



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 30-Jan-2023 | Report No: PIDA35626



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Albania	P178202	Albania First Resilience and Green Development Programmatic DPF (P178202)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EUROPE AND CENTRAL ASIA	16-Mar-2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministry of Finance and Economy	Ministry of Finance and Economy		

**Proposed Development Objective(s)**

The program development objective is to: (a) strengthen resilience of the government sector and households, (ii) strengthen the energy market framework and scale up renewable energy and energy efficiency, and (iii) protect the environment and reduce the country's carbon footprint.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	120.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	120.00
World Bank Lending	120.00

**Decision**

The review did authorize the team to appraise and negotiate



## B. Introduction and Context

**This program information document proposes the First Resilience and Green Development Programmatic Development Policy Financing (DPF) operation for Albania in the amount of US\$120 million.** The operation is the first of two in a programmatic series that supports Albania to increase the resilience of its economy and strengthen the foundations for greener development. Turmoil in the global economy caused by the COVID-19 pandemic and the Russia's invasion of Ukraine hit Albania after it had already sustained a devastating earthquake in 2019. Albania weathered these shocks with resolve and has since recovered to its pre-pandemic income level alongside its Western Balkan neighbors. The Government of Albania (GoA) is advancing now on a reform agenda that increases the country's resilience to future shocks and sets the economy on a greener and more sustainable development trajectory, consistent with the aspirations of the population and the country's vision for European Union (EU) membership. The program development objective is to: (i) strengthen resilience of the government sector and households; (ii) strengthen the energy market framework and scale up renewable energy and energy efficiency; and (iii) protect the environment and reduce the country's carbon footprint. The proposed programmatic DPF series supports these objectives in close collaboration with the European Commission, the International Monetary Fund (IMF), the French Agency for Development (AFD), KfW Development Bank (KfW) and the United Nations Development Programme (UNDP).

### Country Context

**Albania made significant progress in development outcomes before the pandemic but its pace of convergence with the EU is too slow.** Over the past 20 years, Albania has managed to increase life expectancy to 79 years, more than any other Western Balkan country and has almost closed the literacy gap between women and men (the literacy rate is 98 percent for women and 99 percent for men). Albania's poverty rate fell from 40 percent of the population in 2005 to 10 percent in 2019 (measured at US\$5.5 per day in constant US dollars). Albania is also narrowing its per capita income gap with the EU, albeit at a very modest pace. In 2019, its per capita income was 15 percent of the EU's, measured in current US dollars, and 31 percent measured in constant purchasing power parity US dollars, reflecting greater purchasing power in Albania. Per capita income is edging up at about 0.5 of a percentage point per year. This means that to fully converge with the EU's per capita income it would take Albania about 170 years.

**The slow pace of convergence comes from a low rate of economic growth and the poor quality of that growth; while frequent natural disasters make for additional setbacks.** Albania's GDP growth has averaged 2.6 percent per year during 2010-19 while the economy created predominantly unskilled or low skilled jobs. World Bank analysis has pointed to several culprits contributing to slow and low-quality growth.<sup>1</sup> First and foremost, the investment rate is declining, and this is due to a host of competitiveness factors discussed below. Second, the population is contracting due to a low birth rate and to emigration to neighboring EU countries. Third, the quality of human capital is declining, as has been determined by skills gaps identified by businesses. Fourth, total factor productivity (TFP) is very low, contributing only modestly to GDP growth. Finally, the high (and increasing) frequency of natural disasters comes with a cost that draws on scarce private and public resources. The IMF estimated that Albania experiences an average of 0.8 natural disasters a year, with mean and median costs of 0.6 percent of GDP and 1.3 percent of GDP respectively per occurrence.<sup>2</sup>

**Albania's macroeconomic policy framework is adequate for this operation.** Despite the high level of uncertainty surrounding the forecasts, a rebound in GDP growth and prudent fiscal management are expected to keep public debt on

<sup>1</sup> World Bank. 2021. *Albania Country Economic Memorandum. Strengthening the Sustainability of Albania's Growth Model*. Washington DC.

<sup>2</sup> IMF. 2022. *Albania – Staff Report for the 2022 Article IV Consultation. Selected Issues*, p.2.



a downward trajectory. The Government is committed to fully comply with its fiscal rules and adjust to more adverse economic conditions without recurring to increases in the deficit and public debt. The monetary policy is oriented toward bringing inflation back to target and warrants further tightening while carefully monitoring adverse effects on banks' balance sheets. The BoA is committed to continuing its efforts to enhance the regulation and supervision of the banking sector and promoting financial stability. The Government has also increased vigilance in monitoring fiscal risks with the publication of the annual Public-Private Partnership (PPP) Monitoring Report since 2019, and the periodic reports by the Ministry of Finance and Economy (MoFE) on PPP budget payments as part of the fiscal risk statement

#### Relationship to CPF

**The reform program is consistent with the World Bank Group (WBG) crisis response framework for supporting Green, Resilient and Inclusive development (GRID), the Global Crisis Response Framework (GCRF), Maximizing Finance for Development (MFD), and the Country Partnership Framework (CPF) for 2023–2027.** The proposed operation is aligned with all three elements of the GRID framework, and the third and fourth pillars of the GCRF: it supports further development of the RE market and energy efficiency, strengthening resilience of the public sector and of households through risk assessment in the public sector, the adoption of earthquake insurance and strengthening of the social safety net, and protecting the environment through reducing waste and reducing GHG emissions. Several policy measures aim to increase climate resilience and reduce GHG emissions, and will bring substantial climate co-benefits. The operation also supports MFD-enabling policy reforms, such as the taxation of the self-employed, and contributes toward a reduction in informality, the development of the insurance market through the legislation of mandatory earthquake insurance, establishment of a dedicated Renewable Energy Operator, the creation of an energy exchange, both of which encourage private investment in renewables. The operation is fully aligned with the new CPF objectives of: (i) job creation; (ii) improving human capital; and (iii) building resilience to conflict and natural disasters, together with the cross-cutting themes of governance and digital transformation.

#### C. Proposed Development Objective(s)

The program development objective is to: (a) strengthen the resilience of the government sector and households, (ii) strengthen the energy market framework and scale up renewable energy and energy efficiency, and (iii) protect the environment and reduce the country's carbon footprint.

#### Key Results

**Pillar 1: strengthen resilience of the government sector and households** – the DPF supports reforms that will (i) strengthen revenue mobilization, including increasing the number of self-employed that pay tax, (ii) encourage disaster fiscal risk monitoring and mitigation, (iii) introduce climate mitigation and / or adaptation considerations in project appraisal, and (iv) increase the effectiveness of the disability assistance.

**Pillar 2: strengthen the energy market framework and scaling up renewable energy and energy efficiency**– the DPF supports reform that will (i) promote the development of the renewable energy (RE) market, (ii) introduce the energy trading through the Organized Wholesale Market, and (iii) introduce energy efficiency in the public sector.

**Pillar 3: protect the environment and reduce the country's carbon footprint** – the DPF supports reforms that will (i) prevent and reduce environmental degradation and (ii) reduce GHG emissions.



## D. Project Description

**The operation is the first of two in a programmatic series. The first pillar of the series supports Albania in its efforts to strengthen the resilience of government and households.** In terms of fiscal resilience, the DPF (first operation) supports domestic revenue mobilization by expansion of the tax base through (i) a new Income Tax Law that brings free professionals into the tax net and (ii) strengthening the capacity of the tax administration. The trigger (for the second DPF) foresees the introduction of a market value-based property tax as evidenced by the adoption by Parliament of the Property Tax Law. Revenue mobilization will create fiscal space to allow Albania to respond to shocks in the future. In terms of resilience against natural disasters, increasingly caused by climate change, the DPF supports the inclusion of natural disaster risk assessments in the Government's fiscal risk statement, ensuring that budget planning takes into account the potential impact of natural disasters and changing climate. The trigger foresees the approval of a Law on Compulsory Earthquake Insurance for residential properties. Inclusion of climate change considerations in the public investment management (PIM) selection process ensures project designs will be more resilient against natural disasters and climate change. The trigger foresees the adoption of amendments to the PPP Law, harmonizing the PPP and public procurement frameworks. In terms of households, this pillar supports their insurance against earthquakes and helps those with disabilities and the most vulnerable to benefit from increased effectiveness of the disability assistance. The trigger foresees support to the implementation of the new disability assessment through a strengthened coordination mechanism and an improved grievance redress mechanism. As such, this DPF pillar directly supports the forthcoming National Strategy for Development and Integration (NSDI) 2021–2030 focus area (iii) “sustainable growth, connectivity and green growth”, and NSDI focus area (iv) “social cohesion”.

**The second pillar of the series seeks to help Albania increase the supply of renewable energy using a market-based approach, introduce the energy trading through the Organized Wholesale Market and to increase energy efficiency in the Government. Supply would be increased through additional provision of hydro, wind and solar.** Albania's energy sector is heavily dependent on hydropower, which makes it dependent on imports during dry years. This puts a heavy toll on the financial sustainability of the sector. Furthermore, new private investment in the energy sector has been hampered at two levels. The first level is at the investor or producer level. There is no single buyer of RE from the multitude of investors and no competition for the contracts. The second level is the wholesale market, that brings together power producers and distributors. The triggers support further development of the RE market and implementation of the Organized Wholesale Market. The DPF supports the operationalization of these markets. In addition, the DPF supports energy efficiency in government. The trigger foresees adoption of public procurement provisions to oblige public contractor authorities to ensure application of energy efficiency standards in all public procurement procedures. As such, this DPF pillar directly supports NSDI 2021–2030 focus area (iii) “sustainable growth, connectivity and green growth”.

**The third pillar of the series reinforces the environmental sustainability and climate resilience of Albania's growth model.** Plastic waste is causing significant damage to Albania's blue economy sectors, such as coastal tourism and fisheries. The DPF therefore supports the adoption of a law banning single-use plastic bags, encouraging the use of alternative sustainable bags and reducing the extent of plastic bag pollution. To ensure that producers bear more of the responsibility for the waste produced by their products, Albania will introduce an Extended Producer Responsibility (EPR) Law to encourage transition toward a more circular economy. With the objective to reduce carbon footprint, the DPF supports also the introduction of Monitoring Reporting and Verification (MRV) system for GHG emissions and, eventually, introduction of carbon tax on coal. As such, this DPF pillar directly supports NSDI 2021–2030 focus area (iii) “sustainable growth, connectivity and green growth”.

## E. Implementation



## Institutional and Implementation Arrangements

**MoFE is responsible for the implementation of this operation.** The proposed operation leverages the authority of MoFE to coordinate and monitor the implementation of the supported reforms and their integration with the ongoing government fiscal reform and growth agenda. The World Bank will work closely with MoFE and other key stakeholders to monitor and assess reform progress and impacts on a regular basis during the course of the operation. Monitoring and evaluation will be supported by MoFE, Albanian Financial Supervisory Authority, as well as the Ministry of Tourism and Environment, through legislative and economic analysis provided by these authorities and verified in official disclosures, directives, and regulations. Data are provided by the respective agencies and tracked according to the indicators shown in the policy and results matrix.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**The operation is expected to have neutral or positive social and distributional effects and aims to minimize the extent to which some prior actions may have a negative impact on poverty in the short run.** The Prior Actions in this DPF are expected to improve resilience and strengthen the sustainability of Albania's growth model. The policy measures under Pillar 1 aim to build government sector and household resilience to mitigate the adverse social and economic effects of potential future shocks. Actions under Pillars 2 and 3 aim to promote sustainable and clean energy mix and to protect the environment and reduce the country's carbon footprint, which will improve the welfare of all citizens, including the poor. Owing to data constraints, this PSIA undertakes a quantitative assessment only of the income tax reform and a qualitative assessment of the other reforms. .

### Environmental, Forests, and Other Natural Resource Aspects

**An environmental analysis was performed pursuant to OP 8.60 to determine whether the specific policies and Prior Actions supported by this operation are likely to have a significant effect on the environment, forests, or other natural resources.** The environmental analysis found that the net direct and indirect environmental effects of the DPF reforms are positive, except for PA 5 which may have potentially negative effects. Nevertheless, as mandated by the Albania's Environmental Impact Assessment regulatory systems, these potentially negative impact can be managed through adequate environmental impact assessment and appropriate mitigation strategy.

## G. Risks and Mitigation

**The overall risk is assessed to be substantial.** The substantial risk rating reflects the noteworthy and ambitious nature of the policy reforms supported by this operation. Many of the reforms, especially revenue mobilization, energy, and the environment, can bring about significant change in Albania but require commitment, capacity building, and behavioral changes. The risks related to the political situation and governance, macroeconomic, and sector strategies and policies have been rated as substantial. Frequent consultations with national authorities on program design, strong analytical foundations, anchoring the program on international commitments and on government priorities, and political commitment to the Prior Actions are expected to help mitigate political and governance risks. The technical design and implementation risks of the program are also substantial. The four laws supported by this DPF will require implementation of secondary legislation to achieve their full development impact. Several of the Prior Actions support complex and



technically demanding reforms. Complex reforms, such as the Earthquake Insurance Law, build on existing experience with such frameworks in other countries. There is a substantial likelihood that weak institutional capacity for implementing and sustaining the operation or operational engagement may adversely impact the development objectives. The operation is multisectoral, directly involving four ministries (the Ministry of Finance and Economy, the Ministry of Health and Social Protection, the Ministry of Infrastructure and Energy, and the Ministry of Tourism and Environment) and one other agency (Public Procurement Agency). The completion of all Prior Actions depends on the delivery of technical assistance (TA) by bilateral and multilateral donors and standby support during implementation. Staff turnover in ministries and other institutions is substantial. There is some uncertainty regarding the capacity of the Government to sustain the outcomes of the operation. The Government's immediate priority is to deal with the aftermath of the current series of crises—the 2019 earthquake, the COVID-19 pandemic that started in 2020, and the ongoing Ukraine crisis that started in 2022—further constraining the Government's capacity to implement structural reforms. Despite the circumstances, however, the Government has demonstrated commitment to the reform agenda. The Earthquake Insurance Law and the EPR Law will require substantial multi-annual marketing and enforcement campaigns to ensure their widespread implementation among the target population. To mitigate these risks, TA provided by the WBG and other development partners will continue to support Albania during implementation. Frequent use of the World Bank's convening power and close monitoring of progress in the delivery of TA are two of the measures envisaged to mitigate these institutional risks. The remaining risks are rated as moderate or low.

## CONTACT POINT

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**APPROVAL**

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**Approved By**

Country Director:	Emanuel Salinas Munoz	09-Jan-2023
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