

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 1: 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.

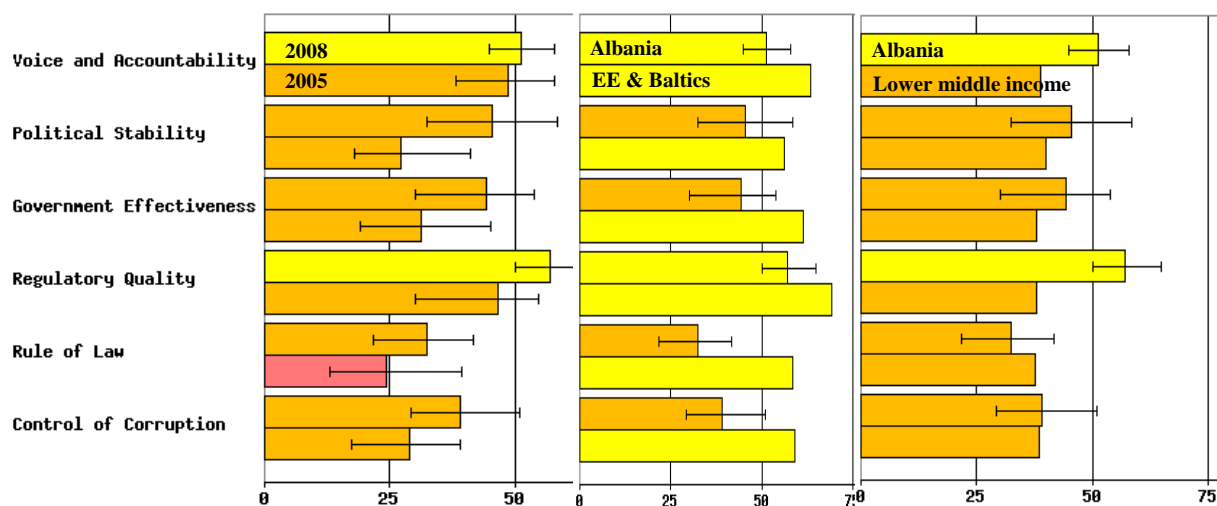
Achievement of results was also broadly satisfactory under Pillar 1, although progress lagged in a few areas. As discussed in greater detail below, Albania grew rapidly for much of the past ten years (and including the first 2.5 years of this CAS), achieving a growth rate as high as 6.5 percent in 2008 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.¹ Future progress should focus on better integration of public investment planning into the MTBP, deepen consultation with non-governmental

¹ 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.

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

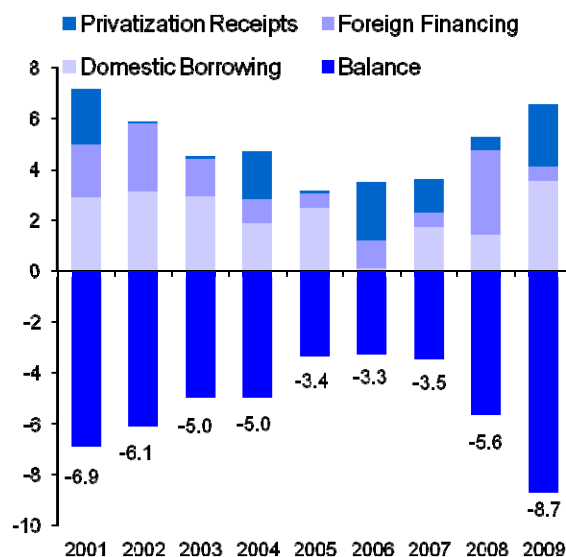
CAS Outcome: Broad stakeholders, including NGOs and the private sector, are consulted for major policy formulation [Partially Achieved]

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 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 bids², 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

² 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.

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 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 2009³. A protracted, and later redesigned, procurement of information systems for the Immoveable 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

³ 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.

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.⁴

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]

The volume of trade in the four completed markets⁵ 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.

⁴ Data reported in the CAS Progress Report erroneously referred to the pilot water users organizations, only.

⁵ 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.

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 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.⁶ 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)⁷. 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

⁶ Optimization of Albania’s immense hydropower generating capacity will support more efficient balancing of power in the region, once complete.

⁷ 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.

Total for FY06-09 (incl PRG)	130.1	53.6	183.7
Original CAS lending allocation	86	90-110	176 - 196

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/credits⁸ 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

⁸ Not including the SSDP Additional Financing and the Partial Risk Guarantee

The completion cost of loans/credits has declined during the CPS period, from \$422,000 per operation in FY06 to \$348,000 in FY09⁹. Together with the increasing average loan/credit size and project/program size, this suggests an increasing efficiency in the delivery of the lending program. 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 FY09¹⁰. 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

⁹ 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.

¹⁰ This is based on annual spending, which is not the same as the spending based on completion costs.

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 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 CAS¹¹ 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

¹¹ With the exception of the emergency Avian Influenza Project.

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 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 place¹². 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

¹² In recent months they have not been replaced after moving to other posts with some impact on portfolio management.

(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 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 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.