reflect mandates and functions. 	<ul style="list-style-type: none"> ≈ A modernized treasury system fully operational across central government with linked HR module. ✓ Share of competitive bidding in public procurement increases. ✓ New concessions law requires transparent competition and includes adequate treatment of unsolicited bids. ✓ Share of competitive bidding increased for PPP concessions, and unsolicited bids are strictly regulated. ≈ Functional review of public institutions 	<p>AAA:</p> <p>REPARIS (FY06)</p> <p>CFA and updates (FY06, FY09)</p> <p>PEIR (FY07) & Prog PEIR (FY08)</p> <p>IPS Trust Fund (FY08)</p> <p>Lending:</p> <p>DPLs (FY07–FY09)</p> <p>Public Administrative Reform (FY00)</p>

(1) Country Development Goals	(2) CAS Outcomes	(3) Milestones	(4) Bank Group Program
<ul style="list-style-type: none"> Public administration to be able to confront challenges of developing and integrating Albania, based on meritocracy and professionalism. Full compliance with Civil Service Law and reduction in the number of appeals. 	<ul style="list-style-type: none"> ✘ Consistent implementation of the civil service law. 	<ul style="list-style-type: none"> was completed and partially implemented. ✘ Improved monitoring of civil service law implementation by Department of Public Administration. 	
<p>3. Conducive business environment to attract higher levels of both domestic and foreign investments.</p> <p>NSSSED:</p> <ul style="list-style-type: none"> Increased efficiency and transparency of the financial sector. Reduced regulatory compliance costs for businesses. Increased transparency and information disclosure of the business sector. Improved quality of the regulatory environment (World Bank Institute index of regulatory quality increase from 48.3 in 2004 to 63.2 in 2010). <p>NSDI adds indicator on:</p> <ul style="list-style-type: none"> Doing Business at same level as other recent EU members at entry. 	<ul style="list-style-type: none"> ✓ Improved regulation and supervision of insurance and microcredit institutions. ✘ Improved investor perceptions and reductions in time and costs for compliance with business licensing and inspections as measured by ARCS, Doing Business, BEEPs, and/or ICA. ≈ Improved accounting and auditing standards and disclosure of corporate information in line with EU requirements. 	<ul style="list-style-type: none"> ✓ Implementation of FSAP short-term recommendations to strengthen banking, insurance, and microcredit supervision, unify non-bank supervisory entities, and establish credit registry. ✓ Implement program to streamline licensing requirements. ≈ Initiate program to streamline inspections. ✘ Establishment of integrated-business information centers in main cities. ≈ Increased number of firms complying with financial reporting obligations and International Financial Reporting Standards. ≈ Implementation of an integrated strategy for the development of the national modernization of measurements, standards, testing and quality system. 	<p>AAA:</p> <p>FIRST TA (FY09?), Regional Balkan Facility for FSAP follow up (FY06–09) IFC Financial Sector TA (FY07–09) Special Projects Initiative – Convergence Program (FY08–10) Access to Credit Review (FY07) IFC Privatization TA and TA for Telecom Regulator (FY06) FIAS/IFC Study on the Development of Industrial Parks (FY06) ICA (FY08) CEM (FY09) ARCS (FY09) Accounting and Auditing ROSC (FY06) and follow-up CFA and updates (FY06 and FY09) Agric Competitiveness (FY07)</p> <p>IFC Standards TA (FY06–FY09)</p> <p>Lending:</p> <p>DPLs (FY07–FY09) BERIS (FY06).</p>

(1) Country Development Goals	(2) CAS Outcomes	(3) Milestones	(4) Bank Group Program
<p>4. Enhance national infrastructure necessary for economic growth and private sector development:</p> <p>NSSSED:</p> <ul style="list-style-type: none"> • Efficient, reliable, and affordable infrastructure and utilities. • More efficient O&M and improved strategic planning of transport infrastructure. • Provision of adequate, reliable, and affordable electricity supply. • Effective participation in the South East Europe regional electricity market. <p>NSDI adds priorities on:</p> <ul style="list-style-type: none"> • Energy efficiency. • Road safety. 	<ul style="list-style-type: none"> ✓ Annual 5% increase in real budgets for road maintenance and introduction of private sector maintenance contracts: ✓ Reduced roughness index of 1,000 km of main and rural roads from 9.79 in 2002 to 7.4 in mid-2007. ≈ 1,000 km of secondary and local roads rehabilitated or reconstructed by 2010. ✓ Reductions in road accident and fatality rates by addressing accident black spots. ✓ Increase domestic power generation capacity by 15 percent. ✗ Achievement of annually agreed Power Sector Action Plan targets for reductions in transmission and distribution losses. 	<ul style="list-style-type: none"> ✓ Adherence to regularly updated Albania National Transport Plan. ≈ Restructuring of General Roads Directorate into an autonomous agency by FY09. ✓ Introduction of multi-agency road safety program and compliance of national roads standards with principles of Safe Roads Design. ✓ Improve at least 20 accident blackspots. ✓ Commission 100 MW thermal power station. ✓ Concession Ashta hydropower plant (50 – 60 MW) through solicited bid process (IFC). ✓ Upgrade electricity distribution systems in 3 regions. ≈ Rehabilitate 8 transmission substations ✓ Privatize KESH distribution arm (IFC). ≈ Advance implementation of Electricity Transitional Market Model and ECSEE commitments. 	<p>AAA:</p> <p>PEIR (FY06) & Prog PEIR (FY07–08)</p> <p>PPIAF Framework for Public-Private Concessions in the Road Sector (FY06)</p> <p>IFC TA on Concession Law (FY07)</p> <p>IFC Advisory Services: (FY08–09) for KESH Distribution, Durrës Container Port, and Ashta Hydropower</p> <p>CFA and updates (FY06 and FY09)</p> <p>Maintenance and Management of Local Roads (FY08).</p> <p>ECSEE Least-Cost Options Study update (FY06)</p> <p>Lending:</p> <p>Road Maintenance (FY02) Transport (FY07)</p> <p>Secondary and Local Roads (FY08)</p> <p>Power Sector Rehab and Restructuring (FY02)</p> <p>Power Sector Generation and Restructuring (FY04)</p> <p>ECSEE APL2 (FY05)</p> <p>ECSEE APL5 (FY08)</p>
<p>5. Establish efficient land markets and spatial planning to support rural and urban development.</p> <p>NSSSED:</p> <ul style="list-style-type: none"> • More efficient land and property markets. • Improve land tenure security by 	<ul style="list-style-type: none"> ≈ Accelerate completion of urban and rural cadastral zones ≈ Reductions in the time for registration of land transfers from 47 days to 10 days. ≈ Development of urban regulatory plans 	<ul style="list-style-type: none"> ≈ Complete first registration of 500,000 urban properties. ≈ Complete modernization of Immovable Properties Registration Office. ✓ Passage of new Law on Territorial 	<p>AAA:</p> <p>Urban Development Review (FY07)</p> <p>IFC Housing Finance TA</p>

(1) Country Development Goals	(2) CAS Outcomes	(3) Milestones	(4) Bank Group Program
<p>registration of all urban and rural properties.</p> <ul style="list-style-type: none"> Improved land-use planning, development, and control for coastal and peri-urban areas. Raising urban productivity by improving the provision of public utilities. Building local government capacity to provide sustainable financing for improving urban infrastructure. <p>NSDI focuses on:</p> <ul style="list-style-type: none"> Implementation of integrated model of spatial planning to guarantee sustainable land development. Initial registration to focus on completing urban and priority development areas. 	<p>for Tirana and 8 key secondary cities.</p> <ul style="list-style-type: none"> ✗ 150 km of coastal zone with orderly land-use plans. ≈ Provision of key secondary cities with improved urban infrastructure. ✓ Provision of coastal communities with improved infrastructure to help support environmentally sustainable tourism. 	<p>Planning.</p> <ul style="list-style-type: none"> ✓ Adoption of the Southern Coastal Development Plan and Regulations. ✗ Adoption of detailed regulatory plans for 3 coastal municipalities/communes and local strategic plans for at least 5 coastal communes. <p>119.</p>	<p>Lending:</p> <p>Agricultural Services (FY01) ICZMP (FY05) Land Admin & Mgmt (FY07)</p>
<p>6. Support sustainable rural development to ensure continued economic growth and poverty reduction:</p> <ul style="list-style-type: none"> Sustained agriculture growth and job creation in rural areas. Improving efficiency and coverage of irrigation. Developing adequate infrastructure for the fishery sector and institutional frameworks for sustainable marine resource management. Raising stakeholder participation in the management of irrigation, water resources, fisheries, and forests. 	<ul style="list-style-type: none"> ≈ Crop yield increases of 45%, 70%, and 40% for maize, alfalfa, and vegetables in rehabilitated irrigation areas. ✓ 100% of rehabilitated irrigation canals managed by user associations. ✓ Increased supply of improved planting materials—25% rise in multiplication of basic seeds by research stations. ✓ Promotion of agricultural innovation — at least 100 farmer groups witness productivity gains by use of new technology, diversification, or access to new markets. ✓ Annual increases of 20% in volume and diversity of goods traded in constructed markets. 	<ul style="list-style-type: none"> ≈ 50,000 ha of land returned to irrigation. ≈ 80% of irrigation areas for which services are paid in full at around <i>US\$12/ha</i>. ✗ 100% of drainage boards with satisfactory audits. ✓ Satisfactory operation of 4 new or upgraded fruit and vegetable markets. ✓ Establishment of sustainable co-management of marine resources by Government and communities. ✓ All 6 key fishing ports rehabilitated and management plan adopted by the communities. 	<p>AAA:</p> <p>PEIR (FY06) & Prog PEIR (FY07-08) CFA and updates (FY06, FY09) Agriculture Competitiveness Review (FY07)</p> <p>Lending:</p> <p>Agriculture Services (FY01) Pilot Fishery Devt (FY02) Community Works II (FY03) Water Res Mgmt (FY04)</p>

(1) Country Development Goals	(2) CAS Outcomes	(3) Milestones	(4) Bank Group Program
	<ul style="list-style-type: none"> ✓ Increase in sustainable marine and inland fish catch. 		
<p>PILLAR 2: IMPROVED SERVICE DELIVERY, PARTICULARLY IN THE SOCIAL SECTORS</p>			
<p>1. Improved quality of, and equity in access to, education services:</p> <p>NSSSED:</p> <ul style="list-style-type: none"> • Raise net primary enrollment rate from 97% in 2004 to 100% in 2015. • Raise net secondary enrollment rate from 55% in 2004 to 90% on 2015. • Improve educational attainment and learning outcomes. <p>NSDI adds focus on:</p> <ul style="list-style-type: none"> • Efficiency of education spending. 	<ul style="list-style-type: none"> ≈ Net secondary enrollment increases from 55% in 2005 to 72% in 2009. ✓ Completion of curriculum reform in basic education by 2008. ✓ Completion of new curriculum reform in secondary education by 2010. ✓ 15% of schools with functioning school boards and school improvement plans by 2009. ✓ Standard deviation of per capita student expenditures reduced from 4,000Lek to 3,000Lek by 2009. 	<ul style="list-style-type: none"> ✘ 20 new basic and secondary schools constructed and operating by FY10. ≈ 70% of teachers participating in continuous professional development by 2010. ✓ Mandatory basic education is extended to 9 years. ✓ Albania to participate in 2009 PISA. ✓ Timetable for decentralization of various sectoral functions agreed upon by key stake-holders (MoEd, MoI, MoF, Association of Mayors). ✓ Full clarification of the financing formula and funding responsibilities of all government levels. 	<p>AAA:</p> <p>Labor Mkt Assessment (FY06)</p> <p>PEIR (FY06) & Prog PEIR</p> <p>Povety Assessment (FY07) & Prog Pov TA</p> <p>Secondary/Tertiary Education Note (FY08)</p> <p>Governance & Accountability in Social Sector Service Delivery (FY09)</p> <p>Lending:</p> <p>Education Equity and Excellence (FY06)</p>
<p>2. Improved quality and accessibility of health services:</p> <ul style="list-style-type: none"> • Improved quality and equity in access to essential health care services. • Strengthen sectoral stewardship and measures to ensure fiscal sustainability. • Reduce infant mortality from 15.1 per 1,000 live births in 2004 to 10 in 	<ul style="list-style-type: none"> ≈ Allocation of public funding based on health needs and primary care providers—target: establishment of performance contracts with 5 hospitals by 2009. ≈ Establishment of formal co-payment system yielding 20% reduction in reported informal payments in target regions by 2009. ≈ Improved quality of health care 	<ul style="list-style-type: none"> ≈ Adoption of modern legislative framework for health financing, provider and physician licensing, and for private health care provision by 2007. ✘ Implementing regulations for new health care and financing law established by 2008. ✓ Institutional framework established for development of CPG and quality 	<p>AAA:</p> <p>PEIR (FY06) & Prog PEIR TA</p> <p>Poverty Assessment (FY07) & Prog Pov TA</p> <p>Governance and Accountability in Social Sector Service Delivery (FY08)</p> <p>Lending:</p>

(1) Country Development Goals	(2) CAS Outcomes	(3) Milestones	(4) Bank Group Program
<p>2015.</p> <ul style="list-style-type: none"> Reduced maternal mortality rate from 12 per 100,000 live births in 2004 to 6 in 2015. 	<p>services through use of evidence-based Clinical Practice Guidelines (CPGs) in 32 key diseases.</p> <ul style="list-style-type: none"> Complete training of 100% Primary Health Care physicians and nurses in 7 regions by 2009. 	<p>improvement training of primary care providers started.</p> <ul style="list-style-type: none"> Licensing system with basic requirements for all health care institutions and professionals established. New organization and governance structures implemented for primary health care in 50% of regions and in 5 hospitals. 	<p>Public Admin Reform (FY00) Health System Modern (FY06) DPOs (FY07–09)</p>
<p>3. Improve provision of social security and assistance services and their sustainability:</p> <p>NSSSED:</p> <ul style="list-style-type: none"> Improved fiscal sustainability of social insurance. Improved effectiveness of the cash social assistance system. Effective decentralization of social service delivery to better meet local demands and needs. <p>NSDI adds focus on:</p> <ul style="list-style-type: none"> Improved targeting of social assistance program. 	<ul style="list-style-type: none"> Improved delivery of social care services through (a) a 50% increase in access of vulnerable groups to effective social care services in at least 8 regions, and (b) 70% of social care services in selected regions to meet their performance targets by 2009. Improvements in targeted cash transfers for social assistance: (a) at least 30% of poor households receive cash social assistance, and (b) 90% of social assistance goes to poor households. Adoption of a pension policy and administrative reform program to achieve fiscal sustainability. 	<ul style="list-style-type: none"> Implementation of the social assistance and social services strategy, including adoption of national service standards for social services. Establishment and operation of 44 daily care centers. Completion of Living Standards Measurements Study and Household Budget Surveys to improve capacity to develop, monitor, and evaluate more effective social policy. Completion of the evaluation of the effectiveness and targeting of the cash social assistance system and initiation of corrective measures. Updated pension model developed and Social Insurance Institute (SII) trained to use it as a tool to inform policy options and monitor impact of policy decisions. 	<p>AAA:</p> <p>PEIR (FY06) Social Assistance Review (FY07) Poverty Assessment (FY07) & Prog Pov TA Governance and Accountability in Social Sec. Serv. Delivery (FY09)</p> <p>Lending:</p> <p>Social Services Dev (FY01) DPLs (FY07–09).</p>
<p>4. Poverty reduction through income increases and improved service delivery in both urban and rural</p>	<ul style="list-style-type: none"> Improved access to and quality of urban water supply for 300,000 people in Durrës, Saranda, Fier, and Lezha. 	<ul style="list-style-type: none"> Improved benchmarking and monitoring of water utilities. Establishment of private sector 	<p>AAA:</p> <p>PPIAF Water Supply and Sanitation</p>

(1) Country Development Goals	(2) CAS Outcomes	(3) Milestones	(4) Bank Group Program
<p>areas: NSSD:</p> <ul style="list-style-type: none"> • Reduce absolute poverty headcount from 25.4% in 2002 to 20% in 2006 and 10% in 2015. • Reduce extreme poverty headcount from 4.5% in 2002 to 3% in 2006 and 0% in 2015. • Increase population with access to safe drinking water from 75.4% in 2003 to 98% in 2015. • Increase population with access to improved sanitation from 68% in 2003 to 95% in 2015. • Improve rural and peri-urban infrastructure. <p>NSDI adjusts targets to:</p> <ul style="list-style-type: none"> • Poverty headcount to fall below 10% by 2013. • Share of population covered by 2013: water supply 95%, sewerage 83%, and wastewater treatment 45%. 	<ul style="list-style-type: none"> ≈ Improved access to urban sanitation in Saranda municipality and wastewater treatment in Durres, Saranda, and Lezhe/Shengjin. ✓ Local community management of 660,000 ha of upland erosion-prone land using sustainable natural resource management plans. ✓ 10% increase in economic benefits from sustainable use of natural resources at the commune or village level. 	<p>management contract for four city water utilities.</p> <ul style="list-style-type: none"> ✓ Improved operating and financial performance of municipal utilities in Durres, Saranda, Fier, and Lezhe. ✗ Reformed system for allocating operating subsidies and investment transfers to all water utilities. ✓ Clarification of responsibilities across agencies and communities for provision/maintenance of rural infrastructure. ✓ Establishment and implementation of 50 new communal forestry management plans. ✓ Usufruct rights defined, documented, mapped, and demarcated in 218 communes. ✓ “Decision tool” developed to facilitate optimal selection of community projects for economic development and poverty alleviation. 	<p>(FY06)</p> <p>PEIR (FY06) & Prog PEIR TA</p> <p>Poverty Assessment (FY07) & Prog Pov TA</p> <p>CFA and updates (FY06–09)</p> <p>Maintenance and Management of Local Roads (FY07).</p> <p>Lending:</p> <p>Municipal Water and Wastewater (FY03)</p> <p>Community Works II (FY03)</p> <p>Integrated Water and Ecosystem Management (FY04)</p> <p>Natural Resources Development (FY05)</p> <p>Integrated Coastal Zone Management and Clean-up Project (FY05)</p> <p>Land Mgmt and Urban Devt (FY07)</p> <p>Secondary and Local Roads (FY09)</p>

FY06-FY09 PLANNED LENDING PROGRAM AND ACTUAL DELIVERIES

CAS PLANS (01/10/06)				PROGRESS REPORT (05/09/08)		
FY	Project	US\$ (M)		Status	US\$ (M)	
		IDA	IBRD		IDA	IBRD
2006	Health System Modernization	15.0		Actual	15.4	
	Education Excellence and Equity	15.0		Actual	15.0	
	Business Environment Enhancement and Institutional Reform	6.0	5.0	Actual a/	3.7	5.6
				<i>Additional Actual Projects:</i> Avian Influenza Control & Human Pandemic Preparedness & Response	5.0	
	Subtotal	36.0	5.0	Subtotal	39.1	5.6
2007	Land Management & Urban Development	20.0	15-20.0	Actual b/	15.0	20.0
	First Development Policy Loan	10.0		Actual	10.0	
				<i>Additional Actual Projects:</i> Transport (advanced from FY08)	5.0	20.0
	Subtotal	30.0	15-20.0	Subtotal	30.0	40.0
	Subtotal FY 2006-2007	66.0	20-25.0	Subtotal FY 2006-2007	69.1	45.6

a/ Name of the project was changed to Business Environment Reform and Institutional Strengthening

b/ Name of the project was changed to Land Administration and Management

	PROGRESS REPORT PLANS (05/09/08)			COMPLETION REPORT (XX/XX/10)		
2008	Secondary and Local Roads	20.0	3.0	Actual	20.0	3.0
	Disaster Management and Adaptation	6.1		Actual b/	6.1	
	ECSEE APL V: Hydropower Dam Safety	34.9		Actual	34.9	
	Subtotal	61.0	3.0	Subtotal	61.0	3.0
2009	Pension Administration Reform – Additional Financing		5.0	Substituted with Social Services Delivery – Additional Financing		5.0
	Second Development Policy Loan		25.0	Dropped		
	ECSEE APL: Distribution		10.0	Dropped		
	Catastrophic Risk Deferred Drawdown Option c/		26.5	Replaced with Electricity Distribution Partial Risk Guarantee		
	Subtotal		40.0	Subtotal		78.0
	Subtotal FY 2008-2009	61.0	43.0	Subtotal FY 2006-2007	61.0	86.0
	Total FY2006-2009	127.0		Total FY2006-2009	130.1	131.6

b/ Name of the project was changed to Disaster Risk Mitigation and Adaptation

c/ The CAT-DDO was not counted against Albania’s CAS allocation until drawdown at the time of CAS Progress Report. However with the conversion to an exposure allocation system it would be counted as 100%

FY06-FY09 SUMMARY OF NON-LENDING SERVICES AND ACTUAL DELIVERIES

CAS Plans (01/10/06)		Progress Report (05/09/08)
FY	Product	Status
2006	Public Expenditure Review Programmatic Poverty Assessment Country Fiduciary Assessment Update Accounting and Auditing ROSC Urban Development Strategy IFC TA Support to Regulators Statistical Master Plan Framework for Public-Private Concessions in Road Sector – PPIAF MIGA European Investor Outreach Program Framework for Public-Private Concessions in Water Supply and Sanitation - PPIAF	Actual a/ Actual Completed in FY2007 Actual Actual b/ Actual Completed by Govt with own resources Actual Actual Completed in FY2007 Additional Actual Products: Labor Market Assessment ECSEE Least-Cost Options Study update
2007	Programmatic PER Programmatic Poverty Assessment Joint Country Portfolio Review Urban Transport Study IFC Technical Support to Regulators Agricultural Export and Competitiveness Study FIAS/IFC Study on Industrial Parks Access to Credit Review MIGA European Investor Outreach Program Social Insurance Finance Review Secondary/Tertiary Education Review	Actual Actual c/ Completed in FY2008 Dropped Actual Completed in FY2008 d/ Completed in FY2009 Actual Actual Actual Actual Completed in FY2008 Additional Actual Products: Public Expenditure and Financial Accountability IFC TA on Concession Law
Progress Report Plans (05/09/08)		Completion Report (07/15/10)
2008	Urban Sector Review Strategic Policies for a More Competitive Agriculture Sector Joint Country Portfolio Review Journey to a Cleaner Future (regional ESW) Management and Financing of Local Roads –	Actual Actual Actual Actual Actual

	Policy Note IFC Subnational Doing Business Secondary and Tertiary Education – Policy Notes Programmatic Poverty Assessment TA Programmatic PEIR TA	Actual Actual Actual Actual <i>Additional Actual Products</i> Fiscal Decentralization IDF Health Sector IDF
2009	Water Sector Diagnosis and Scoping Study Investment Climate Assessment Country Economic Memorandum Accountability for Better Governance in Social Services FIAS/IFC Study on Industrial Parks Programmatic Poverty Assessment TA Programmatic PEIR TA MIGA European Investor Outreach Program Mining Sector Policy TA IFC TA on Housing Finance IFC TA on Corporate Governance IFC TA on International Standards and Technical Regulations IFC TA on Alternative Dispute Resolution IFC TA on Recycling Linkages IFC Advisory Services for KESH Distribution Privatization IFC Advisory Services for Ashta Hydropower Concession IFC Advisory Services for Durres Container Port Concession Doing Business Reform TA Institutional and Governance Review FIAS Administrative and Regulatory Cost Survey Subnational PEFA/PEIR Social Protection Policy TA Cities Alliance Grant for Tirana KESH Financial Management IDF	Actual Actual Actual (completed in FY2010) Underway Actual Actual Actual Actual Actual e/ Actual Underway Underway Actual Actual Actual Actual On hold Actual Underway (to be completed in FY2010) Forwarded to FY2011 (under BERIS project) Dropped Actual Dropped f/ Not approved <i>Additional Actual Products</i> Governance Partnership Facility Window 1 program

- a/ Title is Restructuring Public Expenditure to Sustain Growth
- b/ Title changed to Status of Land Reform and Real Property Markets
- c/ Title is Urban Growth, Migration, and Poverty Reduction: A Poverty Assessment
- d/ Title changed to Strategic Policies for a More Competitive Agriculture Sector
- e/ Title is Mining Sector Reform restructuring and future prospects
- f/ World Bank has withdrawn as supervisor

ANNEX 3: RESULTS OF 2009/10 ALBANIA CLIENT SURVEY

In February 2010, World Bank stakeholders were asked to participate in a Country Survey, to assess their views of the World Bank and its work in Albania. The survey was sent to a range of opinion leaders, including government, civil society, NGOs, media, private sector, and academia. A total of 200 stakeholders responded – a 73 percent response rate.

Overall the Client Survey suggests that stakeholders are quite satisfied with the Bank's work in Albania, and the relationships they have with the Bank (see Survey Question B2 graph below). They expressed positive views of the Bank's relevance, its alignment with country development priorities, and the way it works in the country. Slightly more than half of respondents reported that the Bank should be more involved in Albania's development strategies while 44% said that the Bank was currently involved at an optimum level. Finally stakeholders from all groups were quite positive about the Bank's overall effectiveness in Albania.

A number of important survey findings emerged that the country team has considered in the new CPS. These include:

In terms of the work it is doing, the Bank is perceived by respondents to be focused on the areas that they consider top priority, for the most part. The survey findings indicate that stakeholders are concerned deeply with issues related to law, justice and governance, and a plurality believes that private sector growth is the key to economic growth. The survey findings suggest that the Bank's overall strategic focus in Albania – identified by respondents as primarily poverty, growth, government effectiveness, infrastructure – is fairly well aligned with what stakeholders think the Bank *should* be focused on: economic growth, property rights, education, governance (see Survey Question C2b, below).

Other sectoral priorities identified by respondents include agricultural development, preparation for EU membership, environmental impact of World Bank programs and helping to safeguard against corruption in Bank programs (all of which receive relatively positive ratings in terms of Bank effectiveness). While ratings on the Bank's support for education and private sector are not terribly low, the Bank's work in these areas is not perceived as positively as its work in other sectors. This is of note because of stakeholders' interest in these sectors, in terms of overall development in Albania.

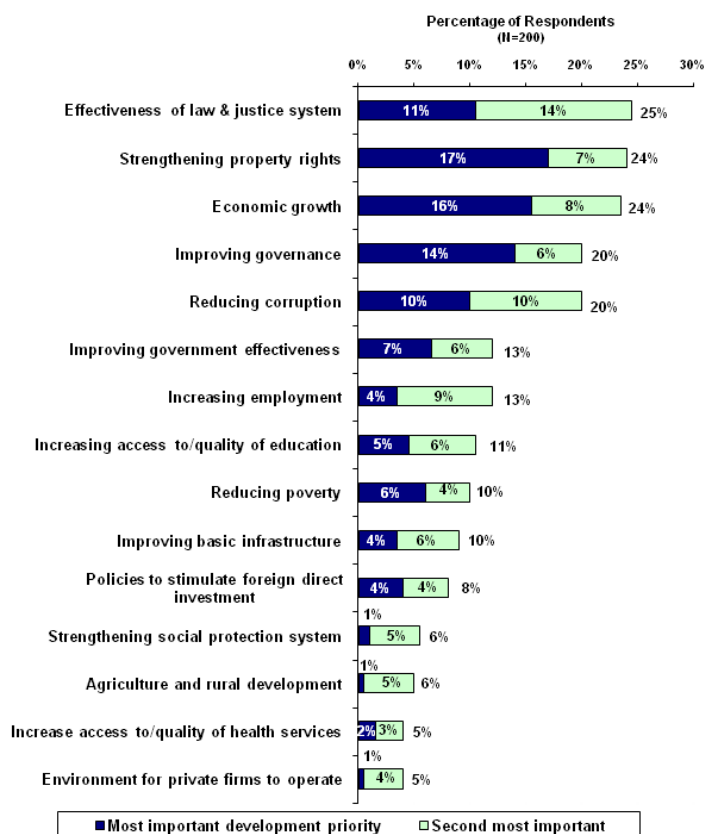
In terms of its outreach and relationships, the survey findings suggest that the Bank should work more with local government and the private sector (see Survey Question C7, below). The latter group is of note when considering the view expressed strongly in the survey that private sector growth is critical to overall economic growth in Albania. This stakeholder group is significantly less familiar with the Bank than nearly all other audiences; this may be an important area for greater collaboration with the IFC.

Stakeholders expressed concern in the survey about public disclosure. When asked what the Bank's greatest weakness was in Albania, a plurality of respondents reported that the Bank does not provide enough public disclosure of its work with the government. This may reflect an overall concern with transparency.

Nearly fifty percent of respondents reported that they had used the Public Information Center in Tirana. This far exceeds use of PICS in most countries surveyed, even with a reported nearly 100% internet access. Nine out of ten respondents said they had used the World Bank website (more use the local website than the corporate website) with a high level of satisfaction reported.

Survey Question B2: Development Priorities

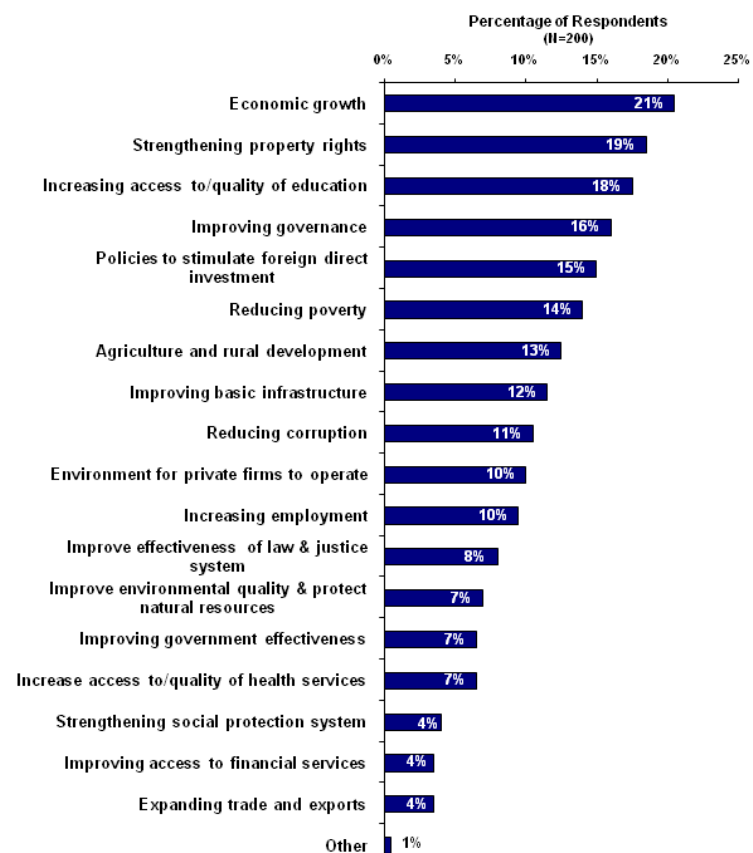
“Please identify which one of these you consider the first (second) most important development priority.” (Respondents chose from a list.)



Survey Question C2b: Focusing Bank Resources

“Based on your observations of the World Bank in Albania, in what areas would it be most productive for the Bank to focus most of its resources?”

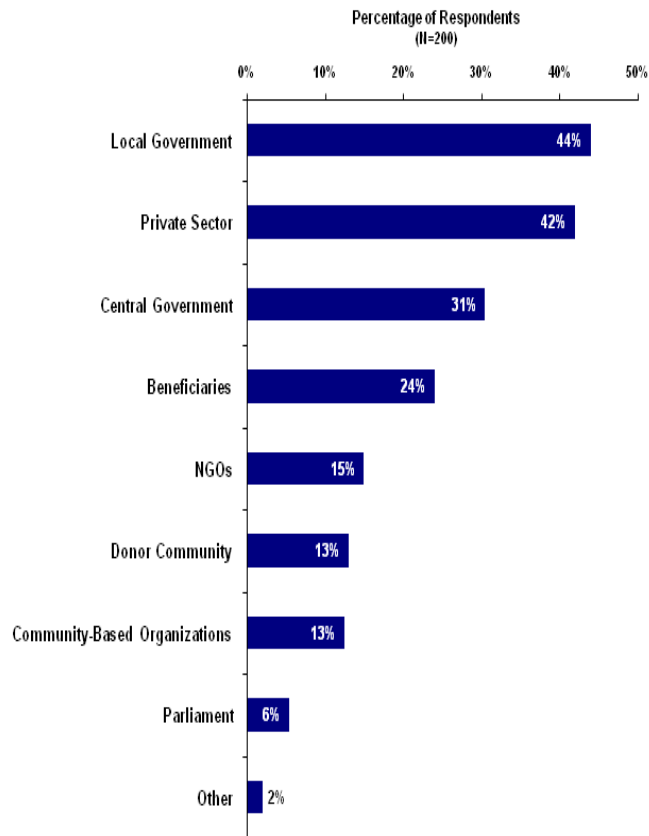
*(Respondents chose TWO from a list. Responses combined.)



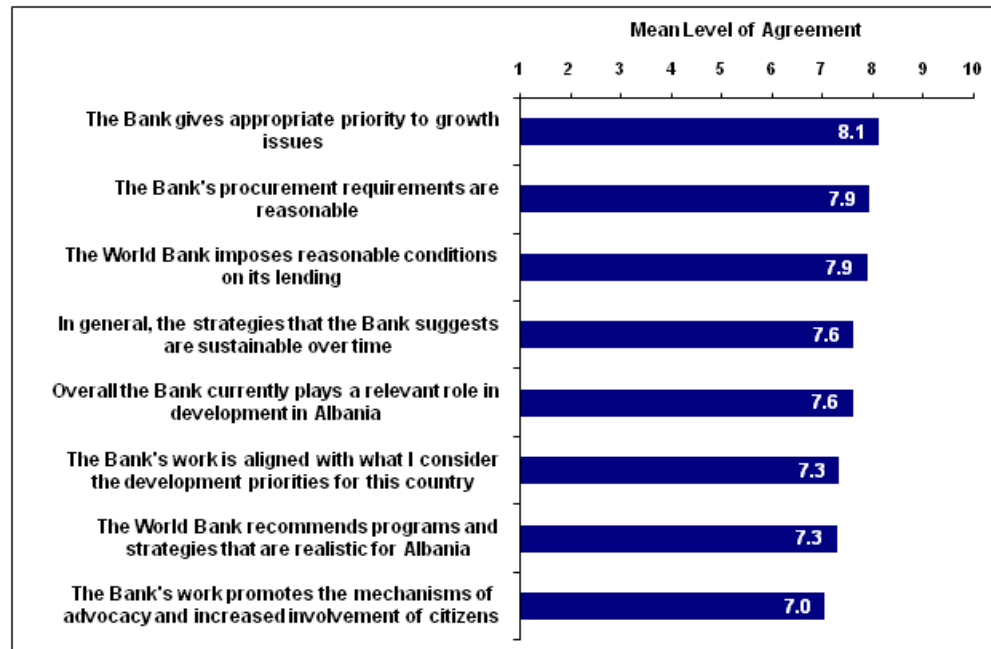
Survey Question C7: Collaborating in Albania

Which TWO of the following groups should the World Bank work with MORE in your country to ensure better development results?

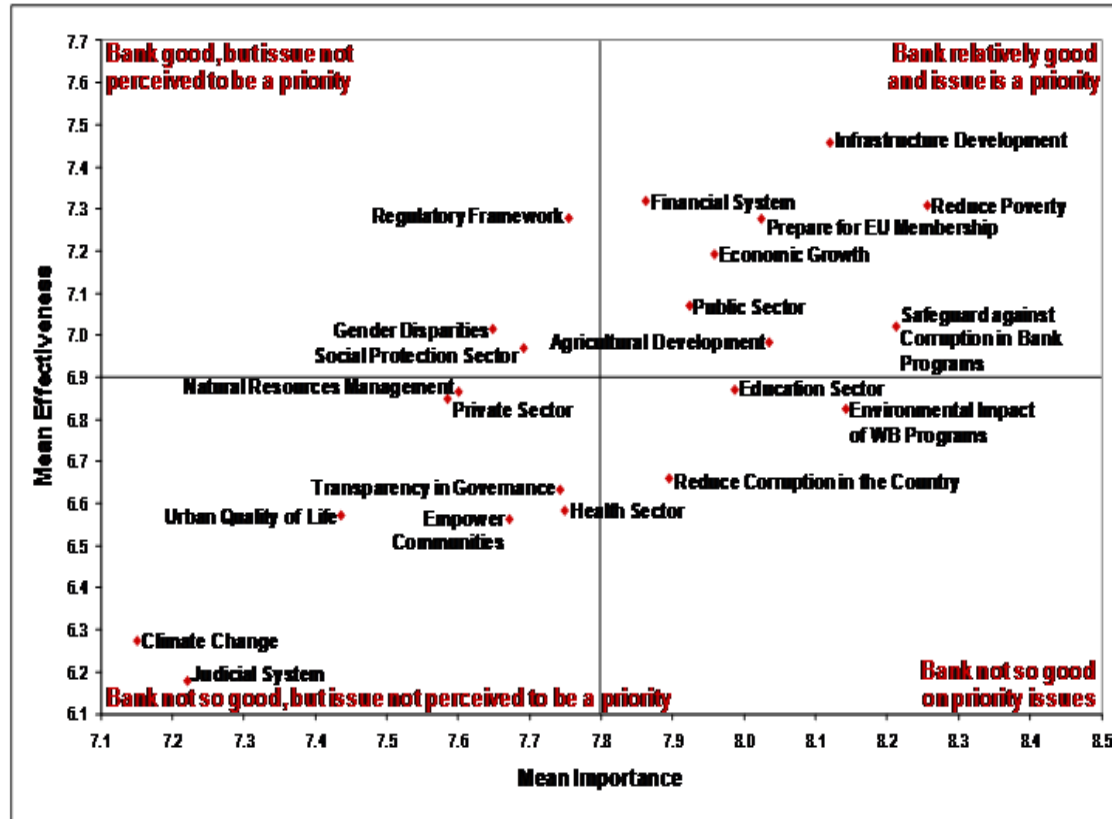
” (Respondents chose from a list. Responses combined.)



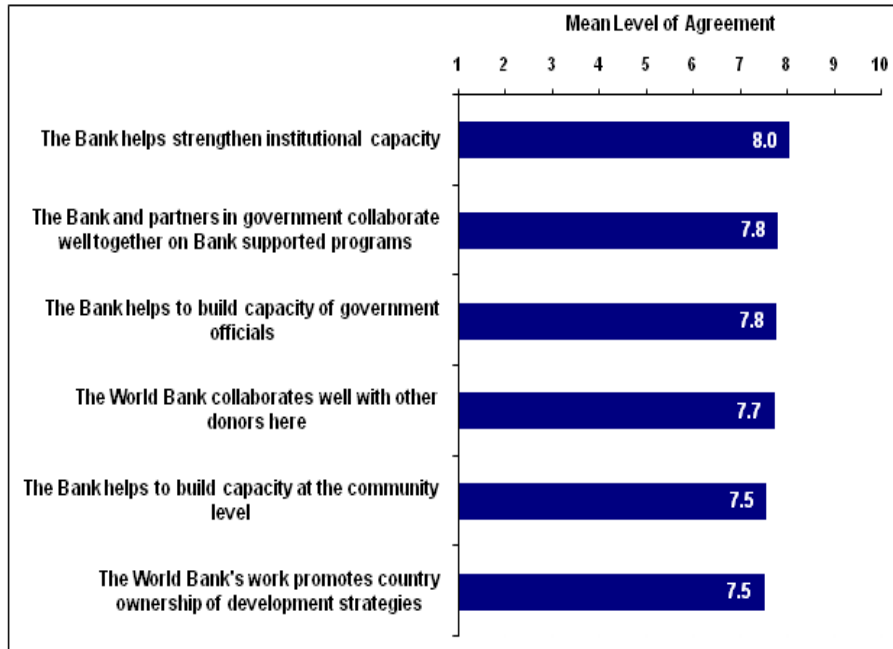
Survey Questions C8-C20: Bank Programs in Albania



Importance versus Effectiveness – Sector Analysis

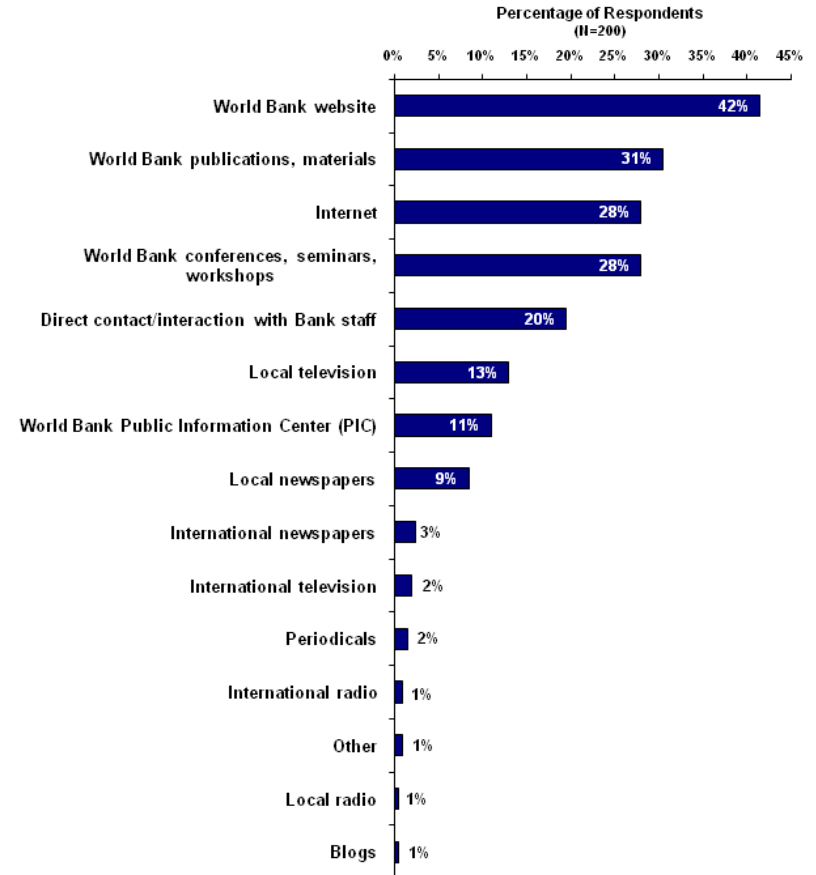


Survey Question F: Collaboration/Partnerships



Survey Question G3: Information Sources

From where do you get most of your information about the World Bank's development activities in Albania?
(Respondents chose from a list. Responses combined.)



ANNEX 4: STAKEHOLDER CONSULTATIONS ON THE COUNTRY PARTNERSHIP STRATEGY

CPS Preparation Steps. As early as June 2009, IFC hosted the Bank and IFC country teams at a 2-day workshop in Istanbul, facilitated by the IDA-IFC Secretariat, to brainstorm about possible cooperation in a variety of infrastructure and social service sectors as well as on work on the business environment. The workshop was followed by a country team meeting in September 2009 in Albania.

The formal process of consultation with the Government was launched in January 2010 with a workshop chaired by the Ministry of Finance and the Department of Strategy and Donor Coordination (DSDC) at which line ministries presented their proposal for future support. This was then followed by discussions with the Prime Minister and the Council of Ministers, led on the Bank's side by the Regional Vice President. These meetings were followed by another round of discussions with the line ministries, prior to the beginning the internal CPS drafting and processing steps.

Following another round of meetings with the line ministries, the Ministry of Finance, DSDC and the Office of the Prime Minister, broader stakeholder consultations were also held with the Parliament through its Committee on Economy and Finance (which includes opposition members), the central bank, representatives of the private sector and civil society, and external development partners. The consultations provided a venue for meaningful discussions with stakeholders on the content of the proposed CPS program, the modalities for development interventions in Albania, and, especially, the role of the Bank in supporting improvements in governance and transparency.

Feedback from Consultations. The main feedback from the Parliamentary Commission on Economy and Finance was related to the design of conditionality for budget support which Commission Members felt should be very focused on a few key issues. In addition, several members suggested that the Bank focus in depth on macroeconomic policy (particularly in the absence of a Fund program and local presence) and regularly publish analytic reviews on macroeconomic performance. The need for a more focused and consolidated World Bank Group program was also a key theme sounded by Commission Members, who expressed concerns about the slow rate of project implementation.

Civil society continued to challenge the Bank to foster more public debate on governance, macroeconomic issues as well as broader development concerns. Representatives also suggested a more cross-sectoral approach in addressing key challenges, e.g. the impact of transport on school enrolment or the role of forestry management on mountain area poverty. Representatives from environmental organizations welcomed the focus on addressing climate challenges, but warned that without greater investment in solid waste management Albania stood to permanently damage its natural heritage. The civil society welcomed the new Access to Information Policy and the Bank's plans to engage non-governmental stakeholders in the monitoring project implementation and results.

The private sector representatives suggested that the Bank and other donors' efforts to address the business environment may be spread too thinly and unanimously argued for renewed attention to functioning of the tax and customs administration. They also reiterated the importance of accurate and timely national economic statistics to help private investors and entrepreneurs plan carefully in a challenging environment, and the critical binding constraint related to security of property rights and the functioning of land administration

Donors welcomed the Bank's continued efforts to partner with other financiers, and invited the Bank to join in the EU-European bilateral donors division of labor initiative. They also argued for an increasing Bank Group role in addressing the informal economy and helping raise private sector capacities.

ANNEX 5: POVERTY, INEQUALITY AND THE MILLENNIUM DEVELOPMENT GOALS

MDG Goals	Targets	Indicators	Indicator level for 2015 in 2004 baseline report	Revised indicator for 2015	Indicator level in 2005	Indicator level for 2008, or most recent year
MDG 1: Eradicate extreme poverty, hunger and other dimensions of poverty	Eradicate extreme poverty and reduce threefold absolute poverty rate between 2002 and 2015	1.1 Proportion of population below the national poverty line (%)	13	8	18.5	12.4
		1.2 Poverty gap ratio (%)	3	1.2	4	2.3
		1.3 Share of poorest quintile in national consumption (%)	6.3	>10	8.2	9.2
	Reduce by half the proportion of people who suffer from hunger	1.4 Prevalence of underweight children under-five years of age (%)	8	3	7.5	5
	Reduce the unemployment rate toward EU rate between 2002 and 2015	1.5 Unemployment rate (%)	7	9	14.1	13
MDG 2: Achieve universal primary education	Ensure that all boys and girls complete a full course of primary schooling	2.1 Net enrolment ratio in primary education (%)	100	96	89	92
		2.2 Proportion of pupils starting grade 1 who reach last grade of primary (%)	100	100	98	93*
		2.3 Literacy rate of 15-24 year-olds, women and men (%)	100	100	99.4**	98.8
MDG 3: Promote gender equality and empower women	Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015	3.1 Ratios of girls to boys in primary education (%)	1	1	0.93	0.92
		3.2 Share of women in wage employment in the non-agricultural sector (%)	50	50	32.4	32
		3.3 Proportion of seats held by women in national parliament (%)	30	30	7.1	7.1
MDG 4: Reduce child mortality	Reduce by two thirds the mortality rate among children under five	4.1 Under-five mortality rate (per 1,000 live births)	10	10	18	12.4
		4.2 Infant mortality rate (per 1,000 live births)	10	10	14.7	11.1
		4.3 Proportion of 1 year-old children immunised against measles (%)	>95	>95	97	97*
MDG 5: Improve maternal health	Reduce by three quarters the maternal mortality ratio	5.1 Maternal mortality ratio (per 100,000)	11	11	23.2	20.9
		5.2 Proportion of births attended by skilled health personnel (%)	>98	>98	99.8	>98
MDG 6: Combat HIV/AIDS, malaria and other diseases	Halt and begin to reverse the spread of HIV/AIDS	6.1 HIV prevalence among population aged 15-49 years (%)	ND	ND	<0.1	<0.1

MDG Goals	Targets	Indicators	Indicator level for 2015 in 2004 baseline report	Revised indicator for 2015	Indicator level in 2005	Indicator level for 2008, or most recent year
	Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it	6.2 Proportion of population with advanced HIV infection with access to antiretroviral drugs (%)	100	100		120 adults, 15 children
	Halt and begin to reverse the incidence of malaria and other major diseases	6.3 Incidence, prevalence and death rates associated with tuberculosis (per 100,000)	2.5	<2.5	3.5	0.5
		6.4 Proportion of tuberculosis cases detected and cured under directly observed treatment short course (%)	100	100		44.2*
MDG 7: Ensure environmental sustainability	Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss	7.1 Proportion of land area covered by forest (ha)	1045	1041.5	1041	1040
		7.2 CO2 emissions, total (1000 ton)	ND	13000	4536	9200
		7.3 Consumption of ozone-depleting substances (ton)	ND	0	14.3	6.6
		7.4 Proportion of fish stocks within safe biological limits (#)	ND	39000		7132
		7.5 Proportion of terrestrial and marine areas protected (%)	11.4	14***	6.8	11.42
	Reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation	7.7 Proportion of population using an improved drinking water source (%)	98	98	81.3	75
		7.8 Proportion of population using an improved sanitation facility (%)	ND	100		98.6
MDG 8: Develop a global partnership for development	In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	8.1 Telephone lines per 100 population	58	20	8.91	10.29
		8.2 Cellular subscribers per 100 population	78	110	48.89	95
		8.3 Internet users per 100 population	35	35	6.01	14.9
	Ensure partnership with donor community in order to increase aid effectiveness	8.4 Aid reported on budget	ND	>85		32*
		8.5 In-year predictability	ND	>74		49*
		8.6 Use of programme-based approaches	ND	>66		5*
		8.7 Proportion of sectoral strategies equipped with targets and outcome indicators quantitatively measured	ND	100		15

Notes: The table reports a selected subset of the indicators reported in the national MDG progress report (i.e. the internationally agreed targets indicators integrated by the national ones where nationally specific indicators have replaced entirely the international ones). Revised targets in column 2 are based on the revision initiated by the Government during 2008-2009 with the aim of identifying and adopting more ambitious MDGs targets. 1 - data for 2007; ND - not defined. * estimate for 2007; ** estimate for 2001; *** goal for 2014.

Data sources: United Nations in Albania. 2005. Millennium Development Goals Report 2005.

Republic of Albania Council of Ministers. 2009. National Strategy for Development and Integration: 2008 Progress Report.

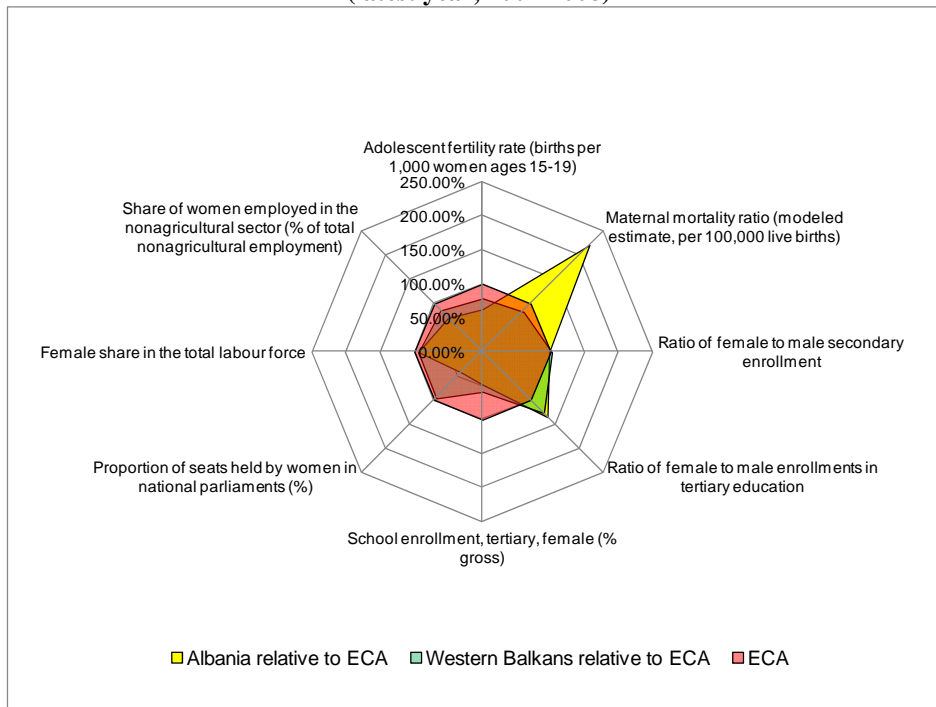
UNSTATS. Millennium Development Goals Indicators (<http://mdgs.un.org/unsd/mdg/Data.aspx>).

ANNEX 6: GENDER ASSESSMENT

Figure 1 below presents selected indicators of gender achievement and gender inequality, benchmarking Albania (in yellow) against the Western Balkans (in green) and the ECA region (in red).¹⁸ As all figures are standardized to the ECA average it is easy to see the areas where Albania and the Western Balkans perform very differently from the rest of the region.

For education, there are limited gender differences in secondary enrolment, and an interesting pattern emerges for tertiary. While tertiary enrolments for women are much lower than the ECA average, the ratio of male to female enrolment is very high. Even if a similar pattern holds in the Western Balkans, in Albania it appears more pronounced. Maternal mortality stands out as a big outlier in Albania as opposed to other countries in the region even though the share of births attended by health personnel (not shown) is at the ECA average. Another interesting dimension in which Albania appears to stand out against the rest of the region is fertility. Adolescent fertility rates are lower than ECA and the rest of the Western Balkans (though overall fertility is much higher than in the region). While the female share in the total labour force is comparable to the regional one, female employment is more concentrated in agriculture than in other countries.

Figure 1 Selected Gender Indicators: Albania vs. Western Balkans vs.ECA Countries (latest year, 2004-2008)



Focusing on national data provides an opportunity to look more closely at the socio-economic characteristics of women and how they differ from those of men. Data on the labour market confirm a very gendered division of labour, with women much less likely than men to be engaged in market activities – women’s activity rate is at 50 percent compared to 71 percent for men. As a result, only 43 percent of the economically active population is female. The limited coverage of preschool services (only

¹⁸ The indicators presented are limited by data availability. For the sake of comparability the indicators refer to the latest year for which the indicators are available for the majority of the countries being compared. The data referred to in this figure, therefore, might not be the most updated for Albania.

40 percent of children attend kindergarten) and of other gender friendly services helps explain the low levels of labour market participation.

Women not only are less likely to be engaged in market activities, they also are less likely to be in the sectors which before the crisis experienced marked employment growth, such as construction. Trend data show that during the decade to 2006 female stagnated, while male employment increased. Firm level surveys confirm this picture, with only 37 percent of women as full time workers, and with only 9 percent of full time non-production workers being women. While this is in line with the regional performance, only 11 percent of firms in 2007 had women participating in their ownership, against an ECA average more than 3 times as high.

While younger women are gradually closing the gap vis-à-vis men in terms of human capital, access to other type of capital remain tilted toward better access by men. For example, the law guarantees equality of property rights, but men typically remain the official owners, while many women have difficulty exercising their rights to access to property other than land. Similarly, limited *de facto* access to loans is seen as one of key constraints limiting female entrepreneurship.

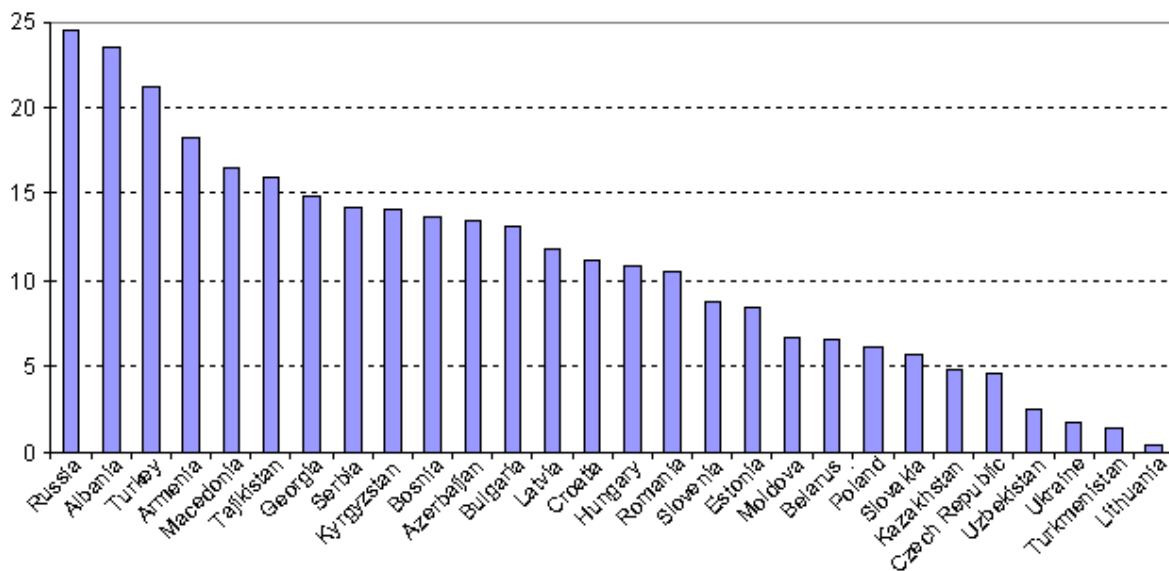
The persistence of some of the starkest aspects of gender inequality emerges from recent data on domestic violence. According to a recent survey run by the Statistical Office (UNICEF-INSTAT 2009) 31 percent of women experienced physical violence, and 13 percent sexual violence in their marriage or relationship, with psychological and emotional abuse even more widespread. Less than 30 percent of the victims sought help, and more than 90 percent of those who did relied on their family rather than formal institutions, which appear to be inadequate. Another form of violence, trafficking which in Albania is linked to the exploitation of prostitution, has been criminalized in 2001, though many of the problems in the institutional response (such as the criminalization of the victims) remain pervasive.

Finally, while traditional gender roles remain strong, steps are being taken to address asymmetries in the system. With regards to participation in decision making, for example, the 2009 Electoral Code introduced a 30 percent gender quota. The representation of women in parliament in 2009 doubled from previous elections reaching 23 female deputies (16 percent of the total, compared to 7 percent in the previous parliament and 15 percent of the ECA average). However, that the Central Election Commission did not apply the sanctions provided for in the Electoral Code to the lists that did not meet the quota.

ANNEX 7: CLIMATE CHANGE IN ALBANIA

The dominant challenge for Albania related to climate change today is “Adaptation” to already on-going climate change and the impacts this is likely to pose on the Albanian economy and livelihoods. According to the 2009 Europe and Central Asia World Bank flagship report “*Managing Uncertainty: Adapting to Climate Change in Europe and Central Asia*” – Albania is ranked second among ECA countries in terms of the impact index which captures the relative strength of future climate change relative to today’s natural variability.^{19,20}

ECA COUNTRIES LIKELY TO EXPERIENCE THE GREATEST INCREASES IN CLIMATE EXTREMES BY THE END OF THE 21st Century: Albania ranked second after Russia



The main drivers of the vulnerability or impact index are:

- Over 90% of Albania’s electricity is generated from hydroelectric plants with implications for energy security;
- The incidence and impact of natural disasters over the last few decades (in terms of the percentage population affected);

¹⁹ Notes: The index combines the number of additional hot, dry and wet years; hot, dry and wet summers; and hot, dry and wet winters projected over the 2070–2100 period relative to the 1961–1990 period. As such, countries already experiencing substantial variability and extremes are less likely to rank highly on this index (e.g., India and the Czech Republic have about the same score).

²⁰ Our vulnerability index combines three sub-indices capturing a country’s exposure, sensitivity, and adaptive capacity. The first, exposure, is based on an index measuring the strength of future climate change relative to today’s natural variability (Baettig et al. 2007). The index is available on a country basis and includes both annual and seasonal temperature and precipitation indicators. It combines the number of additional hot, dry and wet years; hot, dry and wet summers; and hot, dry and wet winters projected over the 2070–2100 period relative to the 1961–1990 period. This suggests that the countries most exposed to future climatic change are Russia, Albania, Turkey, Armenia and, to a lesser extent, Macedonia and Tajikistan.

- Over 10% of the population lives in low level and exposed coastal zone areas; which are prone to the effects of sea level rise, storm surges, saltwater infiltration into aquifers, floods, or droughts (in the North);
- A decline in mean precipitation of 8%; a decline in annual water availability for crops (runoff) by 28%; thus irrigated small-holder farms may be hard hit by droughts and heat waves (50% of all crops are irrigated);
- Although climate change mitigation measures are also important for Albania, the carbon intensity of the existing economy is not as high as other ECA countries as measured by indicators in the following tables and graphs:

Climate-related indicators: Albania

Indicator		Albania
Yearly Emissions 2006: CO2 (excludes land use change)	Rank	120
	MtCe	1.2
	% of World Total	0.02%
	Per Capita Rank	117
	Tonnes Ce Per Person	0.4
Cumulative Emissions 1950-2006: CO2 (energy)	Rank	106
	MtCe	59.1
	% of World Total	0.02%
	Per Capita Rank	92
	Tonnes Ce Per Person	18.7
Concentrations 1950-2006: CO2 (energy)	Rank	106
	Index	0.1
	% of World Total	0.02%
	Per Capita Rank	95
	Per Capita Index	4.9
Carbon Intensity of Electricity Production	Rank	123
	g Ce/kWh.	3.8
GHG Intensity of Economy 2006: CO2 (includes land use change & intl. bunkers)	Rank	131
	Tonnes Ce Eq./Mill. \$Intl 2005	64.8
Energy Use	Rank	127
	Thousand Tonnes Oil Eq.	2
	% of World Total	0.02%
	Per Capita Rank	95
	Tonnes Oil Eq. Per Person	0.7
Climate: Heating Needs	Per Capita Rank	54
	Degree Days	1,724
	Total Rank	77
	Total Heating Need	5,381
Climate: Cooling Needs	Per Capita Rank	126
	Degree Days	683
	Total Rank	126
	Total Cooling Need	2,131
Land Area Impacted By Human Activity	Rank	107
	Sq. Km.	22,246
	Per Capita Rank	53

Source: Climate Analysis Indicators Tool (CAIT) Version 7.0. (Washington, DC: World Resources Institute, 2010).

GHG Emissions by Sector in 2006
CO₂ (excludes land use change)

Europe

Sector	MtCe	%
Energy	1,675.3	97.3
Electricity & Heat	782.1	45.4
Manufacturing & Construction	276.9	16.1
Transportation	344.9	20.0
Other Fuel Combustion	269.5	15.6
Fugitive Emissions	1.8	0.1
Industrial Processes	47.3	2.7
Total	1,722.6	



European Union (27)

Sector	MtCe	%
Energy	1,088.6	96.8
Electricity & Heat	448.2	39.9
Manufacturing & Construction	179.0	15.9
Transportation	259.8	23.1
Other Fuel Combustion	200.1	17.8
Fugitive Emissions	1.5	0.1
Industrial Processes	35.6	3.2
Total	1,124.2	



Albania

Sector	MtCe	%
Energy	1.2	93.4
Electricity & Heat	0.1	7.0
Manufacturing & Construction	0.2	19.2
Transportation	0.5	44.3
Other Fuel Combustion	0.3	22.9
Fugitive Emissions	--	--
Industrial Processes	0.1	6.6
Total	1.2	



Source: Climate Analysis Indicators Tool (CAIT) Version 7.0. (Washington, DC: World Resources Institute, 2010).

ANNEX 8: MATRIX FOR DONOR HARMONIZATION IN ALBANIA BY SECTOR

Partner	Approx. Annual Disbursements (US\$M)	Sector/Thematic Areas													
		Private Sector	Financial Sector	Infrastructure/Transport	Trade	Agriculture & Rural Dev.	Health	Education	Environment	Water & Sanitation	Social Protection	Public Sector	Judicial & Legal Reform	Capacity/Inst. Building (incl. M&E)	Security & Stability
European Commission	70.0	X		X	X	X		X	X	X	X	X	X	X	X
World Bank	60.0	X	X	X	X	X	X	X	X	X	X	X		X	
United States	45.0	X	X	X		X	X	X			X	X	X	X	X
CEB	40.0			X			X	X							
Germany	21.0	X	X	X	X	X	X	X		X	X	X	X	X	
EBRD	20.0	X	X	X											
EIB	20.0			X				X		X					
Spain	20.0	X				X	X	X			X	X	X	X	
United Nations	17.0	X			X	X	X	X	X		X	X	X	X	X
Italy	16.0	X		X	X	X	X				X	X		X	
OPEC	10.0			X		X	X								
Sweden	10.0		X			X			X		X	X		X	X
Switzerland	10.0			X	X	X	X	X							
IsDB	7.0			X			X			X					
Netherlands	7.0					X		X			X	X		X	
Norway	5.0										X	X	X		
Greece	4.0			X		X	X	X		X	X	X			
Austria	3.0			X	X			X	X	X	X	X		X	
Japan	1.5	X		X		X	X	X		X					
France	1.0	X				X			X	X			X		
Canada	0.5							X			X	X			

ANNEX 9: COUNTRY FINANCING PARAMETERS

The country financing parameters for Albania set out below were approved by the Regional Vice President, Europe and Central Asia in March 2005.

Item	Parameter	Remarks
Cost Sharing: Limit on the proportion of individual project costs that the Bank may finance.	Up to 100 percent	Individual projects may be financed up to 100 percent. The level of Bank financing will be considered on a case by case basis. In the aggregate, it is expected that current financing patterns would broadly continue – with significant financing by the Government and other donors, and Bank financing continuing at the current level of about 55 percent of project costs.
Recurrent Cost Financing: Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country-level limit on recurrent cost financing.	In determining Bank financing of recurrent costs in individual projects, the Bank would take into account sustainability issues at the sector and project levels. Accordingly, where individual projects include significant recurrent costs, a detailed assessment will be conducted addressing the sustainability of project achievements, the implied future budgetary outlays, and the sustainability of proposed Bank-financed recurrent costs.
Local Cost Financing: Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the countries development program would exceed the public sector's own resources and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects.	Yes	The two criteria are met. The Bank may finance local costs as needed in individual projects.
Taxes and duties: Are there any taxes and duties that the Bank would not finance?	Yes	The Bank may finance all taxes and duties in Albania. At the project-level the Bank would consider whether taxes and duties constitute an excessively high share of project costs. Should taxes or duties that the Bank considers unreasonable be introduced, the CFP will be updated.

The Country Financing Parameters provide for allowing Bank **financing of up to 100 percent of project costs**, with the level of Bank financing considered as needed in individual projects. The flexibility to finance up to 100 percent of project activities is appropriate as the Government of Albania has shown commitment and ownership of its development program. The Government has established an IPS, linked to a medium-term budget framework. The Bank's lending program represents only a modest share of the country's public investment financing. The actual proportion of Bank financing for individual projects would be calibrated as needed, however, to ensure adherence to the overall CPS lending envelope and ensure the sustainability of project-funded activities (especially with respect to recurrent costs). Given the strong likelihood that Albania may be entering a period of significant fiscal pressures during the present CPS, consideration would be given to raising financing percentages to 100 percent for some ongoing and new investment operations in order to prevent a delay in implementation (and hence impact) of the projects.

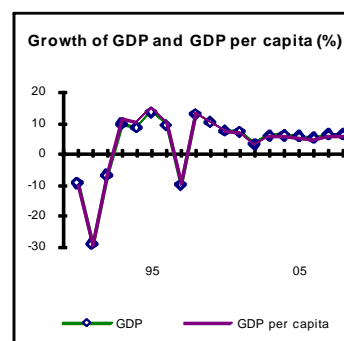
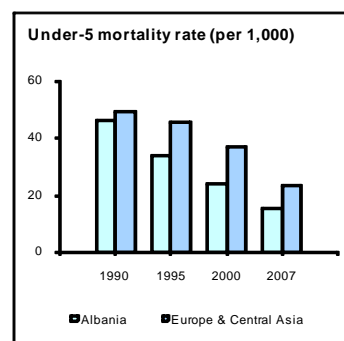
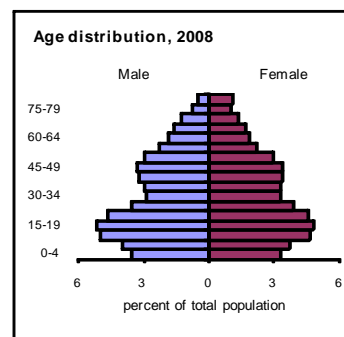
Moreover, as Albania has graduated from IDA (mid-2008), there has been a decline in the availability of grant or concessional external development funds from a number of donors and multi- and bi-lateral agencies besides the Bank. This trend is expected to continue in the coming years implying that the Bank may need to continue to provide substantial **financing for local as well as foreign costs** as it has already done in the past. Thus far, the Bank has been financing a significant share of local costs of investment lending to support Government development program, from 90 percent in social sector to 10 percent for infrastructure sector. This trend is expected to continue during FY11-14 CPS period, considered on case by case basis.

On **financing of taxes and duties**, the tax regime in Albania is considered moderate and well within the levels seen in neighboring countries. VAT contributes to over half of the tax revenue, and is levied at 20 percent for companies with more than Lek 8.0 million in annual income, 10 percent for non-profit organizations and 3-5 percent for small businesses. The income tax rate for individuals and firms is a flat 10 percent. To a lesser extent, domestic revenue is collected through import duties and excise taxes. As taxes and duties do not constitute a high share of project costs, the Bank may finance all taxes and duties associated with its projects.

CAS STANDARD ANNEXES

ANNEX A2: ALBANIA AT A GLANCE

Key Development Indicators	Europe & Central Asia			
	Albania	Asia	Lower middle income	
(2008)				
Population, mid-year (millions)	3.1	441	3,702	
Surface area (thousand sq. km)	29	23,916	32,309	
Population growth (%)	0.3	0.3	1.2	
Urban population (% of total population)	47	64	41	
GNI (Atlas method, US\$ billions)	12.1	3,274	7,692	
GNI per capita (Atlas method, US\$)	3,840	7,418	2,078	
GNI per capita (PPP, international \$)	7,950	12,220	4,592	
GDP growth (%)	6.0	5.5	7.6	
GDP per capita growth (%)	5.6	5.2	6.3	
(most recent estimate, 2003–2008)				
Poverty headcount ratio at \$125 a day (PPP, %)	<2	4	..	
Poverty headcount ratio at \$2.00 a day (PPP, %)	8	9	..	
Life expectancy at birth (years)	77	70	68	
Infant mortality (per 1000 live births)	13	21	46	
Child malnutrition (% of children under 5)	..	..	26	
Adult literacy, male (% of ages 15 and older)	99	99	88	
Adult literacy, female (% of ages 15 and older)	99	96	77	
Gross primary enrollment, male (% of age group)	106	99	112	
Gross primary enrollment, female (% of age group)	105	96	106	
Access to an improved water source (% of population)	97	95	86	
Access to improved sanitation facilities (% of population)	97	89	52	
Net Aid Flows				
	1980	1990	2000	2008^a
<i>(US\$ millions)</i>				
Net ODA and official aid	..	11	317	305
<i>Top 3 donors (in 2007):</i>				
European Commission	..	0	87	50
Germany	..	2	19	46
United States	..	0	45	32
Aid (% of GNI)	..	0.5	8.4	2.7
Aid per capita (US\$)	..	3	103	97
Long-Term Economic Trends				
Consumer prices (annual % change)	..	49.4	0.1	3.0
GDP implicit deflator (annual % change)	-2.2	-0.5	4.3	2.5
Exchange rate (annual average, local per US\$)	..	8.0	144.0	86.5
Terms of trade index (2000 = 100)	..	..	100	158
Population, mid-year (millions)	2.7	3.3	3.1	3.1
GDP (US\$ millions)	..	2,102	3,687	12,295
<i>(% of GDP)</i>				
Agriculture	33.6	35.9	29.1	20.8
Industry	45.0	48.2	19.0	19.6
Manufacturing	..	..	11.4	19.6
Services	21.4	15.9	51.9	59.6
Household final consumption expenditure	56.1	60.5	84.8	91.2
General gov't final consumption expenditure	9.0	18.5	8.9	9.5
Gross capital formation	34.5	29.3	24.7	27.6
Exports of goods and services	23.1	14.9	19.1	31.2
Imports of goods and services	22.7	23.2	37.5	59.4
Gross savings	..	..	21.1	14.1



1980–90 1990–2000 2000–08
(average annual growth %)

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. .. indicates data are not available.
a. Aid data are for 2007.

Balance of Payments and Trade **2000** **2008**

(US\$ millions)

Total merchandise exports (fob)	255	1,971
Total merchandise imports (cif)	1,076	4,944
Net trade in goods and services	-816	-3,470

Current account balance as a % of GDP	-274	-1,697
	-7.4	-13.8

Workers' remittances and compensation of employees (receipts)	598	1,495
Reserves, including gold	608	1,420

Central Government Finance

(% of GDP)

Current revenue (including grants)	23.8	25.8
Tax revenue	19.6	24.5
Current expenditure	25.3	24.1

Overall surplus/deficit	-8.2	-4.2
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Highest marginal tax rate (%)

Individual	..	20
Corporate	..	10

External Debt and Resource Flows

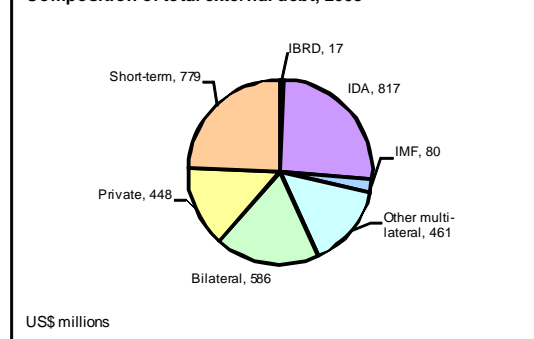
(US\$ millions)

Total debt outstanding and disbursed	1,061	3,188
Total debt service	27	168
Debt relief (HIPC, MDR)	-	-

Total debt (% of GDP)	28.8	25.9
Total debt service (% of exports)	2.2	3.2

Foreign direct investment (net inflows)	143	937
Portfolio equity (net inflows)	0	0

Composition of total external debt, 2008



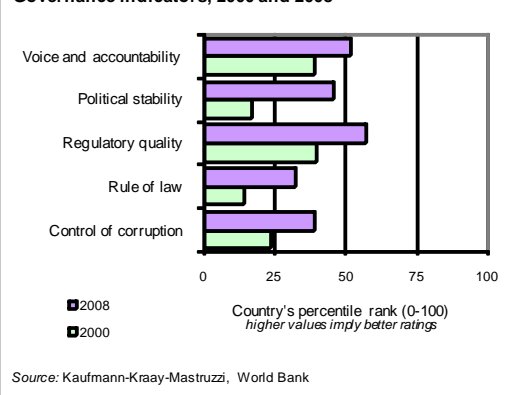
Private Sector Development **2000** **2008**

Time required to start a business (days)	-	8
Cost to start a business (% of GNI per capita)	-	25.8
Time required to register property (days)	-	42

Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2008
Anticompetitive or informal practices	..	46.8
Tax rates	..	40.9

Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	5.8

Governance indicators, 2000 and 2008



Technology and Infrastructure **2000** **2008**

Paved roads (% of total)	39.0	..
Fixed line and mobile phone subscribers (per 100 people)	6	110
High technology exports (% of manufactured exports)	11	2.5

Environment

Agricultural land (% of land area)	42	41
Forest area (% of land area)	28.1	29.0
Nationally protected areas (% of land area)	..	0.7

Freshwater resources per capita (cu. meters)	8,744	8,588
Freshwater withdrawal (billion cubic meters)	17	..

CO2 emissions per capita (mt)	0.70	11
-------------------------------	------	----

GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	8.1	8.9
---	-----	-----

Energy use per capita (kg of oil equivalent)	590	727
--	-----	-----

World Bank Group portfolio **2000** **2008**

(US\$ millions)

IBRD		
Total debt outstanding and disbursed	0	17
Disbursements	0	12
Principal repayments	0	0
Interest payments	0	1

IDA		
Total debt outstanding and disbursed	346	817
Disbursements	64	27
Total debt service	2	13

IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	10	43
Disbursements for IFC own account	10	43
Disbursements for IFC own account	3	6
Portfolio sales, prepayments and repayments for IFC own account	0	2

MIGA		
Gross exposure	2	2
New guarantees	2	0

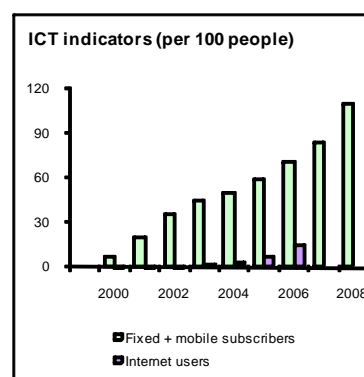
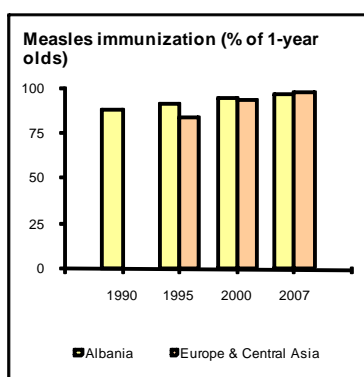
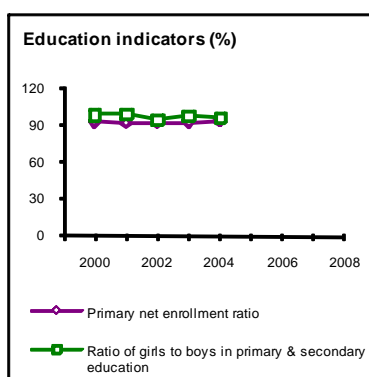
Note: Figures in italics are for years other than those specified. 2008 data are preliminary.
.. indicates data are not available. - indicates observation is not applicable.

2/25/10

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Albania			
	1990	1995	2000	2008
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	<2	<2	<2
Poverty headcount ratio at national poverty line (% of population)	..	..	25.4	..
Share of income or consumption to the poorest quintile (%)	..	8.7	9.0	7.8
Prevalence of malnutrition (% of children under 5)	..	..	17.0	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	93	94
Primary completion rate (% of relevant age group)	..	..	95	96
Secondary school enrollment (gross, %)	89	70	70	77
Youth literacy rate (% of people ages 15-24)	..	..	99	99
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	96	..	99	97
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	29	33
Proportion of seats held by women in national parliament (%)	29	2	5	7
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	46	34	24	15
Infant mortality rate (per 1,000 live births)	37	28	21	13
Measles immunization (proportion of one-year olds immunized, %)	88	91	95	97
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	92
Births attended by skilled health staff (% of total)	..	..	99	100
Contraceptive prevalence (% of women ages 15-49)	..	..	58	60
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	25	27	25	17
Tuberculosis cases detected under DOTS (%)	..	..	25	54
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	96	97	97
Access to improved sanitation facilities (% of population)	..	86	89	97
Forest area (% of total land area)	28.8	28.4	28.1	29.0
Nationally protected areas (% of total land area)	..	..	..	0.7
CO2 emissions (metric tons per capita)	2.2	0.6	0.7	1.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	4.8	8.5	8.1	8.9
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	12	13	5.0	10.1
Mobile phone subscribers (per 100 people)	0.0	0.0	1.0	99.9
Internet users (per 100 people)	0.0	0.0	0.1	15.1
Personal computers (per 100 people)	..	0.2	0.8	3.8



ANNEX B2: SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT
(as of June 1, 2010)

Indicator	2007	2008	2009	2010
Portfolio Assessment				
Number of Projects Under Implementation ^a	18	18	17	15
Average Implementation Period (years) ^b	2.7	3.0	3.9	4.5
Percent of Problem Projects by Number ^{a, c}	5.6	16.7	17.6	42.9
Percent of Problem Projects by Amount ^{a, c}	4.4	19.3	20.5	41.6
Percent of Projects at Risk by Number ^{a, d}	11.1	16.7	17.6	42.9
Percent of Projects at Risk by Amount ^{a, d}	6.3	19.3	20.5	41.6
Disbursement Ratio (%) ^e	25.1	17.5	20.7	15.3
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last 5 FYs
Proj Eval by OED by Number	48	6
Proj Eval by OED by Amt (US\$ millions)	666.0	101.6
% of OED Projects Rated U or HU by Number	14.6	33.3
% of OED Projects Rated U or HU by Amt	10.3	16.9

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX B3: IFC AND MIGA PROGRAM

	2007	2008	2009	2010*
<u>Commitments (US\$m)</u>				
Gross	43.09	12.12	81.70	1.96
Net**	43.09	12.12	81.70	1.96
<u>Net Commitments by Sector (%)</u>				
EQUITY			36.89	
GUARANTEE				100
LOAN	100	100	36.72	
QUASI LOAN			26.39	
Total	100	100	100	100
<u>Net Commitments by Investment Instrument (%)</u>				
Equity			36.89	
Guarantee				100
Loan	100	100	36.72	
Quasi loan			26.39	
Total	100	100	100	100

*As of March 31, 2010

**IFC's Own Account Only

ANNEX B3: INDICATIVE IBRD LENDING PROGRAM BY FISCAL YEAR
As of July 15, 2010

<i>Fiscal Year</i>	<i>Project ID</i>	<i>US\$ (M)</i>	<i>Strategic Rewards (High/Medum/Low)</i>	<i>Implementation Risks(H/M/L)</i>
2011	Social Services DPL	25	H	H
	Municipal Water Supply	40	M	L
	FY11 Total	65		
2012	Growth DPL	25	H	H
	Water Resources & Irrigation	40	M	L
	Social Assistance Investment	25	H	H
	FY12 Total	90		
2013	Growth DPL	25	H	H
	Road Maintenance & Safety	30	M	L
	Environmental Services	10	M	M
	FY13 Total	65		
2014	Growth DPL	25	H	H
	Health	10	M	L
	Education	10	M	L
	Public Sector Reform	10	M	H
	FY14 Total	55		
TOTAL		275		

ANNEX B4: SUMMARY OF NON-LENDING SERVICES

Product	Completion FY	Cost (US\$000)	Audience ^a	Objective ^b
Recent completions				
Water Sector Diagnosis and Scoping Study	09	40	Bank	ps
Investment Climate Assessment	09	200	Public	kg
Country Economic Memorandum	10	126	Public	kg
Accountability for Better Governance in Social Services	10	150	Public	kg
Country Governance Review	10	180	Public	kg
FIRST Insurance Supervision TA	09	62	Government	ps
Social Protection Policy TA	09	22	Government	ps
Regional Public Investment Management Review	10		Public	kg
Regional Social Protection Review	10		Public	kg
Regional Railways Study	10		Public	kg
Underway				
Governance Partnership Facility Window 1 Program	12	1,500	Bank	ps
REPARIS Corporate Finance Reporting Enhancement	12	1,800	Government	ps
FIRST Financial Crisis Contingency Plan & Simulation	11	242	Government	ps
Aarhus Convention Compliance IDF	13	370	Public	ps
Extractive Industry Transparency Initiative (MTDF)	13	400	Public	ps
Economic Governance of Utilities (UNDP Fee-based Service)	12	740	Government	ps
Climate Change Pilot on Adaptation in Agriculture TA	11	60	Public	kg
Planned				
Balkan Regional Financial Facility TA	Ongoing	70	Government	kg
Programmatic Poverty Assessment TA	Ongoing	70	Bank	kg
Quarterly Economic Reviews	Annual		Public	pd
PEFA	12		Public	kg
ROSC on Fiscal Transparency	12		Public	kg
ROSC on Data Quality Assessment Framework	13		Public	kg
IFC Trade and Logistics Program	12	400	Government	ps
IFC Tax Simplification			Government	ps
IFC Sub-national Competitiveness program	12	400	Government	ps
IFC Road Maintenance and Management Contract for Milot-Morine PPP	12		Government	ps
Climate Change Pilot for Regional Water Resources	11		Public	kg
IFC Water Supply System Advisory Services	--		Government	ps

a. Government, donor, Bank, public dissemination.

b. Knowledge generation (kg), public debate (pd), problem-solving. (ps)

ANNEX B5: POVERTY AND SOCIAL SECTOR INDICATORS

	Latest single year			Same region/income group	
	1975-80	1985-90	1998-04	Europe & Central Asia	Lower middle income
POPULATION					
Total population, mid-year (<i>millions</i>)	2.7	3.3	3.1	472.1	2,430.3
Growth rate (<i>% annual average for period</i>)	2.1	2.1	0.1	-0.1	1.0
Urban population (<i>% of population</i>)	33.8	36.4	44.2	63.6	48.6
Total fertility rate (<i>births per woman</i>)	3.7	2.9	2.0	1.6	2.1
POVERTY (% of population)					
National headcount index	..	..	25.4	..	..
Urban headcount index	..	..	19.8	..	..
Rural headcount index	..	..	29.6	..	..
INCOME					
GNI per capita (<i>US\$</i>)	..	..	2,110	3,290	1,580
Consumer price index (<i>1995=100</i>)	..	..	..	..	..
Food price index (<i>1995=100</i>)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	28.2	..	..
Lowest quintile (<i>% of income or consumption</i>)	..	..	9.0	..	..
Highest quintile (<i>% of income or consumption</i>)	..	..	37.1	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (<i>% of GDP</i>)	..	..	2.8	4.2	2.5
Education (<i>% of GNI</i>)	..	..	..	4.4	3.5
Social security and welfare (<i>% of GDP</i>)	..	..	6.0	..	..
Net primary school enrollment rate (% of age group)					
Total	..	..	94	89	..
Male	..	..	94	89	..
Female	..	..	93	88	..
Access to an improved water source (% of population)					
Total	..	..	97	91	81
Urban	..	100	100	98	93
Rural	..	..	94	80	70
Immunization rate (% of children ages 12-23 months)					
Measles	90	88	96	92	86
DPT	94	94	97	90	88
Child malnutrition (<i>% under 5 years</i>)	..	..	17	..	11
Life expectancy at birth (years)					
Total	70	72	76	68	70
Male	68	69	73	64	68
Female	72	75	79	73	72
Mortality					
Infant (<i>per 1,000 live births</i>)	53	37	21	29	33
Under 5 (<i>per 1,000</i>)	69	46	24	36	42
Adult (15-59)					
Male (<i>per 1,000 population</i>)	..	..	110	317	192
Female (<i>per 1,000 population</i>)	..	..	56	136	123
Maternal (<i>per 100,000 live births</i>)	..	..	..	61	111
Births attended by skilled health staff (%)	..	..	98	..	86

CAS Annex B5. This table was produced from the CMU LDB system.

04/14/10

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

ANNEX B6: ALBANIA KEY ECONOMIC INDICATORS 2003 – 2013

Indicator	Actual			Est		Projected			
	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	23	22	21	21	21	21	21	21	20
Industry	22	20	20	19	20	20	20	20	20
Services	56	58	59	60	59	59	59	59	60
Total Consumption	100	99	96	95	97	93	93	92	91
Gross domestic fixed investment	24	25	29	33	30	28	28	28	28
Government investment	5	6	6	9	9	7	6	6	6
Private investment	19	19	24	24	21	21	21	21	22
Exports (GNFS) ^b	22	25	28	30	29	30	31	33	34
Imports (GNFS)	46	49	54	57	55	51	52	52	53
Gross domestic savings	0	1	4	5	3	7	7	8	9
Gross national savings ^c	16	17	20	18	13	16	17	18	19
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	8376	9098	10833	12826	11843	11854	12674	13729	14921
GNI per capita (US\$, Atlas method)	2570	2940	3330	3790	3890	3910	3930	4160	4500
Real annual growth rates (% , calculated from 96 prices)									
Gross domestic product at market prices	5.5	5.0	6.0	6.5	2.2	3.0	4.0	5.0	5.5
Gross Domestic Income	5.3	8.2	14.8	12.8	-5.2	1.1	6.1	6.8	7.4
Real annual per capita growth rates (% , calculated from 96 prices)									
Gross domestic product at market prices	4.9	4.4	6.5	5.9	1.6	2.4	3.4	4.4	4.9
Total consumption	7.7	3.9	16.5	10.1	-3.5	-3.1	4.7	4.9	5.6
Private consumption	8.5	4.0	17.2	9.0	-3.6	-4.2	4.5	4.5	5.4
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	1866	2283	3078	3832	3446	3500	3963	4463	5039

Merchandise FOB	661	789	1405	1973	1445	1297	1465	1630	1826
Imports (GNFS) ^b	3881	4472	5883	7306	6557	6005	6587	7185	7909
Merchandise FOB	2500	2895	3838	4857	4348	3799	4203	4566	5019
Resource balance	-2015	-2189	-2805	-3474	-3111	-2505	-2624	-2721	-2871
Net current transfers	1207	1280	1463	1393	1266	1241	1340	1455	1577
Current account balance	-643	-656	-1040	-1914	-1955	-1373	-1358	-1315	-1321
Net private foreign direct investment	279	324	653	866	940	600	650	700	750
Long-term loans (net)	76	66	-76	336	512	359	655	504	469
Official	79	205	110	215	158	71	33	2	-55
Private	-4	-139	-185	121	355	289	622	502	525
Other capital (net, incl. errors & omissions)	138	-105	121	386	771	593	-145	-100	-151
Change in reserves ^d	151	371	342	326	-269	-179	197	211	253
<i>Memorandum items</i>									
Resource balance (% of GDP)	-24.1	-24.1	-25.9	-27.1	-26.3	-21.1	-20.7	-19.8	-19.2
Real annual growth rates (YR96 prices)									
Merchandise exports (FOB)	2.3	2.6	7.9	5.5	1.5	2.5	4.1	3.9	4.0
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	9.0	11.5	33.4	24.8	-11.3	-13.5	9.7	7.6	8.8
Public finance (as % of GDP at market prices)^e									
Current revenues	24.4	25.3	25.3	26.7	26.3	27.1	27.1	27.3	27.6
Current expenditures	23.2	22.9	23.3	24.0	25.2	25.9	25.7	25.5	25.3
Current account surplus (+) or deficit (-)	1.1	2.4	2.0	2.7	1.1	1.2	1.4	1.8	2.3
Capital expenditure	4.8	5.6	5.8	8.7	8.6	6.7	6.5	6.2	6.1
Foreign financing	0.8	1.1	1.0	3.5	3.6	3.0	2.4	3.1	-0.1
Monetary indicators									
M2/GDP	68.5	74.4	77.3	75.9	77.5	78.2	79.7	81.0	82.4
Growth of M2 (%)	13.9	16.3	13.7	7.7	6.8	7.0	9.0	9.5	10.0
Private sector credit growth / total credit growth (%)	90.3	86.3	82.2	90.5	94.9	95.4	100.4	94.9	94.0
Price indices(YR96 =100)									
Merchandise export price index	106.9	125.8	205.4	273.4	197.3	172.7	187.5	200.9	216.4
Merchandise import price index	106.8	108.8	110.2	111.8	112.8	114.0	115.0	116.1	117.2
Merchandise terms of trade index	100.1	115.6	186.3	244.6	174.9	151.5	163.1	173.0	184.6
Real exchange rate (US\$/LCU) ^f	102.6	102.2	91.3	82.8	92.5	96.0	94.2	92.0	166.2

Real interest rates									
Consumer price index (% change)	2.0	2.4	2.9	3.4	2.5	3.0	3.0	3.0	3.0
GDP deflator (% change)	3.5	2.0	3.2	3.0	2.3	3.0	2.8	2.7	2.5

- a. GDP at factor cost
- b. "GNFS" denotes "goods and nonfactor services."
- c. Includes net unrequited transfers excluding official capital grants.
- d. Includes use of IMF resources.
- e. Consolidated central government.
- f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

ANNEX B7: KEY EXPOSURE INDICATORS

Indicator	Actual				Estimated			Projected	
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) ^a	1842	2021	2350	2539	2916	3098	3581	4040	4422
Net disbursements (US\$m) ^a	171	266	17	195	381	182	484	458	380
Total debt service (TDS) (US\$m) ^a	85	115	128	124	131	167	183	222	102
Debt and debt service indicators (%)									
TDO/XGS ^b	56.4	52.3	48.2	46.8	63.0	66.3	67.8	67.8	65.9
TDO/GDP	22.0	22.2	21.7	19.8	24.6	26.1	28.3	29.4	29.6
TDS/XGS	2.6	3.0	2.6	2.3	2.8	3.6	3.5	3.7	1.5
Concessional/TDO	64.4	71.0	61.6	63.5	58.8	57.5	50.9	45.7	40.9
IBRD exposure indicators (%)									
IBRD DS/public DS	..	0.0	0.2	0.8	3.5	4.6	5.2	6.9	22.6
Preferred creditor DS/public DS (%) ^c	57.0	47.7	58.9	65.8	72.9	69.3	65.6	54.4	136.3
IBRD DS/XGS	..	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.3
IBRD TDO (US\$m) ^d	..	0	6	17	88	94	126	191	233
Ow present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	..	0	0	0	0	0	0	0	0
IDA TDO (US\$m) ^d	655	729	750	809	833	848	856	855	843
IFC (US\$m)/f									
Loans	45.1	61.0	30.5	34.9	29.9	27.4			
Equity and quasi-equity /c	9.2	9.2	8.2	7.7	35.8	52.8			
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

f. IFC's outstanding balance as of April 2010

ANNEX B8: OPERATIONS PORTFOLIO (IBRD/IDA)

Closed Projects	53
IBRD/IDA (in million USD)	
Total disbursed (Active)	110.9
of which has been repaid	0
Total disbursed (Closed)	722.91
of which has been repaid	39.26
Total disbursed (Active + Closed)	833.81
of which has been repaid	39.26
Total undisbursed (Active)	161.1
Total undisbursed (Closed)	77.48
Total undisbursed (Active + Closed)	238.58

Active Projects		Last ISR Supervision Rating			Original Amount in US\$ Millions			
Project ID	Project Name	DO	IP	Approval FY	IBRD	IDA	GRANT	Cancel.
P055383	SOC SERV DEVT	MU	MU	2001	5.0	10.0		
P078933	EDUC EXCEL EQ	MS	MS	2006		15.0		
P082814	HEALTH SYST MOD	MS	MS	2006		15.4		
P077526	POWER SECTOR GEN	S	MU	2004		25.0		
P078949	TRANSPORT	S	HS	2007	20.0	5.0		
P082375/P089061	NATURAL RES DEV	S	S	2005		7.0	5.0	
P086807	COASTAL ZONE MG	MS	MS	2005		17.5		
P084605	LAKE SHKODER ECOSYS	MS	MS	2009			2.0	
P090656	ECSEE APL 2 (ALB)	MU	MU	2005		27.0		
P096263	LAND ADMIN & MG	MU	MU	2007	20.0	15.0		
P100273	AVIAN FLU - AL	S	S	2006		5.0		
P107833	SECOND & LOCAL RDS	HS	HS	2008		20.0		
P110481	ECSEE APL 5 DAM SAFETY	MS	MS	2008		35.3		
P110845	DISASTER RISK MITIG	U	U	2008	3.0	6.2		
P096643	BERIS	MU	MU		5.6	3.7		
Overall Result					53.6	207.1	7.0	

ANNEX B9: OPERATIONS PORTFOLIO (IFC)

<u>FY Approval</u>	<u>Company</u>	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>
0	Antea cement	0	17.66	23.35	0	0	0	17.66	23.35	0	0
2009	Bankers	30	12.07	0	0	0	0	12.07	0	0	0
2008	Best constr.	11.05	0	0	0	0	3.37	0	0	0	0
2005	Fushe kruje	21.43	0	0	0	0	21.43	0	0	0	0
2007	Konstruksione	2.69	0	0	0	0	2.69	0	0	0	0
Total Portfolio:		65.17	29.73	23.35	0	0	27.49	29.73	23.35	0	0

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

MAP OF ALBANIA

IBRD 33359R1



JULY 2009