

MANAGING RISKS

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

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.

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.

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.

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.