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**INTERNATIONAL FINANCE CORPORATION**

**MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COUNTRY PARTNERSHIP FRAMEWORK**

**FOR**

**REPUBLIC OF ALBANIA**

**FOR THE PERIOD FY23-FY27**

**February 20, 2023**

**Western Balkans Country Management Unit  
Europe and Central Asia**

**The International Finance Corporation  
Europe Region**

**The Multilateral Investment Guarantee Agency  
Economics and Sustainability Group**

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**ABBREVIATIONS AND ACRONYMS**

ADF	Albania Development Fund	LFP	Labor Force Participation
AF	Additional Financing	LGBTQI	Lesbian, Gay, Bisexual, Transgender, Queer and Intersex Life
ALMPs	Active Labor Market Programs	MIGA	Multilateral Investment Guarantee Agency
ASA	Advisory Services and Analytics	MoFE	Ministry of Finance and Economy
BCPs	Border Crossing Points	MoHSP	Ministry of Health and Social Protection
BMS	Bridge Management System	MoTI	Ministry of Transport and Infrastructure
CARE	Clean and Resilient Environment for Blue Sea	MPA	Multiphase Programmatic Approach
CCDR	Country Climate and Development Report	MSMEs	Micro, Small and Medium Enterprises
CE	Citizen Engagement	MTRS	Medium Term Revenue Strategy
CEM	Country Economic Memorandum	NBFIs	Non-Bank Financial Institutions
CERC	Contingent Emergency Response Component	NE	Ndihma Ekonomike (Economic Aid)
CIT	Corporate Income Tax	NGO	Non-Governmental Organization
CLR	Completion and Learning Review	NPLs	Non-Performing Loans
CMU	Country Management Unit	NSDEI	National Strategy for Development and European Integration
COVID-19	Coronavirus Disease	NSW	National Single Window
CPF	Country Partnership Framework	OECD	Organization for Economic Co-operation and Development
CPI	Consumer Price Index	OGP	Open Government Partnership
CPSD	Country Private Sector Diagnostic	PBCs	Performance Based Conditions
CRAD	Climate Resilience and Agriculture Development Project	PEFA	Public Expenditure and Financial Accountability
CSA	Climate-smart agriculture	PFM	Public Financial Management
DIGILAB	Digital Strategy Accelerator Program	PforR	Program for Results
DLIs	Disbursement-Linked Indicators	PISA	Program for International Student Assessment
DLR	Disbursement Link Result	PIT	Personal Income Tax
DPF/DPO	Development Policy Financing/Operation	PIU	Project Implementation Unit
DRM	Disaster Risk Management	PPP	Purchasing Power Parity
ECA	Europe and Central Asia	PPPs	Public-Private Partnerships
ECE	Early Childhood Education	RAMS	Road Asset Management Systems
ERP	Economic Reform Programme	RAS	Reimbursable Advisory Services
EU	European Union	RE	Renewable Energy
EU-SILC	European Union Statistics on Income and Living Conditions	RSF	Risk Sharing Facility
FDI	Foreign Direct Investment	SASPAC	State Agency for Strategic Programming and Aid Coordination
FY	Fiscal Year	SCD	Systematic Country Diagnostic

GoA	Government of Albania	SDGs	Sustainable Development Goals
GDP	Gross Domestic Product	SIDA	Swedish International Development Agency
GRID	Green, Resilient and Inclusive Development	SILC	Statistics of Income and Living Conditions
GVCs	Global Value Chains	SMEs	Small and Medium Enterprises
HBS	Household Budget Survey	SORT	Systematic Operations Risk-Rating Tool
HIS	Hospital Information System	TA	Technical Assistance
HLO	High-Level Outcome	VAT	Value-added Tax
IBRD	International Bank for Reconstruction and Development	VTMIS	Vessel Traffic Management and Information System
ICT	Information and Communication Technology	WB	World Bank
IFC	International Finance Corporation	WBG	World Bank Group
IPF	Investment Project Financing	WDI	World Development indicators
IT	Information Technology	WeBa	Western Balkans

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COUNTRY PARTNERSHIP FRAMEWORK FOR  
THE REPUBLIC OF ALBANIA  
FOR THE PERIOD FY23-FY27

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## FY23-FY27 COUNTRY PARTNERSHIP FRAMEWORK FOR ALBANIA

### I. INTRODUCTION

- 1. The proposed Country Partnership Framework (CPF) outlines the areas of work, objectives and expected results for the World Bank Group (WBG) in Albania for the period of FY23-FY27.** The previous CPF<sup>1</sup> originally covered the period of FY15-FY19, subsequently extended to FY20 in the 2019 Performance and Learning Review. Albania was affected by back-to-back crises since 2019 (including an earthquake, the global pandemic and the impact of Russia's invasion of Ukraine). During this period, the WBG focused efforts on providing rapid support for relief and recovery by mobilizing additional instruments, expediting project implementation and scaling up existing engagements (e.g., through additional financing). As the country emerges from these crises, it is important to refocus attention to the country's longer-term development goals, including moving towards sustainable and shared growth, strengthening human capital and enhancing resilience to shocks, while advancing rapidly in the trajectory towards EU accession. The new CPF for FY23-FY27 leverages the lessons learned and experience in previous collaboration to support Albania in this journey.
- 2. The WBG has been a partner to Albania for the past 30 years. Much has been achieved but a lot remains to be done.** In many ways Albania is a success story. The country went from being the poorest in Europe in 1989 to achieving middle-income status in 2009. Since the early 1990s, GDP per capita has grown by six times and poverty decreased steadily. The WBG has been a partner to Albania through knowledge, advice, and investment to build the institutions and physical assets needed. This partnership has contributed to the increased prosperity and lower poverty in the country.
- 3. Through the proposed CPF for FY23-FY27, the WBG will build on its productive partnership with Albania through an ambitious program supporting rapid recovery and transformation towards a more robust, equitable, resilient, and greener economy, and healthier and more productive lives for the Albanian people.** This CPF is informed by diagnostics showing that the country's growth model is not adequate to meet the aspirations of the population for more and better jobs, is not sustainable in the long-term, undermines the country's natural assets, is exposed to shocks (including climate change), and underutilizes Albania's human capital. The latest crisis deepened long-standing development challenges, increased poverty, and impacted livelihoods – especially among the most vulnerable.
- 4. In response to these challenges, this CPF will focus on three High-Level Outcomes (HLOs), with two cross-cutting themes.** Through HLO-1, the WBG will focus on supporting the creation of more jobs by helping the country to unleash the competitiveness and productivity of the private sector. HLO-2 supports the improvement of human capital, deepening the engagement on health, developing a substantive collaboration on education, supporting the provision of public services, and better social protection for the most disadvantaged. HLO-3 focuses on enhancing Albania's resilience to shocks by strengthening macro-fiscal buffers, reducing vulnerability to climate change in key sectors and improving the resilience of infrastructure. Additionally, there are two cross-cutting themes: digitalization and inclusion, which are key enablers of the progress in all HLOs. The selection of the CPF focus areas is based on the intersection between the development priorities outlined in the Systematic Country Diagnostic (SCD) and the Government's strategic development plans, which emphasize the importance of a more competitive and sustainable economy, better protection of the disadvantaged, enhanced care for environment and preparing for the European Union (EU) accession.

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<sup>1</sup> Report Number 94636-AL; April 27, 2015

5. **The WBG’s comparative advantage in upper middle-income countries like Albania lies in its ability to combine financing with support to innovative policies and high-impact projects.** While this CPF will support high priority investments in physical assets and infrastructure, it will also support more complex interventions, including those that require substantive sectoral reforms and institutional change. It will also support institutional capacity building for better service delivery and innovative policies, and institutional reforms for greener and more resilient growth. The International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) will continue to focus on crowding in the private sector in support of the CPF objectives.

## II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

### 2.1. Socio-political and Institutional Factors

6. **Albania has experienced rapid growth but through an uneven journey.** While Albania is frequently compared on a one-to-one basis with other economies with similar income level, it is important to note that it is a country that has evolved very rapidly over the past 30 years from one of the most closed and repressive communist regimes to a vibrant economy and open society. In that respect, the country has experienced an impressive level of development in a relatively short period of time. There is the explicit expectation among the authorities that this pace of development can be maintained, enabling Albania to leapfrog Western Balkan economies and other regional peers. While these expectations may not be unfounded on a macroeconomic level, this rapid journey has been uneven at a social level, creating greater disparities between the richest segments of the population and the most disadvantaged ones. Addressing these disparities through stronger institutions and better governance will likely be critical to ensure sustainable and equitable growth.

7. **The Albanian Government is well positioned to tackle critical development challenges, in line with the demands from the population.** In the 2021 Parliamentary elections, the ruling party won an unprecedented third consecutive mandate. A new government has been formally in place since September 2021, with a high representation of women at ministerial level (12 out of 17 ministers). There is a clear expectation from the Albanian population that the Government will deliver tangible results on critical agendas including improved governance, better jobs and opportunities, better public services, and more responsive government institutions. The government maintains EU accession as a goal, which remains a strong driver for reforms.

8. **The efficiency and effectiveness of local authorities is limited, with adverse consequences on public service delivery.** A decentralization effort in 2014 transferred responsibility for provision of public services from the central government to local authorities. While the spirit of this initiative was positive, the implementation has been challenging, resulting in deficient public services in critical areas, including water supply, waste management, public transport, education, childcare, and disaster response. Most local authorities have proved unable to acquire the operational and financial capacity to manage and provide these services in a consistent manner, resulting in under-provision and low service quality. In turn, this has had a direct negative impact on human capital, environment, and economic opportunities.

9. **Despite progress, important actions remain to be done in Albania’s path to EU accession.** The Government of Albania (GoA) has taken important steps towards enhancing the efficiency and effectiveness of the public sector, fighting corruption, and enhancing the rule of law. But additional efforts will be needed for consolidation of the legal and institutional framework of the justice system, adaptation of European practices in the implementation of penal justice, and enhancement of the efficiency and transparency of the justice system, including through innovative technology solutions.

## 2.2. Recent Economic Developments and Outlook

10. **Before recent crises, Albania's overall economic indicators improved significantly but growth was not resilient nor equitable.** Albania's growth performance, poverty levels, and macroeconomic fundamentals gradually improved over 2014–2018, largely due to productivity growth. However, structural economic challenges and the country's vulnerability to natural disasters, coupled with a shrinking working-age population, have made it difficult to sustain high growth rates. While Albania has created new jobs in manufacturing and services, too many of these jobs have been low-productivity and low-pay. Consequently, Albania's living standards are still about one third the EU average. Further, in the absence of structural reforms, declining productivity trends can decelerate or even stagnate Albania's growth.

11. **Albania's economy has been tested drastically by several subsequent crises, showing ability to recover, but also a high vulnerability to shocks.** Albania suffered a devastating earthquake in 2019, which resulted in loss of lives and livelihoods, as well as significant damage to infrastructure, particularly housing. Soon after that, the COVID-19 pandemic forced the introduction of lockdowns and restrictions of movement and economic activity that resulted in a GDP contraction of 3.5 percent in 2020 (see Annex 5). Even though Albania's economy rebounded rapidly in 2021 (with GDP growth of 8.5 percent), the pandemic has left a lasting impact on the economy and society. Economic activity is projected to expand at a yearly average of 3.1 percent through 2026, below the pre-earthquake historical rate, reflecting global conditions and persistent supply side shocks. Enduring geopolitical tensions could further increase inflation, disrupt supply chains, and disturb financial markets; all of which could further dim Albania's growth prospects. In turn, a sluggish job market combined with diminished purchasing power could dampen progress on poverty reduction.

12. **Spillovers from Russia's invasion of Ukraine have impacted Albania's economy and highlighted its vulnerabilities.** Since Albania's economy has limited direct linkages to Ukraine and Russia in terms of financing flows, the economic impacts are being felt through multiple indirect channels, including commodity and financial markets, trade links, and investor confidence. An increase in commodity prices (especially wheat<sup>2</sup> and oil) fueled a spike in inflation<sup>3</sup> and aggravated an ongoing energy crisis. Disruptions of trade routes, increasing shipping and insurance costs and slowdown of demand in some EU markets have affected Albanian producers in a wide range of industries and impacted growth prospects. While Albania is not a substantial importer of natural gas, its increased price has negatively affected fertilizer costs, which, in turn, have impacted agricultural producers. In this context, policymakers are facing tradeoffs between stabilizing inflation expectations through substantive interest rate increases and preventing adverse impacts on the private sector and banks' asset quality. The summer season provided a respite through increased economic activity and a mild winter has eased energy consumption, facilitating economic recovery and reducing the impact of energy prices. The support from the GoA has further mitigated some of the impact on households and businesses, but protracted economic impacts would continue stressing Albania's financial stability and affect fiscal buffers.

13. **Climate- and weather-related hazards pose significant and increasing risks to Albania's economy, its infrastructure, and its people.** Albania is the most climate-vulnerable country in Europe, with an average of 30,000 people affected by natural disasters every year. Floods currently cause major

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<sup>2</sup> Traditionally, imports from Russia and Ukraine account for over 30 percent of Albania's wheat consumption.

<sup>3</sup> Inflation increased to 6.7 percent in 2022, compared with an earlier projection of 2.8 percent (World Bank, 2021, Western Balkans Regular Economic Report, No. 20, Fall 2021: Greening the Recovery).

damages every year and, while the average precipitation is expected to decrease with time, the frequency and magnitude of such extreme events are expected to rise. Temperatures will also continue to rise, contributing to increased heat stress days, forest fires and air pollution. Although still relatively low for the region, GHG emissions have risen by 40 percent since 2000 on an aggregate basis, with the agriculture, transport and industry sectors being the main emitters, and the waste management sector contributing to high methane emissions.

**Table 1. Albania Key Economic Indicators, 2020-2026**

	2020	2021	2022e	2023f	2024f	2025f	2026f
Real GDP (% change)	-3.5	8.5	3.5	2.2	3.4	3.4	3.5
<b>Contributions</b>							
Consumption	-2.6	4.5	1.9	1.8	2.0	2.0	2.2
Private consumption	-2.8	3.6	1.8	1.8	1.8	1.9	2.0
Government consumption	0.2	0.9	0.1	0.0	0.2	0.1	0.2
Gross fixed investment	-0.9	4.8	0.5	0.1	0.8	0.8	1.0
Private Investment	-2.4	3.2	1.9	0.5	0.5	0.6	0.8
Government Investment	1.5	1.6	-1.4	-0.4	0.3	0.2	0.2
Net exports	0.0	-0.9	1.1	0.2	0.7	0.5	0.4
Exports	-9.4	11.5	2.8	1.8	2.3	2.3	2.3
Imports	-9.3	12.4	1.7	1.6	1.6	1.8	1.9
<b>Production side</b>							
Agriculture	0.2	0.0	0.2	0.2	0.2	0.2	0.3
Industry	-1.0	3.2	0.6	0.3	0.8	0.8	1.2
Services	-2.8	5.2	2.6	1.6	2.4	2.3	2.0
Unemployment rate	12.2	12.6	11.3	11.5	11.3	11.2	11.2
CPI period average	1.6	2.0	7.0	5.4	3.4	3.0	3.0
<b>Fiscal accounts (percent of GDP unless otherwise indicated)</b>							
Expenditures	32.6	31.6	31.1	31.3	30.8	30.7	30.4
Revenues	25.9	27.0	27.9	28.6	28.3	28.3	28.3
General government balance	-6.7	-4.5	-3.3	-2.7	-2.4	-2.4	-2.1
Primary balance	-4.6	-2.6	-1.3	0.0	0.7	0.7	0.7
Public debt	73.0	71.0	65.2	64.4	63.6	62.6	61.4
Public debt and guarantees	75.9	73.9	68.5	67.8	66.6	65.5	64.1
<b>Monetary indicators (annual percentage change unless otherwise indicated)</b>							
Broad money growth	10.5	8.6	6.4	5.6	5.6	5.3	5.4
Credit to non-government	8.9	8.6	9.9	5.7	5.6	5.3	5.3
<b>Balance of payments (percent of GDP unless otherwise indicated)</b>							
Current account balance	-8.5	-7.7	-7.7	-7.8	-7.7	-7.6	-7.6
Imports of Goods and Services	37.2	44.0	46.1	48.4	50.1	51.3	52.5
Exports of Goods and Services	22.9	30.7	32.6	34.5	36.2	37.5	38.6
Foreign Direct Investment (net inflows)	6.7	6.4	6.5	6.5	6.5	6.6	6.7
Gross reserves in months of G&S	7.0	7.2	7.0	7.1	6.6	6.4	6.5
External debt	64.3	63.1	57.9	57.9	55.6	55.5	55.3

Sources: World Bank WDI, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.

Notes: e = estimate, f = forecast. In annual percent change unless indicated otherwise.

14. **The financial sector has maintained stability.** The banking sector remained liquid, and the average capital adequacy ratio remains above the regulatory requirements. The recent crises have not translated into an increase in non-performing loans (NPLs), which is good from a stability perspective, but also signals a significant decoupling between the financial and the real sectors. Access to finance by SMEs and financial inclusion are well below the needs of the economy and broadly inadequate for important sectors such as agribusiness (which accounts for less than 2 percent of banks' lending portfolio).



15. **Rebuilding fiscal space will be crucial to increase resilience against future shocks.** Fiscal space created before the earthquake allowed a countercyclical response during the 2019-2021 crisis period. Today, public debt and guaranties amount to 68.5 percent of GDP and external debt is rising. This makes rebuilding fiscal buffers a priority not only for growth and development, but also to enable response to future shocks. The implementation of a sound Medium Term Revenue Strategy (MTRS), enhancing the quality and efficiency of public expenditure, and strengthening the quality of the budgeting process will be critical. While the government plans to contain spending in line with fiscal consolidation plans, higher costs of public service provision create additional pressures on growth. Higher spending may be needed to guarantee energy supply through more costly energy imports and support to the fragile energy SOEs.

### 2.3. Poverty and Shared Prosperity

16. **Poverty in Albania has decreased substantively, but living standards are well below EU's.** Albania's poverty rate fell from 40 percent of the population in 2005 to 11 percent<sup>4</sup> in 2019. 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.

17. **Recent shocks have affected disproportionately the poor and vulnerable households.** The proportion of people at risk of falling to poverty likely increased<sup>5</sup> in 2020 due to the 2019 earthquake and the COVID-19 pandemic. Subsequently, the increased food prices stemming from the energy crisis in 2021 and the spillovers from Russia's invasion of Ukraine have disproportionately affected the poor and vulnerable families, as food accounts for 70 percent of the overall consumption for the bottom 25 percent of households. Similar large increases in prices for other important categories, such as rent and utilities, added to this impact.

18. **The Government responded swiftly to the shock resulting from Russia's invasion of Ukraine.** To protect consumers from sharp increases in prices and speculative behavior, the Government established transparency boards to monitor and set caps on the prices of a few staple food products. Similarly, the Government put in place a solidarity package of about 1.9 percent of GDP; accelerated benefit indexation to prevent the erosion of real pensions; and increased the benefit in the main social assistance program, Ndihma Ekonomike (NE), by 10 percent for all families, benefiting some 64,000 families. These measures were financed partially through increased government revenues and partially from the reallocation of other public spending.

19. **The social protection system is limited in its ability to mitigate shocks.** The pandemic highlighted both the susceptibility of poor and vulnerable populations to shocks and the limitations of the social protection system. Spending on social protection in Albania has risen steadily, but it is largely dominated by expenditures on social insurance, while spending on social assistance and labor market is comparatively low. Reforms of the last resort income support program (Ndihma Ekonomike) have improved its targeting, application, and delivery of benefits, but the adequacy of the benefit has eroded. A recently started reform of the disability assistance and social services is a step in the right direction but it will take time for its impact to materialize. The pension reforms introduced in 2015 have improved the long-term sustainability of the pension system, but the share of pension contributors is low, raising concerns about the future well-being of the older people.

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<sup>4</sup> Measured at US\$6.85 per day in 2017 constant dollars. Source: World Bank WDI

<sup>5</sup> Limitations on existing data prevent an accurate measurement of population at risk of falling into poverty.

20. **The benefits of growth are not shared equitably.** The contribution of growth to poverty reduction slowed down during the 2008 financial crisis and has not recovered since<sup>6</sup>. Although Albania's inequality indicators declined before the pandemic<sup>7</sup> together with Montenegro, Albania has the highest measures of income inequality in the Western Balkans. Within the country, inequality is uneven across regions and the gap between high- and low-income earners has remained wide.

21. **Uneven opportunities for women undermine their ability to be economically active and contribute to households' vulnerabilities.** Labor force participation (LFP) among the population aged 30-64 years old is high in Albania. However, there is a large gender gap, with close to 20 percentage points differences in LFP and employment between men and women, despite a similar educational attainment. In particular, women's unemployment increased disproportionately in 2020. Labor force inequities are part of a larger problem undermining women's opportunities (see more in Annex 4).

**Box 1. Limitations of poverty statistics undermine the ability to tailor development solutions**

*Poverty dynamics partially reflect measurement issues arising from methodological changes in surveys as well as change of data sources. Albania introduced the Statistics on Income and Living Conditions (SILC) survey in 2017, which replaced the use of the Household Budget Survey (HBS) in the poverty calculation. There is a stark difference in the poverty headcount measured through income vs. consumption as consumption includes non-purchased items (self-produced at home, in-kind transfers), whereas income includes monetary items (labor earnings, capital earnings and transfers). This means that in Albania there is a gap between households' consumption and income. In addition, a methodological change in HBS in 2018 impacted the accuracy of reported consumption. The change in the methodology caused a break in the series, which is not considered to be comparable before and after 2018. Therefore, observing poverty dynamics using the same source is subject to the measurement error. In order to present long-term historical trends, reference to poverty in this document refer to the percentage of the population living on less than \$6.85 a day at 2017 international prices.*

#### 2.4. Development Agenda

22. **WBG diagnostic reports highlight the need to reduce the vulnerability of the country to shocks, while enhancing the quality of Albania's growth model.** The WBG undertook a series of diagnostics<sup>8</sup> before the recent crises. These crises have translated into significant shocks to the Albanian economy and population but have not changed the fundamental development challenges and opportunities identified in these reports. While it has been important to respond rapidly to shocks, it is critical to keep a clear focus on the longer-term development challenges and priorities. In that regard, the findings of the diagnostics still hold relevant, as they identify the challenges of enhancing resilience to shocks while strengthening the longer-term sustainability of Albania's economic model. The recent crises have only deepened some existing vulnerabilities and heightened the need for action.

23. **Albania's long-term development prospects rest on its ability to enhance the sustainability, resilience and inclusion of its economic model, invest in people and reduce vulnerabilities to shocks.** The 2019 SCD Update analyzed Albania's development challenges, using the EU accession process as an

<sup>6</sup> Between 2002 and 2008, an increase of 1 percent in GDP was associated with a reduction in poverty of 0.9 percent. Between 2014 and 2017, a 1 percent increase in GDP resulted in a less than one-third of a percentage point drop in poverty.

<sup>7</sup> Going from a Gini index of 34.6 in 2014 to 30.8 in 2019 (World Bank WDI).

<sup>8</sup> 2019 Systematic Country Diagnostic (SCD); 2021 Country Economic Memorandum (CEM); and 2022 Country Private Sector Diagnostic (CPSD).

anchor for reforms and highlighting the need to enhance its integration into the global economy, reduce vulnerabilities and enhance inclusion. The 2021 CEM focused on opportunities for Albania to move from unequitable and unsustainable growth to growth that is green, resilient and inclusive – by enhancing productivity, investing in people, and enhancing physical and economic resilience. The 2022 CPSD highlighted opportunities to unleash the potential of the private sector, recognizing its importance to Albanian population as a source of more and better jobs – identifying the need to improve business environment, enhancing skills, and developing tailored solutions to support key sectors. While these diagnostics had different scope, they converged to the three strategic priority areas reflected in this CPF: a) the need for a more productive and competitive private sector that can be the source of more and better jobs; and the need to b) foster Albania’s human capital to ensure productive lives and adequate livelihoods, and c) enhance resilience to shocks to mitigate their impact (Figure 1).

Figure 1. Development Agenda

	Systematic Country Diagnostic	Country Economic Memorandum	Country Private Sector Diagnostic	Country Partnership Framework
Development Objective	Reduce poverty and enhance shared prosperity	Strengthen the quality of the country’s socioeconomic development model	Unleash the potential of the private sector for sustainable and equitable growth	Identifies key objectives and results through which the WBG will support Albania to end extreme poverty and boost shared prosperity
Priorities	Foster competitive markets	Accelerate firm productivity growth and create better job opportunities	Enhance investment climate and reduce informality	More jobs in the private sector
	Integrate into the global economy		Improve productivity and innovation	
	Upgrade infrastructure (also contributes to enhanced resilience)		Enhance access to finance and financial inclusion	
			Support priority sectors: Agribusiness, Tourism, and Manufacturing	
	Enhance efficient investment in human capital	Invest in people and support workers’ transition to better employment	Address brain drain	Improved human capital
	Strengthen capacity of local governments to deliver services			
	Strengthen the redistributive efficiency of the state		Reduce skill mismatches	
	Enhance social and economic inclusion			
	Improve disaster resilience	Foster more green, resilient, and inclusive development (GRID)		Enhanced resilience
	Improve energy diversification	Create fiscal space to support its growth priorities		

### III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

#### 3.1 Government Program and Medium-Term Strategy

24. The GoA has articulated its priorities in strategic documents, placing renewed emphasis on green and sustainable growth, governance, and reforms towards EU accession. First, Albania’s National Strategy for Development and European Integration 2021-2030 (NSDEI) includes five focus areas: (i) European integration, (ii) good governance, democracy and rule of law, (iii) macroeconomic and fiscal stability, (iv) growth and competitiveness, and (v) sustainable use of resources. Second, a manifesto issued

by the new government after the Parliamentary elections in summer 2021 recognized the need to expedite recovery from the recent crises, improve welfare for the population, support those most in need and improve the competitiveness of the economy. Third, the annual Economic Reform Programme (ERP) outlines a list of structural reform priorities, as well as commitments to sound macroeconomic policy. Fourth, Albania's 2021-2035 National Climate Change Adaptation Plan identified the following priorities: (i) reducing flood damages; (ii) enhancing agricultural resilience; and (iii) securing quality of drinking water.

25. **EU accession remains an important overarching goal with a renewed impetus.** Albania is on the current agenda for future enlargement of the EU and accession negotiations officially started in July 2022. EU accession has been a long-held aspiration of Albania. The country applied for EU membership in April 2009 and was recognized as an official candidate for accession in 2014. The GoA has leveraged the EU accession journey as an opportunity to pursue important reforms on economic, social and institutional arenas. However, the journey towards accession will require additional efforts, including strengthening legal framework, institutions, and rule of law. The screening process for the *acquis communautaire* is underway and no chapters have been opened thus far<sup>9</sup>. The WBG program under this new CPF for FY23-FY27 is highly synchronized with the EU accession priorities.

### 3.2 Lessons Learned from the Previous CPF Engagement

#### 3.2.1 Selected Lessons from the Completion and Learning Review (CLR)

26. **The WBG program can achieve more systemic results by supporting systemic change alongside physical investments.** Under the previous CPF for FY15-FY19, the WBG provided financing for physical investments in various areas, from rehabilitation of dams and roads to reconstruction of hospitals and cultural heritage areas. These efforts have produced tangible results for numerous beneficiaries, demonstrated the feasibility of transformative investments and provided lessons that authorities can apply to future investments. But the experience with implementation of these projects has also illustrated that lasting results require not only investments in physical assets but, most importantly, strengthening the capacity of institutions to prioritize, conduct and maintain future investments. Accordingly, over the past years, the WBG has introduced in Albania instruments that support systemic change and institutional strengthening, such as WB Program for Results (PforR) and Investment Project Financing (IPF) with Performance Based Conditions (PBCs). Under the new CPF for FY23-FY27, the emphasis on financing institutional change will continue, with an explicit focus on identifying and seizing opportunities to strengthen the GoA's institutions and programs through each new investment project.

27. **Successful implementation of complex transformational agendas requires more than one CPF period and more than one instrument, to have a lasting impact.** Going forward, by leveraging the lessons learned, the WBG will address complex areas in Albania in a programmatic manner, which will likely require mobilization of various instruments in a sequenced manner. For example, the WBG has supported the healthcare sector so far through various instruments that helped the sector to strengthen facilities and respond to the heightened demand stemming from the earthquake and the pandemic – focusing on response and recovery efforts in line with the needs at the time. During this new CPF, the WBG's new support for healthcare will focus on strengthening resilience of the sector, including through accompanying the implementation of ambitious reforms envisioned by the authorities. A similar approach will be applied to the WBG support for education, environment, decentralization, and climate change agendas.

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<sup>9</sup> Twenty *acquis* areas are considered at 'moderately prepared' stage, ten are considered at 'some degree of preparation', two are considered at a 'well prepared stage,' and one is at an 'early stage'. EU Commission Staff Working Document: Albania Report.

28. **Proactive communication is critical to engage the public's participation to tackle complex development challenges and reforms.** Successful systemic reforms often require changes in behaviors and activities of stakeholders and civil society at large. For example, the CLR showed that the establishment of Citizen-Centric Service Centers created impressive efficiencies in interaction between the authorities and the population and eliminated opportunities for rent seeking. However, this required substantive behavioral change among public servants and population. Proactive and innovative communication efforts were instrumental in facilitating these changes by expressing upfront the objectives of this initiative in an accessible manner. Similarly, the experience during the past CPF showed that when information was limited, beneficiaries and stakeholders were significantly less supportive. Going forward, given the fact that the new CPF will focus on systemic change and reforms, the WBG will strengthen communication efforts on the overall program and will seek opportunities to embed communication activities, when needed, as part of projects' design.

29. **A flexible approach to the choice of instruments has been key to supporting reforms effectively and delivering results and can continue to support the portfolio moving forward.** The previous CPF was delivered through a mix of instruments: DPL, IPF, and introduction of results-based financing operations (PforRs and IPFs with PBCs). The WBG will remain flexible throughout the new CPF cycle and adjust its program and instruments to emerging priorities that recognize the country's development challenges and institutional capacity constraints.

30. **Effective coordination across ministries and between central and local governments will become even more relevant under this CPF.** Under the previous CPF, coordination between ministries and agencies was challenging, particularly in transformative cross-sectoral engagements. Many of the activities planned under this CPF are at the intersection of several ministries and/or require the active participation of municipalities. Accordingly, the WBG will actively support the efforts of the GoA to strengthen institutional coordination by working proactively with the State Agency for Strategic Programming and Aid Coordination (SASPAC).

31. **IFC's ability to catalyze a substantial pipeline of private investments is highly influenced by local dynamics,** including governance shortcomings, high turnover in the relevant state administration, lack of level playing field, frequent changes in policies and regulations, and weaknesses in law and contract enforcement. Accordingly, IFC objectives and priorities will be set taking these factors into account. IFC's engagement in future public-private partnerships (PPPs) should be subject to a clear strategy of their use and sectors, framework consolidation and institutional capacity for transparent implementation and monitoring.

### *3.2.2 Main messages from consultations*

32. **Feedback from the CPF consultations<sup>10</sup> confirmed that the WBG is focusing on the right priorities within its mandate and emphasized the participants' ambitious expectations from future WBG support.** The WBG's support is welcome, and participants consistently expressed the view that the impact of the collaboration under the previous CPFs has been positive for Albania. The WBG is seen as a strategic, honest, and credible partner to help the country pursue its main development objectives. Additionally, stakeholders encouraged the WBG to: a) increase its attention on human capital, encouraging further participation of the WBG in the education sector; b) maintain focus on reforms within all future programs; c) help increase the productivity of the private sector; d) embed, whenever possible, digital solutions and

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<sup>10</sup> Consultations were held during November 2021 and February 2022, including with public sector stakeholders, private sector representatives, civil society, academia, and development partners.

new technologies in the design and implementation of current and future programs; e) explore ways to expedite processing of new projects, expressing a strong sense of urgency; and f) produce more succinct reports and enhance real-time advise to inform authorities' decisions on policies and programs.

### 3.3 Overview of Proposed WBG Country Partnership Framework for FY23-FY27

33. The proposed CPF for FY23-FY27 will focus on three HLOs, with two themes (digitalization and inclusion) cross-cutting through all of them. HLO-1 supports the creation of more and better jobs, HLO-2 supports improvement of human capital, and HLO-3 supports Albania's resilience to shocks. Additionally, the CPF will have two cross-cutting themes: a) *leveraging digitalization* and b) *enhancing inclusion*.

Figure 2. High-Level Outcomes and CPF Objectives

High-Level Outcomes			
	HLO-1: Increased number of jobs in the private sector	HLO-2: Improved human capital	HLO-3: Enhanced resilience to shocks
<i>Indicators</i>	<ul style="list-style-type: none"> <li>• Unemployment (% of labor force)</li> <li>• Female Unemployment (% of female labor force)</li> <li>• Youth unemployment (% of total labor force ages 15-24)</li> <li>• Percentage of employed out of the working-age adults from the poorest decile</li> </ul>	<ul style="list-style-type: none"> <li>• Universal Health Coverage index</li> <li>• People using safely managed drinking water services (% population)</li> <li>• People using basic sanitation services (% population)</li> <li>• Human capital index</li> <li>• PISA scores (bottom 40%)</li> </ul>	<ul style="list-style-type: none"> <li>• Losses from recurrent climate events</li> <li>• Enhanced revenue collection (% of GDP)</li> <li>• Central government debt total (% of GDP)</li> </ul>
CPF Objectives			
	1.1: Improved foundations for private sector development	2.1: Improved quality, affordability, and access to healthcare	3.1: Enhanced financial resilience
	1.2: Improved competitiveness of key sectors	2.2: Improved quality and relevance of education	3.2: Enhanced resilience to natural shocks
		2.3: Improved provision of municipal services	
		2.4: Better protection of the most disadvantaged	
<i>Alignment with SDGs</i>	<ul style="list-style-type: none"> <li>• SDG 1 No poverty</li> <li>• SDG 5 Gender equality</li> <li>• SDG 8 Decent work and economic growth</li> <li>• SDG 9 Industry, innovation and infrastructure</li> <li>• SDG 10 Reduced inequalities</li> <li>• SDG 12 Responsible consumption and production</li> </ul>	<ul style="list-style-type: none"> <li>• SDG 3 Good health and wellbeing</li> <li>• SDG 5 Gender Equality</li> <li>• SDG 6 Clean Water and Sanitation</li> <li>• SDG 10 Reduced Inequality</li> </ul>	<ul style="list-style-type: none"> <li>• SDG 7 Affordable and Clean Energy</li> <li>• SDG 11 Sustainable Cities and Communities</li> <li>• SDG 13 Climate Action</li> <li>• SDG 14 Life Below Water</li> <li>• SDG 15 Life on Land</li> </ul>

<b>Alignment with SCD priorities</b>	<ul style="list-style-type: none"> <li>Integrating into the global economy</li> <li>Fostering competitive markets</li> </ul>	<ul style="list-style-type: none"> <li>Efficient investment in human capital</li> <li>Making local governments more effective</li> <li>Enhancing social and economic inclusion</li> </ul>	<ul style="list-style-type: none"> <li>Upgrading infrastructure</li> <li>Improving disaster resilience and energy diversification</li> </ul>
<b>Alignment with GoA priorities</b>	<ul style="list-style-type: none"> <li>Growth and competitiveness</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable use of resources</li> <li>Improve welfare of the population</li> <li>Support those in need; Secure quality of drinking water</li> </ul>	<ul style="list-style-type: none"> <li>Macroeconomic and fiscal stability</li> <li>Enhancing agriculture resilience</li> </ul>

**3.3.1 Approach to Selectivity and Knowledge Gaps**

34. **This CPF supports a selective WBG engagement striving for a greater impact on sectoral and country outcomes.** WBG support in Albania is in high demand. At the present time, the interest from Albanian authorities in WBG assistance is both wide-ranging across numerous areas, as well as deep within each one of these areas, covering both investments and reforms. This highlights the relevance of the WBG’s work, but it also enhances the need for selectivity in the program under this CPF. The intersection of the government’s actual and potential demand, the priorities identified in the SCD and the WBG comparative advantage determine the objectives and priorities identified in this CPF. At the same time, this CPF addresses the emerging priorities stemming from the impact of the global pandemic and Russia’s invasion of Ukraine and the need for strengthened resilience, with greater emphasis on greener and more resilient growth.

35. **Leveraging partnerships and the expected contribution to corporate priorities are additional selectivity criteria used to guide this CPF.** Given limited International Bank for Reconstruction and Development (IBRD) financing, the WB will favor programming with multiplier effects achievable through parallel and co-financing arrangements with other development partners to catalyze resources and scale up for impact. In addition, lending and non-lending activities will be expected to contribute to at least one of the following corporate priorities: (i) benefit the poor and promote inclusion of marginalized populations; (ii) facilitate private sector investment; and (iii) build resilience to shocks and mitigate the effects of climate change.

36. **This CPF will further strengthen the knowledge base and address some of the remaining knowledge gaps.** The WBG has recently made significant investment in core diagnostics as well as in sector-specific and regional Advisory Services and Analytics (ASA). These analyses and reports have been used to inform policy dialogue and design of new operations in the pipeline. Based on the emerging areas for engagement outlined in this CPF, additional knowledge may be needed to guide dialogue on access to finance, decentralization, climate change and education sector reform. Currently we are preparing a Country Climate and Development Report (CCDR) as part of Western Balkans Six – Regional Countries Climate and Development Report. Advisory-focused ASA will likely be needed on energy sector reform and disaster risk management (DRM).

**3.3.2 One World Bank Group**

37. **Effectively supporting Albania’s ambitious development agenda requires a One WBG Approach.** Engaging upstream through IBRD’s ASA and IFC advisory will help the government put in place the appropriate sectoral policies and regulatory frameworks in critical sectors such as mining, energy, finance,

capital market and agriculture. IBRD and IFC will collaborate to foster a better business environment, including process simplification and digitalization, access to finance, PPP regulations and practices, firm competitiveness, sanitation and waste management, and integration into global value chains, and to provide long term development finance. MIGA will continue to explore opportunities to use political risk insurance guarantees in promoting cross-border investment in critical and emerging sectors. These efforts will be central to crowding in private finance in support of each of the CPF Objectives.

**38. IFC advisory and financing engagements aim to catalyze private investment and crowd-in private financing in key areas where public financing can be better used for other priority needs.** In the past CPF cycle, IFC's main impact in Albania has been primarily based on a wide-ranging advisory program aimed at promoting an enabling business environment and providing much needed and sustained support for reforms and institutional capacity building in critical areas, including investment climate, insolvency, NPL resolution, energy, PPP, and trade facilitation. IFC will build on its impactful Advisory Services program, both country-focused and regional, and will continue advocating for a selective set of reforms, such as transparent PPP implementation, a sound framework for industrial zones, and capital markets development. IFC's advisory activities will also be rolled-out as part of regional programs, in areas such as digital finance, agriculture finance, urban mobility, and light manufacturing. IFC will closely coordinate with the Bank to implement the Cascade approach in areas such as PPP regulatory framework, crowding in private financing for basic public services (e.g., solid waste management), renewable energy, financial sector regulations, tourism sector development, and agribusiness development. IFC and the WB will cooperate in the development of upcoming development policy operations (DPOs) with a view to enabling much needed reforms in the aforementioned areas.

**39. MIGA, working closely with IBRD and IFC, will support foreign investment into the country through its political risk insurance products.** Currently, MIGA is supporting the financial sector in Albania with MIGA's capital optimization guarantees to two international financial institutions to reduce the regulatory risk-weighting applied to the mandatory reserves held at Albania's central bank by their Albanian subsidiaries, freeing up regulatory capital. The freed-up capital is intended to enable increased SMEs and climate finance lending in Albania. These operations were part of MIGA's COVID-19 response program to facilitate a faster and greener recovery. Through the One WBG Approach, MIGA will continue to explore new opportunities, including beyond the financial sector, to de-risk and facilitate foreign investments into Albania.

### 3.4 High-Level Outcomes and Objectives Supported by the WBG Program

#### HLO-1: Increased number of jobs in the private sector

**40. Rationale.** The private sector is the most important source of more and better jobs, which in turn are the most significant contributors to reduced poverty and improved prosperity. In Albania, jobs have increased in number in the past years, but much of Albania's recent economic expansion has occurred in relatively low-productivity and low-paying sectors such as basic manufacturing, construction, retail, and small-scale tourism. Over 30 percent of jobs are informal, preventing workers from joining the pensions system and enjoying full benefits from formal jobs. The share of self-employed (34.9 percent of total employment) is the highest in the Western Balkans region. These labor market outcomes partly reflect the structure of Albania's economy – low-productivity agriculture continues to absorb close to 40 percent of total employment, while manufacturing and services are underdeveloped. Various factors will be needed to unleash the potential of the private sector to create more and better jobs in Albania, ranging from better enabling infrastructure and adequate financing to better business environment across the board and support for key sectors. Under this HLO, the WBG will focus on strengthening the foundations for a thriving and competitive private sector that can leverage the talent of the Albanian people and better



meet the aspirations of the youth.

**Objective 1.1: Improved foundations for private sector development**

Key Issues	Instruments
<ul style="list-style-type: none"> <li>• Small economy with limitations on connectivity and integration with the rest of the region and EU</li> <li>• Outdated production processes and technologies</li> <li>• Underdeveloped transport infrastructure undermining access to markets</li> <li>• Insufficient financial intermediation limiting private sector investment, competitiveness, and growth</li> <li>• Business environment obstacles undermining investment and competitiveness</li> </ul>	<b>IBRD Lending (Ongoing and Pipeline):</b>
	Western Balkans Trade and Transport Facilitation (ongoing) - P162043
	Regional and Local Roads Project (ongoing) – P163239
	Urban and Tourism Project (ongoing) – P155875
	Additional Finance: Project for Integrated Urban and Tourism Development (ongoing) – P171438
	Bridges Rehabilitation Project (pipeline) – P174595
	<b>Key ASA and TA:</b>
	Enhancing Access to Green and Innovative Finance and Strengthening Supervision of Non-bank Financial Sector (planned)
	Unleashing the Potential of Innovative Start-ups and SMEs in the Western Balkans: Investment Readiness (ongoing) - P163168
	<b>MIGA Guarantees:</b>
	ProCredit Mandatory Reserves - P14775
	Raiffeisen Banka Sh. A - P12892
	<b>IFC advisory (ongoing and pipeline):</b>
	IFC regional Embedded Finance and Digital Financial Services Europe (pipeline) - P607268
	IFC regional Crop and Warehouse Receipts (pipeline) (P607151)
	IFC European Commission Western Balkan Agri Risk Sharing Facility (pipeline) P44833
	IFC Digital Strategy Accelerator Program, DIGILAB (ongoing) - P604205
IFC Regional Eco Industrial Park (pipeline) P607033	
IFC Union Bank Advisory (ongoing) - P606725	

41. **Relevance of this objective: why stronger foundations for private sector development are needed?** Albania has a strong potential and benefits from comparative advantages, including its geographical location, natural resources, and entrepreneurial population. However, the private sector has not caught up in terms of productivity and competitiveness to the level that is needed for it to be the source of the better paying jobs that the country aspires to. Given Albania’s small domestic economy, accelerating the country’s integration into global value chains (GVCs) is a pathway to sustained growth and formal job creation, through access to larger and more affluent markets, a greater talent pool, financing opportunities, new technologies and more sophisticated production inputs. Investment in Albania’s connectivity infrastructure can unlock positive feedback loops between greater firm capability and greater integration with the global economy. Improving the business environment and access to finance will be necessary to enable necessary domestic and foreign investment and reduce informality. The WBG is well positioned to support the authorities through a combination of targeted investments in physical infrastructure and advise on policies and programs.

42. **Development challenges and opportunities.** Albania is lagging its peers on several fronts, including transport infrastructure, roads network, railways and airports and has the largest infrastructure gap in the Western Balkans. Deficiencies in trade processes and physical border crossings translate into increase in time and cost of trade, thereby reducing export competitiveness and foreign direct investments (FDI). Access to finance is necessary to enhance competitiveness, growth, and job creation, but access to finance is limited, especially for SMEs. Business environment deficiencies prevent creation and growth of private companies and contribute to informality – which in turn becomes a major drag on competitiveness.

43. **WBG ongoing and planned support.** To enhance connectivity, the WB will continue to provide support for improvement of the roads network (*Regional and Local Roads Project (P163239)*), help enhance the resilience and adequacy of high priority bridges (*Building Resilient Bridges Project (P174595)*), and support trade facilitation (*Western Balkans Trade and Transport Facilitation (P162043)*). To support economic integration, the WBG will continue assisting the government in designing and implementing its National Single Window Platform. To enhance access to finance, the WB and IFC will support innovative approaches and better tailored financial instruments through ASA, which may be complemented by investment operations, and will target SMEs across the country and/or focus on solutions for specific sectors (e.g., agribusiness, digital economy, and logistics). Additionally, IFC will support the development of the local capital markets, including through non-bank financial institutions (*Embedded Finance and Digital Financial Services Europe*). MIGA will support the financial sector to improve access to finance, including to SMEs and climate finance-related activities. To improve the business environment (an emerging area for engagement), the DPO operation will support foundational actions to combat informality. The WBG will leverage existing knowledge (including the CEM and CPSD) to inform priorities, policy options and potential additional support.

**Objective 1.2: Improved competitiveness of key sectors**

Key Issues	Instruments
<ul style="list-style-type: none"> <li>Fragmented production and low productivity in the agricultural sector</li> <li>Low food quality standards not meeting requirements of potential trade partners</li> <li>Agri-water service delivery and drainage issues</li> <li>Poor roads connectivity hindering market access for agricultural goods and tourism sites accessibility</li> <li>Pollution and environmental issues undermine tourism industry</li> <li>Inadequate basic urban infrastructure to provide competitive tourism offer</li> <li>Lack of diversified and well managed tourism activities</li> </ul>	<b>IBRD Lending (Ongoing and Pipeline):</b>
	Urban and Tourism Project (ongoing) – P155875
	Additional Financing: Project for Integrated Urban and Tourism Development (ongoing) – P171438
	Regional and Local Roads Connectivity (ongoing) – P163239
	Climate Resilience and Agriculture Development Project – CRAD (pipeline) - P178715
	Clean and Resilient Environment (CARE) for Blue Sea Project (pipeline) - P176163
	Developing affordable, green and digital finance for Albanian Farmers and MSMEs - P179853
	<b>IFC program:</b>
	IFC Investment in services sector (tourism and retail infrastructure) (pipeline) - P46472
	IFC Western Balkan Light Manufacturing Value Chain/Supplier Development Program (pipeline) - P607166

44. **Relevance of this objective: why a sector specific focus is necessary?** Beyond the work on cross-sectoral foundations (Objective 1.1), this CPF will aim to provide tailored support to improve competitiveness and job creation in key sectors – recognizing that many opportunities and binding constraints are sector-specific. Under the previous CPF, the WBG started its support for tourism and manufacturing. Under the new CPF, the WBG will continue its support to these sectors and will also deepen its support for agriculture and agribusinesses. This objective would focus on competitiveness and job creation, while the support for green investments, depollution of the economy and enhanced resilience will also contribute to HLO-3.

45. **Development challenges and opportunities.** Agribusiness is a key sector in the Albanian economy. It is the largest contributor to GDP and the biggest source of jobs, especially for women. It has a strong potential based on fertile land and good geographical location. But outdated production processes, exposure to weather risks, deficiencies in access to finance and markets, and uneven quality undermine competitiveness. Tourism is a significant contributor to fiscal revenue and jobs. However, basic urban infrastructure inadequacies, lack of diversification and pollution undermine the competitiveness

and sustainability of the sector. Manufacturing of automotive parts and apparel manufacturing industries have grown rapidly, benefitting from access to GVCs. Yet, competitiveness is still hampered by relatively low productivity, insufficient investment in production processes and new technologies, small scale, deficiencies in getting products to markets in a fast and predictable manner, and business environment uncertainties undermining efficiency-seeking FDI. The emerging trend of nearshoring triggered by the COVID-19 pandemic and the spillovers from Russia’s invasion of Ukraine present a critical window of opportunity for Albania to attract productivity enhancing FDI from the European value chains. Tapping this opportunity will require accelerating business climate reforms while aligning with the manufacturing standards and requirements of the EU, such as environment and carbon adjustment mechanism

**HLO-2: Improved human capital**

46. **Rationale: Why improving human capital matters.** Economic growth in Albania has improved overall living standards, but they are still less than one third of those of EU and convergence is still decades away even in an optimistic scenario. Poverty remains a painful reality for a significant portion of Albania’s population and the recent shocks have increased vulnerability of those that have the least. Most jobs available provide low wages and limited opportunities for professional development. Better jobs are few and remain out of reach for many school graduates that lack relevant skills and knowledge. In turn, limitations in qualified labor force contribute to further reducing the private sector’s competitiveness and ability to create better jobs. Unemployment and inactivity remain high, especially among women and youth. A large proportion of women do not participate in formal economic activities. Inequality has increased, especially affecting those in rural areas and vulnerable groups. Economic migration is high, further depriving the country of talent and labor force. For those that stay, quality of life is eroded by pollution and low livability in urban areas and inadequate provision of public services, especially in rural areas. An aging population due to migration and decreasing birth rates poses future fiscal risks and heightens current budgetary tradeoffs. Health and quality of life is further hindered by pollution, congestion, and low livability of urban areas. In rural areas, deficiencies in public services undermine opportunities and perpetuate inequality.

**Objective 2.1: Improved quality, affordability, and access to healthcare**

Key Issues	Instruments
<ul style="list-style-type: none"> <li>• Healthcare sector has been at the center of the recent crises, highlighting the need to enhance resilience</li> <li>• Healthcare provision has improved, but quality is still uneven</li> <li>• Financial constraints in the sector undermine service provision and highlight the need to strengthen efficiency</li> <li>• Out of pocket expenditures remain high, limiting accessibility by the poor</li> </ul>	<b>IBRD Lending (Ongoing and Pipeline):</b>
	Health Systems Improvement Project (ongoing) – P144688
	Additional Finance: Health System Improvement Project (ongoing) – P173351
	<b>Key ASA and TA:</b>
	Western Balkans Regional Health Program (ongoing) – P169008

47. **Relevance of this objective: why is healthcare a priority under this CPF?** The WBG has been a strategic partner to the GoA in the healthcare sector. This engagement has evolved over time, from investments in physical assets to policy definition and facilitation of critical sector reforms. This evolution reflects the WBG’s ability to deliver results in physical investments, mobilize knowledge rapidly to inform policy options and respond rapidly to the recent twin shocks of the earthquake and the pandemic. Future engagement in the sector will place further emphasis on sectoral reforms to access, quality and affordability of healthcare and strengthen resilience.

48. **Development challenges and opportunities.** The healthcare sector in Albania was directly impacted by recent twin crises. While the sector was able to respond to these crises, they highlighted the

need to enhance the sector’s resilience and further improve its efficiency. Even before the pandemic, the healthcare sector had been under stress due to increased demand and deficiencies in supply (due to low public spending, inefficient allocation of the limited resources within the system, and outdated facilities). This translated into lower accessibility and quality of public healthcare and high out-of-pocket expenditures, especially damaging for the poor. Going forward, there is increased urgency from the GoA to implement well identified reforms to improve governance and financial management of healthcare facilities, implement digital tools to enhance efficiency and undertake physical investments in critical facilities.

49. **WBG ongoing and planned support.** The *Health System Improvement (P144688)* project will continue strengthening public hospital sector management capacity, hospital services infrastructure, and efficiency of healthcare facilities, and improving Health Information Management for hospital services. The *COVID-19 Multiphase Programmatic Approach (MPA) (P174101)* project has supported strengthening of the sector’s ability to respond to the pandemic (through procurement of equipment and supplies) while strengthening resilience of the sector through investment in testing facilities, improving capacity of the main Infectious Disease Hospital and the Institute of Public Health, and supporting health care workers with tailored training and guidelines. Additional financial support under the new CPF<sup>11</sup> could focus on reform of the sector, helping authorities to achieve the stated strategic objectives (under the GoA’s Hospitals Master Plan), including enhanced efficiency in use of resources, quality of service, accessibility, and affordability (reform in pharmaceutical procurement).

**Objective 2.2: Enhanced quality and relevance of education**

Key Issues	Instruments
<ul style="list-style-type: none"> <li>Education curricula across all levels are lagging the changing needs of the economy and employers</li> <li>Very low access to Early Childhood Education and tertiary education (58%)</li> <li>Low quality: 3.9 year-learning gap for most Albanian students. The quality of tertiary education in Albania is 4.5 times lower than the EU average</li> <li>A large proportion of students are not acquiring foundational skills: 52% below basic proficiency in reading; 42% below basic proficiency in math</li> <li>Significant learning losses from the pandemic without a solid recovery mechanism</li> </ul>	<b>IBRD Lending (Ongoing and Pipeline):</b>
	Improving Universal Access to High Standard Public Services through GovTech (pipeline) - P177845
	<b>Key ASA and TA:</b>
	Western Balkans Education ASA (ongoing) – P169255
	Digital skills ASA (ongoing) – P156007

50. **Relevance of this objective: why is education a priority under this CPF?** Equipping students with relevant and high-quality education is one of the most critical investments that Albania can undertake towards a prosperous society and a competitive and sustainable economy. Albanian youth are talented and entrepreneurial, but in the absence of the right knowledge and skills, this talent is frequently underutilized in jobs with low salaries and prospects, and much of the entrepreneurship remains in informal economic activities. Education can be the great equalizing factor that fosters inclusion of disadvantaged segments of the society and regions across Albania. While some improvements have taken place in the past years, significant reforms are required to leapfrog achieving higher education outcomes. The WBG did not provide financing to education during the past CPF, as a robust policy dialogue between the Bank and the Ministry of Education was absent. Given the centrality of education for Albania’s development, this CPF will place strong efforts on developing a substantive engagement in this area.

<sup>11</sup> At the time of preparation of this CPF, there is no new health sector project under preparation, but the WB will continue to engage in policy dialogue and provide advice to the sector authorities. This may be complemented by a new investment project in the outer years of the CPF.

51. **Development challenges and opportunities.** Deficiencies in education start in early childhood and carry all the way to tertiary levels and later to jobs and life. This translates into low quality and attainment across all education levels, and this situation is likely worse in rural areas and among disadvantaged population, contributing to a circle of poverty. The pandemic deepened these challenges and translated into additional learning losses which, without a solid mechanism to recover, can translate into life-long deficiencies. The education system is affected by insufficient public spending, inefficient allocation of resources, weak teacher career growth incentives and professional development, and low instructional time. A new National Education Strategy 2021-26 recognizes many of the challenges and proposes some solutions. However, the proposed solutions are not transformative enough to produce the education outcomes that Albania must achieve.

52. **WBG ongoing and planned support (emerging area).** Under the new CPF, the WB will aim to develop policy dialogue focusing on transformative reform in the education sector towards a) improvement of quality of pre-university education, including early childhood education (ECE) with strong focus on inclusion; and b) improvement of financial management of the education sector focused on enhancing efficiency in allocation of resources and better linking resources to outcomes. Depending on the success of policy dialogue, a potential investment operation would support the implementation of critical reforms. A new operation, *Improving Universal Access to High Standard Public Services through GovTech* (P177845), will support the development of digital Smartlabs to enhance digital skills and foundational skills (numeracy and literacy) among the early primary grades. A pilot on digital skills for women provides training and sheds lessons to inform scaled-up approaches nationwide.

**Objective 2.3: Improved provision of municipal services**

Key Issues	Instruments
<ul style="list-style-type: none"> <li>Significant deficiencies in coverage and quality of public services</li> <li>Significant financial and operational shortcomings undermine the ability of municipalities and public utilities to enhance coverage and quality</li> <li>Lack of performance assessment and incentives contributes to inefficiencies in use of limited public resources</li> </ul>	<b>IBRD Lending (Ongoing and Pipeline):</b>
	Albania National Water Supply and Sanitation Sector Modernization Program PFORR (ongoing) – P170891
	Clean And Resilient Environment for Blue Sea Project (pipeline) - P176163
	Albania First Resilience and Green Development Sustainability DPF (pipeline) - P178202
	Green Cities (potential)
	<b>Key ASA and TA:</b>
	Support for decentralization ASA (ongoing) – P175798
	Solid waste management ASA (emerging area)
	Strengthening Subnational Governance Service Delivery in WeBa – P178313
	WeBa Climate-Ready Cities ASA (regional, ongoing) – P177921

53. **Relevance of this objective: why are municipal services critical to strengthen human capital?** Adequate provision of public services is critical to enable people to have healthy and productive lives and to reduce inequality. However, in Albania the coverage of public services is uneven across the country (with significant limitations in rural areas) and quality is often well below what is needed.

54. **Development challenges and opportunities.** A decentralization effort in 2014 transferred the responsibility for provision of public services (including water supply, sanitation, waste management, education, childcare, and disaster response) from the central government to local authorities. Many local authorities have been unable to acquire the operational and financial capacity to manage and provide these services in a consistent manner, resulting in under-provision and low quality. Shortcomings in coordination, lack of standards and accountability mechanisms have contributed to the perpetuation of these deficiencies, which have a direct negative impact on human capital, environment, and economic

opportunities. These issues are at the center of several development challenges: a) public service provision is particularly faulty in rural areas, perpetuating high disparities and inequity; b) urban areas benefit from relatively higher public service coverage but the quality is deficient, creating social and environmental costs; c) pollution, congestion, and deficient planning erode the quality of life; d) deficiencies in management of solid waste and wastewater undermine the competitiveness of critical sectors (including tourism and agriculture); and e) lack of provision of childcare undermines the ability of women to participate in economic activities.

55. **WBG ongoing and planned support.** A new engagement (ASA) on decentralization will inform the GoA and identify opportunities for WBG financing to a) strengthen the institutional and legal framework to improve responsibilities, oversight, and accountability; b) develop mechanisms to enhance financial sufficiency and sustainability of service provision; and c) enhance the operational capacity and efficiency of relevant institutions. The *Water Sector Modernization (P170891) PforR* will: a) improve the sustainability and provision of water supply; b) enhance the operational and financial efficiency of water utilities; and c) introduce incentives for performance. The IFC jointly with the WB will continue policy dialogue with GoA towards enhancing the efficacy and sustainability of PPPs in public services. The *Clean and Resilient Environment for Blue Sea (P176163) project* will support sanitation and solid waste management in Vjosa River Basin and Vlora South Waste Zone. The *First Resilience and Green Development DPF (P178202)* will support better management of plastic waste. The WB will further develop policy dialogue on solid waste management through ASA and potential investment financing (emerging area).

**Objective 2.4: Better protection of the most disadvantaged**

Key Issues	IBRD Lending (Ongoing and Pipeline)
<ul style="list-style-type: none"> <li>• Increase in poverty following the COVID-19 pandemic</li> <li>• Rising inflation affects the poor</li> <li>• Existing social protection scheme does not fully cover vulnerable populations</li> <li>• Children grown in poverty cannot break the cycle</li> </ul>	Developing Opportunities, Resilience and Economic Support Project (pipeline) - P178855

56. **Relevance of this objective: why is social protection a priority under this CPF?** While poverty has decreased over time, more than one tenth of the population remains below the poverty line. The overall coverage of social protection scheme is low, and resources allocated to social protection are below the needs of the vulnerable. Children living in poverty cannot reach their human capital potential, which perpetuates an inter-generational cycle of persistent poverty.

57. **Development challenges and opportunities.** While Albania has demonstrated a strong commitment to improving the equity and efficiency of its social protection system, key reforms remain incomplete and, consequently, the system creates inequities. Overall coverage of social protection is low, and resources allocated to social protection are below the needs of the vulnerable. Adaptable social safety nets with better coverage and benefit adequacy will be critical to Albania’s ability to mitigate the impact of inflation shocks on the vulnerable population.

58. **WBG ongoing and planned support.** Under the previous CPF, the World Bank supported the strengthening of social protection through reforms of the main transfer program for the poor and improving the disability assessment system. The Developing Opportunities, Resilience and Economic Support Project (P178855) will support authorities to enhance the coverage, efficiency, and effectiveness of social assistance and social services, and expand the provision of employment programs for the poor and vulnerable. This is complemented by ongoing technical assistance on the pension system to improve

its effectiveness and sustainability. The First Resilience and Green Development DPF (P178202) supports increasing the efficacy of social assistance system through reforms on disability benefits.

### HLO-3: Enhanced resilience to shocks

59. **Rationale: Why enhancing resilience is needed.** Albania is highly exposed to natural disasters and external shocks, including low frequency but high impact events (e.g., earthquake in 2019 and current pandemic) and recurrent adverse natural events (floods, mudflows, landslides, droughts, and wildfires). These shocks have a wide range of outcomes, from loss of lives and livelihoods to negative impact on the economy and loss of public and private physical assets. The 2019 earthquake caused losses of over US\$1 billion, with risk assessments indicating that larger events causing losses over US\$2 billion are possible. Climate change is exacerbating the frequency and impact of weather-related events and this trend will likely increase over time. Floods create major asset losses and disruption to local economy - one third of Tirana’s built-up area is exposed to river and rainwater flooding. Droughts have increased in frequency and severity, compounding challenges on the competing use of water for agriculture and energy generation (solely dependent on hydro). Other climate-related natural hazards, including extreme weather and sea level rise, are projected to severely affect Albania in the next decades.

60. **Overall WBG engagement.** Under the previous CPF, the WBG supported improvement of roads and their resilience to natural risks; initiated policy dialogue towards improving the agriculture’s competitiveness and resilience to climate change; invested in knowledge creation towards unleashing the potential of Albania’s Blue Economy; and provided policy advice to the GoA on avenues to enhance DRM. The new CPF builds on the previous engagement and proposes a program that more substantively recognizes the reality of climate change; the vulnerability of the country to natural shocks (and the need to develop a proactive and effective response when disasters happen); and the need to preserve natural resources. It is expected that the finding of the CCDR can inform government policy options and future investment priorities. The proposed program leverages the interest from authorities to enhance the competitiveness of large sectors (agriculture and tourism) as an entry point to depollute the economy and improve the environment.

### Objective 3.1: Enhanced financial resilience

Key Issues	Instruments
<ul style="list-style-type: none"> <li>Albania is exposed to a wide range of shocks</li> <li>Recent risks have had a major impact on the macro-fiscal position of the country through reduced revenues and high unplanned recovery expenditures</li> <li>Financing of recovery has derailed attention from much-needed investments to upgrade Albania’s growth model</li> <li>Enhancing the fiscal space and managing public debt will be critical to create the ability to respond to shocks</li> <li>Lack of adequate financial instruments (such as disaster risk insurance) prevent the mobilization of private financing to manage some of these risks</li> <li>The energy sector is highly exposed to energy price shocks that have a recurrent high impact on Albania’s financial standing</li> </ul>	<b>IBRD Lending (Ongoing and Pipeline):</b>
	Albania National Water Supply and Sanitation Sector Modernization Program (ongoing) – P170891
	First Resilience and Green Development DPF (pipeline) – P178202
	<b>IFC program:</b>
	IFC renewable energy (ENSO Hydro Energji) (ongoing) - P30979
	IFC renewable energy (Kurum International) (ongoing) - P33378
	IFC Albania Energy Market (ALPEX) AS (ongoing) - P601598
	IFC Western Balkans Debt Resolution Phase II AS (ongoing) - P603482
	IFC RE/Solar Parks Investment (pipeline) - P45644
	<b>Key ASA and TA:</b>
	Macro-fiscal & PFM policy dialogue ASA (ongoing) - P165284
	Public Sector Accounting ASA (ongoing) - P159931
	Climate informed PFM ASA (ongoing) - P172569
	Energy Sector ASA (planned)
Western Balkans Six – Regional Countries Climate and Development Report - P179205 (ongoing)	

61. **Relevance of this objective: Why financial resilience is a priority.** Albania’s exposure to shocks has eroded hard-won gains on public debt reduction and fiscal consolidation. The need to respond to emergencies has frequently translated into diversion of budgetary resources from important development priorities, such as the need to upgrade Albania’s economic model.

62. **Development challenges and opportunities.** There are three main areas of work towards financial resilience. First, the need to create fiscal space: Albania will need to rationalize and enhance the efficiency of public spending and enhance revenue collection by strengthening tax policy and improving tax compliance<sup>12</sup>. Second, the need to make use of risk sharing instruments and private financial instruments, such as disaster risk insurance that provide financial support to the population in case of shocks – reducing the reliance on public budget for recovery efforts. Third, the need to reduce exposure to energy volatility: energy crises are recurrent in Albania, as the country’s energy generation is highly exposed to weather patterns affecting generation, while tariff rigidity passes on the volatility to the public budget. Enhancing the energy mix, revising the tariff mechanisms, and strengthening targeted social assistance to shield low-income users can reduce the volatility and adverse impact on public budget.

63. **WBG ongoing and planned support.** To improve macro-fiscal stability, the *First Resilience and Green Development DPF* (P178202) will support major actions towards creating fiscal space, managing fiscal risks related to natural disasters and strengthening the response to climate change. The WBG will continue to provide advisory services to the Ministry of Finance and Economy (MoFE) on policy options to enhance revenues and efficiency of expenditures. Similarly, the DPF series will support the law on earthquake insurance for households and accompanying TA to financial authorities will support the development of private financial instruments for risk diversification. To reduce energy related vulnerabilities, the DPO also supports the country’s efforts to increase reliance on renewables and promote energy efficiency, through strengthening the regulatory framework promoting renewable energy, the establishment of Albania Energy market and increasing energy efficiency in the public sector. In complementarity, the IFC will support energy diversification through investments in renewable energy and continue its advisory program to operationalize a well-functioning, transparent and competitive platform for electricity exchange (Albania Energy Market - ALPEX). Upon GoA request, the WB will be ready to support authorities on reforms and investments to strengthen the resilience of the energy sector, complementing efforts from other development partners supporting the sector.

**Objective 3.2: Enhanced resilience to natural shocks**

Key Issues	Instruments
<ul style="list-style-type: none"> <li>Climate change risks, such as floods, droughts, and wildfires, impose threat to agriculture (key sector of the economy), and to livelihoods overall</li> <li>Natural disasters, to which Albania is exposed, are costing lives and causing financial damages</li> <li>Roads and bridges are vulnerable to climate change and disasters</li> </ul>	<b>IBRD Lending (Ongoing and Pipeline):</b>
	Regional and Local Roads Connectivity (ongoing) – P163239
	Water Supply and Sanitation Sector Modernization Program (ongoing) – P170891
	Climate Resilience and Agriculture Development Project – CRAD (pipeline) - P178715
	Building Resilient Bridges Project (pipeline) – P174595
	<b>Key ASA and TA:</b>
	IFC/WB WeBa Green Transport Program (planned)
	Strengthening Disaster Resilience in Albania (ongoing) – P172145
Western Balkans Climate-Ready Cities ASA – P177921	

<sup>12</sup> This will require: (i) bolstering the personal income tax, (ii) developing a holistic approach to reduce informality in the labor market; (iii) broadening the taxpayer’s base; (iv) increasing value-added tax (VAT) revenues by reducing exemptions; and (v) improving tax collection systems.



	<b>IFC Program:</b>
	IFC Western Balkan Urban Mobility Program (ongoing) - P605811

64. **Relevance of this objective: Why enhancing the resilience to natural shocks is needed?** Albania is highly exposed to natural shocks, many of which will likely increase in intensity and frequency due to climate change. Enhancing resilience will help to mitigate the impact of these shocks, especially on the most vulnerable, expedite recovery efforts when risks materialize, and reduce the fiscal impact.

65. **Key development challenges: What is needed to enhance resilience to shocks?** It is important to improve infrastructure, as much of Albania’s roads and bridges need investment to enhance usability, and reduce vulnerability to earthquakes, floods and landslides. Similarly, is it important to enhance readiness to deal with the impact of climate change – which is already enhancing the frequency and impact of droughts, floods, and wildfires. At the same time, it is also important to enhance the ability to respond rapidly to disasters by strengthening DRM.

66. **Ongoing and planned WBG support to enhance resilience to shocks.** To improve infrastructure resilience, the ongoing *Regional and Local Roads Connectivity project (P163239)* will help enhance the resilience of roads. The new *Building Resilient Bridges project (P174595)* will invest in the refurbishment of bridges vulnerable to earthquakes and floods. The *Water Supply and Sanitation Sector Modernization PforR (P170891)* will increase resilience to floods, droughts, and landslides, through reduction of water losses, upgrading of water supply systems, upgrading construction standards for small water supply schemes, and introduction of water safety and risk management plans. To enhance resilience of agriculture, the *Climate Resilience and Agriculture Development project (P178715)* will support adoption of improved irrigation and climate-resilient agriculture. To improve preparedness (emerging area), the WBG will aim to advise the GoA on disaster risk financing, climate change risks, and DRM. Upon request, the WB will be ready to mobilize additional instruments (including investments). IFC will engage an upstream effort with the Tirana municipality to identify jointly with the WB a pipeline of opportunities for the mobilization of private and public finance to support the urban mobility projects.

**Cross-cutting themes: digitalization and inclusion**

67. **The above-mentioned three HLOs will incorporate two cross-cutting themes: digitalization and inclusion.** A focus on *digitalization* will support achievement of the HLOs and CPF objectives through more efficient and modern technologies and tools. A cross-cutting emphasis on *inclusion* will reflect the WBG’s commitment to eliminating obstacles to women, youth and disadvantaged segments of the population to realize their potential and have opportunities for healthy and prosperous lives.

68. **Relevance: why is digitalization important for Albania?** Over the last few years, Albania has been a success story in leveraging new technologies to improve the functioning of the public sector; reducing red tape, time wasted and corruption interactions between authorities and businesses and population; improving the outreach of services to previously underserved areas and improving the efficiency of use of public resources. The digitalization drive is pervasive across all areas of public administration and is central to strategic directions of the GoA. The positive experiences illustrate the potential of these efforts, and additional opportunities for digitalization remain across all sectors. Accordingly, this CPF will focus on identifying and exploiting the potential for digitalization and mobilization of new technologies to address the development challenges, targeted across the portfolio of activities in various sectors.

69. **How a cross-cutting focus on digitalization will be reflected in the CPF.** The *Improving Equitable Access to High Standard Public Services through GovTech* project (P177845) will focus on improving digital

skills of population, as well as increasing quality of e-services and introducing digital service standards. *Albania Digital Trade Project ASA* would also run a pilot program to build skills on online global freelancer websites. The *WeBA Trade and Transport Facilitation* (P162043) operation will support implementation of an electronic Single Window for trade, new Computerized Transit System and new Vessel Traffic Management and Information System. The ongoing *Health System Improvement Project* (P144688) will establish the improved Regional Hospital Information System, which will incorporate improved health insurance information system and contribute to more efficient health system management. A potential new engagement (Green Cities) would rely on digital technologies to inform critical urban planning activities and investment. Modern digital tools will also be used to mitigate climate change effects by increasing the agricultural productivity with the help of investments into “climate-smart” agricultural technology (*Climate Resilience and Agriculture Development Project*, P178715) and usage of modern Bridge Management System (BMS) and remote sensing. IFC through its DIGILAB operation will help senior-level executives of financial institutions to develop and implement a high-level digital vision. IFC capacity-building programs with commercial financial institutions will support the optimization of their IT organizations, operating models, and product mix with a focus on targeted underserved segments.

*Cross-cutting opportunities for digitalization:*

WBG program	CPF objectives	Digitalization focus
WeBA Trade and Transport Facilitation – P162043	HLO-1: Objective 1.1	Streamline trade procedures
IFC Digital Strategy Accelerator Program - P604205	HLO-1: Objective 1.2	Support fintech solutions
IFC Union Bank Advisory - P606725	HLO-1: Objective 1.2	Enhance efficiency of bank operations
Health System Improvement Project – P144688	HLO-2: Objective 2.1	Hospital management efficiency
Albania Digital Trade Project ASA	HLO-2: Objective 2.2	Enhance digital skills
High Standard Public Services through GovTech – P177845	HLO-2: Objective 2.3	Implementation of on-line portals for public services; strengthening digital skills for students
Climate Resilience and Agriculture Development Project - P178715	HLO-3: Objective 3.2	Adoption of new technologies for agriculture
Green Cities (potential)	HLO-2: Objective 2.3	Digital tools for enhanced livability of urban areas
Building Resilient Bridges Project – P174595	HLO-3: Objective 3.2	Digital tools for monitoring of bridges and traffic

70. **Relevance: why is inclusion important in Albanian context?** Poverty is still a sad reality for a large segment of the Albanian population, and growth has become less impactful in reducing poverty and enhancing prosperity. The COVID-19 pandemic highlighted the susceptibility of poor and vulnerable populations to shocks and how the rigidities in the current social protections system undermined the effectiveness of the response. In terms of geographical dimension, around 41 percent of Albania’s population lives in rural areas, where people have worse access to various services than in the urban areas, and Roma and other vulnerable and minority populations are at disadvantage. These deficiencies perpetuate existing disparities in income, quality of life and opportunities. In terms of gender inclusion, although there are no gender gaps in educational attainment in Albania, women have a significantly lower participation rate in the labor force and many take jobs that require lower qualifications, as occupational stereotypes limit women’s choices to sectors that are characterized by lower salaries. Women lose on average 25 years of productive life due to obstacles to their economic activities, ranging from limited availability of childcare to adverse social norms. Minorities, including Roma, people with disabilities, and LGBTQI face additional inclusion challenges across the board. This CPF will aim at having an inclusion lens to the policy dialogue, project design and implementation with the intention of ensuring that opportunities to enhance inclusion are identified and exploited across the board, from ‘traditional areas’

(such as social protection) to less obvious areas (such as infrastructure). By incorporating inclusion as a cross-cutting theme, the CPF aims to operationalize the WBG’s commitment to identify and exploit opportunities to support inclusion through all possible current and future projects.

71. **How will a cross-cutting focus on inclusion be reflected in the WBG program?** To enhance women’s inclusion, the WBG will address obstacles to women’s participation in economic activities (e.g., by supporting the provision of childcare). Existing infrastructure projects will support job creation for women in the private sector. The Water Supply and Sanitation Sector Modernization Program will promote gender diversity in workforce plans of the water utilities. The Climate Resilience and Agriculture Development Project (P178715) will aim to increase employment of women in value chain investments. To strengthen protection of the most disadvantaged, the WBG will support strengthening social protection through reform of the main transfer program for the poor and improvement of the disability assessment system. Upon request from GoA, the WBG will be ready to support enhancing the sufficiency and coverage of social protection; expansion of the provision of employment programs for the poor and vulnerable; and adaptive social protection to respond to crises and disasters. To address geographical dimensions of inclusion, the Water Supply and Sanitation Sector Modernization Program will improve water supply in rural areas and in Roma, Egyptian and other minority communities. The Building Resilient Bridges Project (P174595) will improve connectivity and safety of infrastructure for populations living in the mountainous terrain areas. Finally, by promoting e-services, the Improving Equitable Access to High Standard Public Services through GovTech project (P177845) will benefit vulnerable populations by increasing their access to public services.

*Cross-cutting focus on inclusion:*

WBG program	CPF objectives	Inclusion focus
Regional and Local Roads Connectivity – P163239	HLO-1: Objective 1.2	Support employment opportunities for women and enhance connectivity for rural communities
Water Supply and Sanitation Sector Modernization Program – P170891	HLO-2: Objective 2.3	Enhance provision of basic water supply and sanitation to rural areas
Climate Resilience and Agriculture Development – P178715	HLO-1: Objective 1.2	Create opportunities for better livelihoods in rural areas
Building Resilient Bridges Project – P174595	HLO-3: Objective 3.2	Enhance connectivity and reduce risks for users
Universal Access to High Standard Public Services through GovTech – P177845	HLO-2: Objective 2.3	Reduce transaction costs and enhance access to public services

**3.5 Implementing the Country Partnership Framework**

72. **The CPF FY23-FY27 indicative IBRD lending program is expected to be approximately US\$900 million.** This anticipated financial envelope is comparable to historical trends. Despite Albania’s access to international markets, the country’s financing needs remain substantial. Partnerships with other development partners to parallel-finance key initiatives will remain important for the WBG program to help to mobilize much needed financing sources. IBRD lending will continue to utilize the broad range of instruments successfully implemented in the past (including DPFs, IPFs (with and without PBCs), MPAs, and PforRs) and reflect the World Bank’s financial capacity, demand from other IBRD borrowers, and global macro developments. The current active portfolio has 5 operations (including the regional project) in the total amount of US\$320 million committed (see Annex 3, Table 1). A robust current pipeline of six operations in the total amount of US\$475 million is expected to strengthen the program (see Annex 3, Table 2). Five of these operations are expected to be approved in FY23.

73. **IFC’s outstanding portfolio in Albania stands at US\$14.9 million in two active projects** (see Annex

6). IFC investment program throughout the CPF FY23-FY27 will be highly conditional on the country's ability to pursue reforms in the context of EU accession negotiation and to crowd-in private investment in sectors such as renewable energy, green financial solutions, infrastructure, retail infrastructure and tourism.

74. **MIGA guarantees stand at US\$143.1 million, across two operations in the financial sector.** MIGA provided its capital optimization product to two foreign-owned banks (ProCredit and Raiffeisen) operating in Albania, with the objective of supporting increased access to finance, with a focus on SMEs and climate finance-related activities (see Annex 7).

75. **Collaboration and coordination with development partners will remain strong during the CPF FY23-FY27 implementation period.** Foreign assistance continues to be crucial in supporting Albania's capacity building and capital investments. The WBG will maintain close collaboration with strategic partners, including EU, Swiss Cooperation, Swedish International Development Agency (SIDA) and the French Development Agency. Through this collaboration, the WBG will seek complementarities and opportunities to mobilize additional financing for critical development priorities. The WBG will continue direct dialogue with the MoFE and line ministries to identify priorities for WBG support, while working closely with SASPAC on coordination of efforts with other development partners and to address bottlenecks in projects' implementation.

76. **Recurring procurement and contract management issues have been observed in the Bank portfolio during the previous CPF period,** and support has been provided in projects with complex design components (such as ITC and civil works). Such support will continue to be provided during the implementation of the CPF for FY23-FY27. In addition, the use of country electronic procurement system for WB operations allows for greater oversight, thereby mitigating some risks. It is expected to pilot the E-Procurement System on selected projects under this CPF upon validation of the compatibility of the E-System with the requirements of the Bank's Procurement Regulations.

#### IV. MANAGING RISKS TO THE CPF PROGRAM

77. **The overall residual risk to achieving the proposed program objectives is assessed as Substantial.** This overall risk rating is warranted by Substantial ratings for five out of eight risk categories, as assessed using the Systematic Operations Risk-Rating Tool (SORT) (Table 2).

78. **Macroeconomic risk is Substantial.** While the Albanian authorities have strived to keep the course on fiscal consolidation, the recent shocks affecting the country have reduced fiscal buffers. In the past years, this has translated into budgetary reallocations from longer-term priorities towards emergency needs. The World Bank program has adapted to emerging needs, for example, through rapid mobilization of the COVID-19 MPA (P174101), as well as restructuring of the Health Systems Improvement Project (P144688) to rebuild hospitals affected by the earthquake. Future shocks may slow down the pace of implementation of projects if reduced fiscal space translates into changes of priorities. During the CPF for FY23-FY27, the WBG will support authorities to enhance macro-fiscal resilience and will seek to build flexibility within current and new projects to adjust the program (e.g., through Contingent Emergency Response Component (CERC)) to support the GoA, if additional financial risks materialize.

79. **Sectors Strategies and Policies risk is Substantial.** Engagement in new areas elevates the risks of sector strategies and policies. Addressing the substantive challenges in education and energy sectors (emerging areas of engagement) will likely require significant reforms beyond those envisioned by the current GoA sector strategies. Attaining the objectives related to public services (enhanced quality,

coverage, and sustainability) will require substantive changes in policies (including revising utility tariffs and introducing results-based financing arrangements) and institutional restructure of utilities. The current policies are insufficient in scope, thus requiring a continuous championship of stakeholders. Strategies with regards to resilience to climate change and natural risks are insufficient to address the challenges faced, and responsibilities are disaggregated across numerous actors without a strong overall framework. To mitigate these risks, the WBG will: a) build on knowledge recently developed in each of these sectors, elevating the dialogue from technical counterparts to high-level policy makers; and b) leverage instruments that foster the strengthening of policies (e.g., DPO) and systemic change (e.g., PforR and IPF with PBCs).

**80. Risks related to Institutional Capacity for Implementation and Sustainability are Substantial.** There are significant risks related to implementation arrangements of engagements that have cross-sectoral elements (e.g., CARE for Blue Seas, DRM) as well as those that require participation of central government and municipalities (e.g., Water Sector Modernization). Additionally, given the cross-cutting focus on digitalization, addressing cyber security issues will become more prominent requirements than in previous engagements. However, the knowledge of these issues among counterparts and teams is likely to be limited, and more clarity is needed on accountability and oversight arrangements. During the CPF period, the WBG will put in place training to counterparts and stakeholders on WBG instruments (especially on PforR). To mitigate risks on cross-sectoral projects, the WBG will seek upstream agreement and formalization of implementation arrangements and oversight mechanisms. To mitigate cyber security risks, the WBG will identify the projects where these issues are significant and will mobilize additional support to teams to identify and mitigate risks at design and implementation.

**81. Fiduciary risks remain Substantial.** The fiduciary environment represents a substantial risk to the achievement of CPF objectives. Weaknesses in the overall fiduciary environment are characterized by low and moderate scores in key diagnostic indicators and transparency indexes. The main areas requiring attention, as identified in the 2017 Public Expenditure and Financial Accountability (PEFA) assessment, include: monitoring of extra-budgetary units, public investment management, links between the sector strategies and budget, systematic arrears monitoring, follow up on external audit findings, and not strong enough role of the Parliament as a key accountability institution. The government efforts to address such gaps are anchored through the current Public Financial Management (PFM) Strategy reform, with the support of the WB and other partners. Although the monitoring and reporting framework for the implementation of PFM reforms is fully operational, the implementation of an ambitious reform agenda is a challenge due to capacity constraints across the public sector. The fiduciary risk is system-wide, with potential impact on those CPF objectives that are supported by investment lending in areas such as infrastructure, technology, social protection, environment, water, and agriculture. Mitigation measures include systemic improvements, while benefiting from the ongoing support being provided by the WBG and other partners.

**82. Environmental and Social Risks are Substantial.** Albania is exposed to a wide range of risks from natural disasters, many of which have increased in frequency and impact due to climate change (e.g., floods, droughts, and wildfires). Evidence over recent years has illustrated that these risks can significantly impact the ability of the WBG to achieve pursued objectives, including by shifting priorities. At the same time, shocks often translate into setbacks in development outcomes (through loss of physical assets and livelihoods and increased poverty and vulnerability). During this CPF, the WBG will aim to enhance resilience to natural shocks through improved infrastructure, enhanced preparedness and widened fiscal space. At the same time, beyond institutional and legal reforms, the attainment of the expected results on human capital will require substantive behavioral change – especially with regards to gender and

inclusion. During the CPF implementation, the WBG will strive to identify and address behavioral aspects across the portfolio. Finally, the robust implementation of the WB Environmental and Social Framework and support to the client’s capacity to fully implement Environmental and Social Management Framework in projects will help mitigate environmental and social risks and contribute to improvement in the performance of the portfolio.

*Table 2. Risks to the Albania FY23-FY27 CPF Program*

<b>Risk Category</b>	<b>Risk Rating</b>
1. Political and Governance	M
2. Macroeconomic	S
3. Sector Strategies and Policies	S
4. Technical Design of Program	M
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	S
7. Environment and Social	S
8. Stakeholders	L
<b>Overall</b>	<b>S</b>

## Annex 1. CPF FY23-FY27: CPF Results Matrix

<b>High-Level Outcome 1 (HLO-1). Increased number of jobs in the private sector</b>		
<i>This HLO is about unleashing the potential of the private sector in Albania to generate jobs. To support this HLO, activities will be focused on strengthening foundations for growth and supporting productivity and competitiveness in key sectors.</i>		
High-Level Outcome Indicators	Data Source	Current Value
(i) Unemployment (% of labor force)	(i) National Statistics	(i) Baseline: 27% in 2019
(ii) Unemployment, female (% of female labor force)	(ii) WDI data based on International Labor Organization, ILOSTAT database	(ii) Baseline: 11.9% in 2021
(iii) Unemployment, youth total (% of total labor force ages 15-24)	(iii) WDI data based on International Labor Organization, ILOSTAT database	(iii) Baseline: 45% in 2021
(iv) Percentage of employed out of the working-age adults from the poorest decile	(iv) WDI data based on International Labor Organization, ILOSTAT database	(iv) Baseline: 30.3% in 2020
<b>High-Level Outcome Description</b>		
<p><b>Rationale.</b> Economic growth in Albania has improved overall living standards, but they are still less than one third of those of the EU and convergence is still decades away even in an optimistic scenario. The private sector is the most important source of more and better jobs, which in turn are the most significant contributors to reduced poverty and improved prosperity. While jobs in Albania have increased in number in the past years, much of Albania’s recent economic expansion has occurred in relatively low-productivity and low-paying sectors such as basic manufacturing, construction, retail, and small-scale tourism. This limits employee wages as well as opportunities for professional development. Over 30 percent of jobs are informal, preventing workers from joining the pensions system. The share of self-employed (34.9 percent of total employment) is the highest in the WeBa region. Better jobs are few and remain out of reach for many school graduates that lack relevant skills and knowledge. In turn, limitations in qualified labor force contribute to further reduction of the private sector’s competitiveness and ability to create better jobs. Unemployment and inactivity remain high, especially among women and youth. These labor market outcomes partly reflect the structure of Albania’s economy – low-productivity agriculture continues to absorb close to 40 percent of total employment, while manufacturing and services are underdeveloped. Various factors will be needed to unleash the potential of the private sector to create more and better jobs in Albania, ranging from better enabling infrastructure and adequate financing to better business environment across the board and support for key sectors. Under this HLO, the WBG will focus on strengthening the foundations for a thriving and competitive private sector that can leverage the talent of the Albanian people and better meet the aspirations of the youth.</p> <p>Two cross-cutting issues would be addressed under this HLO: digitalization and inclusion. Given importance of the digitalization for the strategic direction of the GoA in recent years, the country’s private sector can benefit greatly from new digital solutions to make processes more efficient, faster, and transparent. For example, automation of processes and services in trade can benefit Albania’s trade and increase competitiveness of its exporting and importing firms. Inclusion is crucial for the jobs creation agenda to make sure that women and most vulnerable reap the benefits of increased competitiveness in various sectors and benefit from new generated jobs. At present, in Albania, women have a significantly lower participation rate in the labor force and many take jobs that require lower qualifications, as occupational stereotypes limit women’s choices to sectors that are characterized by lower salaries. Women lose on average 25 years of productive life due to</p>		

obstacles to their economic activities, ranging from limited availability of childcare to adverse social norms. In terms of entrepreneurship opportunities, only around a quarter of businesses are owned or managed by women and these are predominantly micro and small businesses with low productivity. Minorities, including Roma, people with disabilities and LGBTQI face additional inclusion challenges across the board.

**WBG engagement.** The WBG has been actively involved in supporting the creation of jobs in the private sector by addressing foundational shortcomings hampering the development of businesses (e.g., enhancing access to markets), by reducing vulnerabilities to sustainable growth (e.g., improving financial sector stability), and by supporting specific areas of key sectors. Under this CPF, the WBG will aim at reducing the scope of the foundational shortcomings that will be addressed, for example, by improving access to finance, deepening the policy dialogue on business environment, exploring usage of advanced digital solutions, and providing more comprehensive support for key sectors. This support would be provided with a view of the need to generate employment opportunities for women and other vulnerable groups, where possible.

**Lessons Learned, New Knowledge, and Knowledge Gaps.** On access to markets, the past CPF highlighted the need to enhance regional integration by eliminating unnecessary regulatory and physical barriers to trade. On access to finance, the past CPF highlighted the fact that instruments that provide liquidity (e.g., credit lines) are not sufficient to sustainably enhance financing to SMEs. Lasting solutions require addressing information asymmetries and lack of trust between financial and private sectors. On agriculture, the last few years have highlighted the fact that the sector is vulnerable to various shocks (including climate change related). Thus, enhancing the potential of the sector to create more and better jobs is inherently linked to enhancing its resilience, as much as to its production processes. For tourism, the competitiveness of the sector is linked to the ability of Albania to depollute the economy and better manage the trade-offs between the use of natural resources and conservation. COVID-19 pandemic hit hardest the most vulnerable: women suffered relatively higher job losses and withdrew in higher numbers from the labor force. The pandemic also demonstrated urgent need in equipping businesses with digital tools to make their processes more efficient, provide for greater work flexibility, and mitigate potential disruptions in similar *force majeure* situations.

**SDGs associated.** SDG 1 No poverty; SDG 5 Gender equality; SDG 8 Decent work and economic growth; SDG 9 Industry, innovation and infrastructure; SDG 10 Reduced inequalities; SDG 12 Responsible consumption and production.

### ***CPF Objective 1.1: Improved foundations for private sector development***

Previous CPF: Pillar 2 – Creating conditions for accelerated private sector growth. Objective 2.a Contribute to improved business environment.

New focus areas: connectivity, access to finance

#### **Intervention Logic**

**Rationale for the CPF Objective and WBG Engagement.** Albania has a strong development potential and benefits from its comparative advantages such as favorable geographical location, natural resources, and entrepreneurial population. However, the private sector has not caught up in terms of productivity and competitiveness to the level that is needed for it to be the source of the better paying jobs that the country aspires to. Given Albania’s small domestic economy, accelerating the country’s integration into GVCs is a pathway to sustained growth and formal jobs creation, through access to larger and more affluent markets, a greater talent pool, financing opportunities, new technologies and more sophisticated production inputs. Investments in Albania’s connectivity infrastructure can unlock positive feedback loops between greater firm capability and greater integration with the global economy. Improving the business environment and access to finance will be necessary to enable necessary domestic and foreign investment and reduce informality. The WBG is well positioned to support authorities through a combination of



targeted investments in physical infrastructure and advise on policies and programs.

**Lessons Learned and New Knowledge. Improved connectivity** is a critical foundation for private sector development, but Albania is lagging its peers on some areas, including transport infrastructure, roads network, railways and airports, and has the largest infrastructure gap in the Western Balkans. Deficiencies in trade processes and physical border crossings translate into increases in the time, and cost, of trade, thereby reducing export competitiveness and FDI. **Access to finance** is necessary to enhance competitiveness, growth, and job creation, but access to finance is limited, especially for SMEs. Authorities and development partners have invested efforts and resources to enhance access to finance without major sustainable results, illustrating that this issue cannot be solved solely by increasing liquidity or through directed lending. Any future financial support to improve access to finance will depend on the identification of innovative and feasible approaches, including development of tailored financial instruments and services. **Business environment deficiencies** prevent creation and growth of private companies and contribute to informality – which in turn becomes a major drag on competitiveness.

**WBG Ongoing and Planned Support. To enhance connectivity**, the WBG will continue to provide support for improvement of the roads network (Regional and Local Roads Project); help enhance the resilience and adequacy of high priority bridges (Bridges Rehabilitation Project) and support trade facilitation (Western Balkans Trade and Transport Facilitation Project). The latter project would use several **digital tools** to make trade more competitive, for example, implement an electronic Single Window for trade, new Computerized Transit System and new Vessel Traffic Management and Information System. Regional and Local Roads Connectivity would monitor jobs creation among women in high skilled jobs in the workforce of the contractors and road departments of the municipalities, contributing to the **inclusion** and gender balance. **To support economic integration**, the WB and IFC, through their regional advisory program (WBIF Western Balkans Eco Industrial Park), will continue to explore potential to assist the government in redesigning the existing industrial zone model with the view of introducing sustainable Eco industrial zone model. **To enhance access to finance** (emerging area), the WB will support innovative approaches and better tailored financial instruments through ASA, which may be complemented by a new investment operation (not currently reflected in the pipeline), which, depending on demand, may target SMEs across the country or focus on solutions for specific sectors (e.g., agribusiness). **To improve the business environment** (emerging area), the DPO operation will support foundational actions to combat informality. The WBG will aim to establish a policy dialogue on this subject and leverage existing knowledge (including CEM and CPSD) to inform priorities, policy options and potential additional support.

**IFC** will a) continue to explore potential to help expand access to finance of MSMEs and underserved segments of the economy (e.g., in agriculture through the regional Crop and Warehouse receipts advisory program, the technical assistance component of the regional EC Western Balkan Agri Risk Sharing Facility); b) seek to provide MSME financing through portfolio-based, funded-undfunded Risk Sharing Facilities (RSF), particularly targeting the digital economy, warehousing and logistic infrastructure, and agribusiness; c) support the introduction and development of digital financial services and embedded financial services through its regional advisory program, and d) pursue investment opportunities in capital market development, bank-alternative financing (e.g., NBFIs) and NPL servicing companies. Through its DIGILAB operation, IFC will help senior-level executives of financial institutions to develop and implement a high-level digital vision. IFC advisory to Union Bank will support optimization of the IT organization and operating model of the bank, facilitating greater efficiency of its operations. **MIGA** will support the financial sector via its ongoing capital optimization transactions.

**Key Risks and Mitigation.** With regards to existing projects, the main risk is related to delays in the pace of implementation of civil works and IT systems. Mitigating these risks will require proactive engagement with technical counterparts and higher-level authorities when bottlenecks persist. With regards to areas of engagement (access to finance and business environment), the main challenges relate to identifying effective ways to address long-standing challenges that have not been solved

through previous interventions. This will require mobilizing innovative approaches that may leverage new technologies.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><b><u>Enhanced regional integration, transport efficiency and safety:</u></b></p> <p><b>Objective indicator 1:</b> Reduced travel time on project roads and corridor Durres-Skopje (percentage)  <b>Baseline (2021):</b> 0%  <b>Target (2027):</b> 51.7%<sup>13</sup>  <b>Source:</b> Regional and Local Roads Project and WeBA Trade and Transport Facilitation</p> <p><b>Objective indicator 2:</b> People with enhanced access to transportation services (Number) <i>(Inclusion cross-cutting objective)</i>  <b>Baseline (2022):</b> 0  <b>Target (2027):</b> 350,000 direct and indirect beneficiaries. 200,000 direct daily road users and 150,000 residents who live in the immediate hinterland of each bridge <sup>14</sup>.  <b>Source:</b> Building Resilient Bridges Project</p> <p><b>Objective indicator 3:</b> Reduced fatalities on all bridges with “black spots” with fatal crashes (percentage)</p>	<p><b><u>Improved regional integration, transport efficiency and safety:</u></b></p> <p><b>SPI 1.1:</b> Signing of the Border Agreement with North Macedonia, as a prerequisite for the upgrade of the Border Crossing Points (BCPs)  <b>Baseline (2022):</b> no agreement  <b>Target (2024):</b> agreement signed  <b>Source:</b> WeBA Trade and Transport Facilitation</p> <p><b>SPI 1.2:</b> Roads and bridges rehabilitated (km)  <b>Baseline (2021):</b> 25.55 km of roads and 0 bridges  <b>Target (2025):</b> 71 km of roads and 2 bridges<sup>15</sup>  <b>Source:</b> Urban and Tourism Project, Regional and Local Roads Project, and Building Resilient Bridges project</p> <p><b><u>Digital improvements in trade sector:</u></b></p> <p><b>SPI 1.3:</b> Implementation of NSW for trade in Albania <i>(Digitalization cross-cutting objective)</i>  <b>Baseline (2022):</b> no NSW  <b>Target (2025):</b> NSW implemented</p>	<p><b>Ongoing Financing</b>  Western Balkans Trade and Transport Facilitation (FY19-FY26) (P162043)  Regional and Local Roads Project (FY19-FY24) (P163239)  Project for Integrated Urban and Tourism Development (FY17-FY26) (P155875)  Additional Finance: Project for Integrated Urban and Tourism Development (FY22-FY26) (P171438)</p> <p><b>Financing Pipeline</b>  Building Resilient Bridges Project (FY23) (P174595)  Access to Finance Project (potential, outer years)</p> <p><b>ASA</b>  Enhancing Access to Green and Innovative Finance and Strengthening Supervision of Non-bank Financial Sector (pipeline)  Unleashing the Potential of Innovative Start-ups and SMEs in the Western Balkans: Investment Readiness - (P163168)</p> <p><b>IFC ongoing advisory program:</b>  IFC Regional Digital Strategy Accelerator Program, DIGILAB (P604205)</p>

<sup>13</sup> Indicator target is based on individual targets in two projects. Specifically, in the WeBA Trade and Transport Facilitation Project (P162043), this indicator is monitored for Durres-Skopje corridor and is expressed in hours (anticipated reduction from 6 to 5 hours, which is approx. 16.7% reduction). While Regional and Local Roads (P163239) is planning to achieve its target of reduced travel time from 0 to 35% by 2024, WeBa Trade – by 2026. Target achievement deadline is marked for both as 2027 and combined target is 51.7%.

<sup>14</sup> These are preliminary estimates. More detailed target for beneficiaries will be determined during the preparation of the feasibility studies of the remaining priority bridges (for direct beneficiaries) and during their construction (indirect).

<sup>15</sup> Indicator is cross-cutting for three projects. Baseline and target are respectively constructed based on the three. Urban and Tourism project baseline was 7.55 km in Dec 2021 and the target of 16 km rehabilitated by end-July 2025; in Regional and Local Roads Project, the baseline is 18 km in 2021 and the target is 55 km; thirdly, in Building Resilient Bridges Project, the baseline is zero bridges, and the target is two bridges by 2024.

<p><b>Baseline (2022):</b> 0%  <b>Target (2027):</b> 50%  <b>Source:</b> Building Resilient Bridges Project</p> <p><b>Objective indicator 4:</b> Beneficiaries of streamlined export/import processes through a National Single Window (NSW) (<i>Digitalization cross-cutting objective</i>) (Number)  <b>Baseline (2022):</b> nil  <b>Target (2027):</b> 51,000  <b>Source:</b> WeBA Trade and Transport Facilitation</p>	<p><b>Source:</b> WeBA Trade and Transport Facilitation</p>	<p>Union Bank Advisory (P606725)</p> <p><b>IFC advisory pipeline:</b>  IFC Regional Embedded Finance and Digital Financial Services Europe (P607268)  IFC Regional Crop and Warehouse Receipts (P607151)  IFC Regional Eco Industrial Park (P607033)  IFC Regional EC Western Balkan Agri Risk Sharing Facility (P44833)</p> <p><b>MIGA Guarantees:</b>  ProCredit Mandatory Reserves (P14775)  Raiffeisen Banka Sh. A (P12892)</p>
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**CPF Objective 1.2: Improved competitiveness of key sectors**

Previous CPF: Focus area 2 (Creating conditions for accelerated private sector growth); Objective 2b. Support sustainable tourism development.

**Intervention Logic**

**Rationale for the CPF Objective and WBG Engagement.** Beyond the work on cross-sectoral foundations (Objective 1.1), this CPF will aim to provide tailored support to improve competitiveness and job creation in key sectors, recognizing that the factors that may be the most significant binding constraints to one sector may not be equally burdensome for other sectors. Under the previous CPF, the WBG started support for tourism (WB) and manufacturing (IFC). Under the new CPF, the WBG will continue providing support for these sectors and deepen support for agriculture and agribusinesses. This objective focuses on the competitiveness issues with a view to create more jobs, while maintaining strong focus on green investments, depollution of the economy and enhanced resilience, especially in the agricultural sector. Therefore, it will also contribute to HLO-3 (Enhanced resilience to shocks).

**Lessons Learned and New Knowledge.** Agribusiness is a key sector in the Albanian economy. It is the largest contributor to GDP and the biggest source of jobs, especially for women. It has a strong potential based on fertile land and good geographical location. But outdated production processes, exposure to weather risks and deficiencies in access to finance and markets, and uneven quality of products undermine competitiveness. Tourism is a significant contributor to fiscal revenue and jobs creation. However, basic urban infrastructure inadequacies, lack of diversification and pollution undermine the competitiveness and sustainability of the sector. Manufacturing of automotive parts and apparel manufacturing industries have grown rapidly, benefitting from access to GVCs. Yet, competitiveness is still hampered by relatively low productivity, insufficient investment in production processes and new technologies, small scale, deficiencies in getting products to market in a fast and predictable manner, and business environment uncertainties undermining efficiency-seeking FDI.

**WBG Ongoing and Planned Support.** For agribusiness, the Climate Resilience and Agriculture Development Project (CRAD) will: a) support productivity improvements and agricultural technology transfer, private sector driven value chain development, b) improve market access, c) strengthen irrigation and drainage for high-value agricultural production, and d) support institutional strengthening for food safety. CRAD would also contribute to generation of jobs for women, as a key sector for employment of women. A new TA engagement on access to finance for agribusiness may be followed up by a WB investment project. Similarly, the Developing

Affordable, Green and Digital Finance for Albanian Farmers and MSMEs project is intended to foster financing of the sector market participants in agriculture<sup>16</sup>. For tourism, the Urban and Tourism project will improve accessibility and investment in key destinations, while the Clean and Resilient Environment (CARE) for Blue Sea Project, will support depollution of the economy along the Vjosa river (wastewater) and the Vlora coastline (solid waste). IFC will seek opportunities for investment in the services sector, particularly in tourism infrastructure, including EDGE certified hotels, and retail commercial centers. In the manufacturing sector, IFC will continue providing advisory support to improve the competitiveness of the manufacturing value chain through its Western-Balkans Manufacturing Value Chains Project. The advisory services will focus on a) building and strengthening local manufacturing companies' competitive advantages in fast delivery of small batch, high-quality components and sub-assemblies to the Eurozone, and b) strengthening intra-regional collaboration between manufacturing firms and governments in the WeBa countries.

**Key Risks and Mitigation.** Unleashing the potential of key sectors will likely require policy and regulatory changes, as well as better management of the trade-off between environmental conservation and use of natural resources for economic activities. Effective coordination across several actors in private sector, development partners and various ministries and regulatory agencies will be necessary to effectively support these sectors.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><b><u>Competitiveness of agriculture sector:</u></b></p> <p><b>Objective indicator 5:</b> Sales of agriculture produce from farmers through Micro Food Hubs and clusters (Metric tons)  <b>Baseline (2022): 0</b>  <b>Target (2027): 6,000</b>  <b>Source:</b> Climate Resilience and Agriculture Development Project (CRAD)</p> <p><b>Objective indicator 6:</b> Farmers connected to the pressurized and on-demand public irrigation service (percentage)  <b>Baseline (2021): 10%</b>  <b>Target (2027): 80%</b>  <b>Source:</b> CRAD</p> <p><b>Objective indicator 7:</b> Energy consumption of irrigation and drainage schemes covered by</p>	<p><b><u>Competitiveness of agriculture sector:</u></b></p> <p><b>SPI 1.4:</b> Methods accredited for reliable analyses of food safety, veterinary and plant health in compliance with international standards and EU legislation (Number)  <b>Baseline (2022): 3</b>  <b>Target (2027): 10</b>  <b>Source:</b> Climate Resilience and Agriculture Development Project (CRAD)</p> <p><b>SPI 1.5:</b> Border Inspection Posts established and upgraded to perform official phytosanitary controls in accordance with international standards (Number)  <b>Baseline (2022): 0</b>  <b>Target (2027): 6</b>  <b>Source:</b> Climate Resilience and Agriculture Development Project (CRAD)</p>	<p><b>Ongoing Financing:</b>  Project for Integrated Urban and Tourism Development (FY17-FY26) (P155875)  Additional Finance: Project for Integrated Urban and Tourism Development (FY22-FY26) (P171438)  Regional and Local Roads Connectivity (FY19-FY24) (P163239)</p> <p><b>Financing Pipeline:</b>  Climate Resilience and Agriculture Development Project – CRAD (FY24–FY28) (P178715)  Clean and Resilient Environment (CARE) for Blue Sea Project (FY23–FY28) (P176163)  Developing Affordable, Green and Digital Finance for Albanian Farmers and MSMEs (P179853)</p> <p><b>IFC Investment Pipeline:</b>  IFC Investment in services sector (tourism and retail infrastructure) (P46472)</p>

<sup>16</sup> At this stage of the CPF FY23-FY27 process, the dialogue is at early stages, which prevents a clear identification / quantification of the specific results expected. An informed CPF indicator will be included at PLR stage.

<p>renewable energy generated by the project (percentage)  <b>Baseline (2021):</b> 0%  <b>Target (2027):</b> 25%  <b>Source:</b> Climate Resilience and Agriculture Development Project (CRAD)</p> <p><b><u>Competitiveness of tourism and retail sector:</u></b></p> <p><b>Objective indicator 8:</b> Additional high value-added tourism and retail space (sqm)  <b>Baseline (2022):</b> 0 sqm  <b>Target (2027):</b> 45,000 sqm  <b>Source:</b> IFC Investment in tourism and retail infrastructure</p> <p><b>Objective indicator 9:</b> Touristic sites with improved accessibility (Number)  <b>Baseline (2021):</b> 0  <b>Target (2027):</b> 11  <b>Source:</b> Urban and tourism project and AF</p>	<p><b><u>Competitiveness of tourism sector:</u></b></p> <p><b>SPI 1.6:</b> New or rehabilitated urban public spaces in selected municipalities (sqm)  <b>Baseline (2021):</b> 50,800  <b>Target (2024):</b> 100,000  <b>Source:</b> Urban and tourism project and AF</p> <p><b>SPI 1.7:</b> Municipalities with functioning destination management partnerships in the project area (Number)  <b>Baseline (2021):</b> 0  <b>Target (2024):</b> 4  <b>Source:</b> Urban and tourism project and AF</p>	<p><b>IFC Advisory Pipeline:</b>  IFC Western Balkan Light Manufacturing Value Chain/Supplier Development Program (P607166)</p>
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<b>High-Level Outcome 2 (HLO-2). Improved human capital</b>		
<i>This HLO is about recognizing the centrality of human capital for a more equitable and inclusive society and a more competitive and sustainable economy, and investing in nurturing Albania's human capital accordingly</i>		
<b>High-Level Outcome Indicators</b>	<b>Data Source</b>	<b>Current Value</b>
(i) Universal Health Coverage index	(i) Human Capital Index	(i) Baseline: 59 points
(ii) People using safely managed drinking water services (% population)	(ii) WDI indicator based on WHO/UNICEF Joint Monitoring Programme (JMP) for Water Supply, Sanitation and Hygiene	(ii) Baseline: 71% in 2020
(iii) People using basic sanitation services (% population – can be broken down by rural/urban)	(iii) WDI indicator based on WHO/UNICEF Joint Monitoring Programme (JMP) for Water Supply, Sanitation and Hygiene	(iii) Baseline: 99% in 2020
(iv) Human capital index	(iv) Human Capital Index	(iv) Baseline: 0.6

(v) PISA scores (bottom 40%)	(v) OECD	(v) Baseline: TBC
<p><b>High-Level Outcome Description</b></p> <p><b>Rationale.</b> Quality of life of those who choose to stay in Albania is eroded by low livability in urban areas and inadequate provision of public services, especially in rural areas. Deficiencies in public services, including in key sectors of health and education, undermine opportunities and perpetuate inequality. Migration of youth in search for better economic opportunities abroad, aging population and decreasing birth rates pose future fiscal risks and heighten current budgetary trade-offs. Poverty remains a painful reality for almost one-third of Albania’s population and the recent shocks have increased vulnerability of those that have the least, highlighting the need for better social protection. New technologies can be harnessed to resolve some inefficiencies that could help improve human capital.</p> <p><b>WBG engagement.</b> Under the previous CPF, the WBG contributed substantively to improving provision of healthcare, strengthening social protection and reform of the disability assistance. Under the new CPF, the WBG will aim to address additional elements of human capital, including enhancing the quality and relevance of education, extending the outreach and sufficiency and social protection, bridging the gap between employers and jobseekers, and investing in substantially improving the quality and coverage of public services as a foundation for healthier and more productive lives. The engagement in this new CPF period will also explore further use of digital tools to improve the functioning of the public sector, reduce red tape, wasted time and corruption during the interactions between authorities and businesses and population; improve the outreach of services to previously underserved areas and improve the efficiency of use of public resources. It would also ensure to incorporate as beneficiaries of some of the improved services women, rural populations and other vulnerable groups.</p> <p><b>Lessons Learned, New Knowledge, and Knowledge Gaps.</b> Better nurturing and empowering human capital are at the center of Albania’s ability to develop sustainable and competitive growth and a more equitable and inclusive society. Major improvements have taken place in healthcare, but accessibility, quality and affordability remain key challenges, as well as shoring up resilience. A productive collaboration on education sector reform cannot be built on a bottom-up basis (through small / opportunistic interventions); it requires a robust policy dialogue at high level, that informs the GoA’s strategic priorities and policy options, and defines how best the WBG can support those objectives.</p> <p>SDGs associated: SDG 3 Good health and wellbeing; SDG 5 Gender equality; SDG 6 Clean water and sanitation; SDG 10 Reduced inequality.</p>		

<b>CPF Objective 2.1: Improved quality, affordability, and access to healthcare</b>
Previous CPF: Objective 3.c Contribute to increased efficiency and access to health services in hospital sector
<p><b>Intervention Logic</b></p> <p><b>Rationale for the CPF Objective and WBG Engagement.</b> The WBG has been a strategic partner of the GoA in the healthcare sector. This engagement has evolved over time, from investments in physical assets to policy definition and facilitation of critical sector reforms. This evolution reflects the WBG’s ability to deliver results on physical investments, mobilize knowledge rapidly to inform policy options and respond rapidly to the recent twin shocks of the earthquake and the pandemic. Future engagement in the sector will place further emphasis on sectoral reforms to improve access, quality and affordability of healthcare (including using digital tools) and strengthen resilience.</p> <p><b>Lessons Learned and New Knowledge.</b> The healthcare sector in Albania was directly impacted by two consecutive crises (an earthquake in 2019 and the Covid-19 pandemic). While the sector was able to respond to these crises, they highlighted the need to enhance the sector’s resilience and further improve its efficiency going forward. Even before the pandemic, the healthcare sector had been under stress due to increased demand and deficiencies in supply (due to low public spending,</p>

inefficient allocation of the limited resources within the system, and outdated facilities). This translated into lower accessibility and quality of public healthcare and high out-of-pocket expenditures, especially damaging for the poor. Going forward, there is increased urgency to implement already identified reforms to improve governance and financial management of healthcare facilities, implement digital tools to enhance efficiency and undertake physical investments in critical facilities, including those affected by the earthquake.

**WBG Ongoing and Planned Support.** The Health Systems Project will continue strengthening public hospital sector management capacity, hospital services infrastructure (including reconstruction of hospitals affected by the earthquake), strengthening efficiency of healthcare facilities, and using digital tools to upgrade hospital information systems and make essential registries available online. The COVID-19 MPA project has supported strengthening of the sector’s ability to respond to the pandemic (through procurement of equipment and supplies) while strengthening resilience of the sector through investment in testing facilities, improving capacity of the main Infectious Disease Hospital and the Institute of Public Health, and supporting health care workers with tailored training and guidelines. Additional support under the new CPF could focus on reform of the sector, helping authorities to achieve the stated strategic objectives (under the GoA’s Hospitals Master Plan), including enhanced efficiency in use of resources, quality of service, accessibility, and affordability (reform in pharmaceutical procurement). In the early years of the CPF, the potential to have a follow-up operation in health sector will be explored.

**Key Risks and Mitigation.** The enhanced focus on reforms under the potential new activities will require a high level of commitment from authorities and political support for institutional changes. New projects will require significant investments in TA to support authorities throughout the reform processes.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><b><u>Improved quality of healthcare, including via digital tools:</u></b></p> <p><b>Objective indicator 10:</b> Beneficiaries of rehabilitated health facilities (Number)  <b>Baseline (2021):</b> 75,559 beneficiaries (one hospital – in Mother Tereza)  <b>Target (2027):</b> 131,405 beneficiaries (four hospitals, in Mother Tereza and regional)  <b>Source:</b> Health System Improvement Project and AF</p> <p><b>Objective indicator 11:</b> Hospitals with upgraded information systems (<i>Digitalization cross-cutting objective</i>) (Number)  <b>Baseline (2022):</b> 0</p>	<p><b><u>Improved quality of healthcare, including via digital tools:</u></b></p> <p><b>SPI 2.1:</b> Total number of hospitals that have implemented hospital master plan  <b>Baseline (2021):</b> 0  <b>Target (2024):</b> 3 hospitals have developed plan of actions  <b>Source:</b> Health System Improvement Project and AF</p> <p><b>SPI 2.2:</b> Number of essential registries that are consolidated and available online (<i>Digitalization cross-cutting objective</i>)  <b>Baseline (2022):</b> 0  <b>Target (2024):</b> 4  <b>Source:</b> Health System Improvement Project and Additional Finance</p>	<p><b>Ongoing Financing:</b>  Health System Improvement Project and Additional Finance (FY16-FY25) (P144688/P173351)</p> <p><b>ASA Pipeline:</b>  Pharmaceutical reform ASA</p>

<p><b>Target (2027):</b> 9<sup>17</sup></p> <p><b>Source:</b> Improving Universal Access to High Standard Public Services through GovTech and Health System Improvement Project and AF</p> <p><b><u>Improved affordability of healthcare: (emerging area)</u></b></p> <p><b>Objective indicator 12:</b> Reduced out of pocket expenditures as a share of current spending on health (Percentage)</p> <p><b>Baseline (2021):</b> 44.6%</p> <p><b>Target (2027):</b> 41.6%</p> <p><b>Source:</b> Pharmaceutical reform ASA</p>		
<p><b>CPF Objective 2.2: Improved quality and relevance of education</b></p>		
<p>Previous CPF: New objective</p>		
<p><b>Intervention Logic</b></p> <p><b>Rationale for the CPF Objective and WBG Engagement.</b> Equipping students with relevant and high-quality education is one of the most critical investments that Albania can undertake towards a prosperous society and a competitive and sustainable economy. In particular demand, as everywhere around the world, are digital and foundational skills. Albanian youth are talented and entrepreneurial, but in absence of the right knowledge and skills that talent is frequently underutilized in jobs that carry low salaries and prospects. Much of the entrepreneurship remain in informal economic activities; and a large portion of Albania’s human capital migrates in search of better opportunities. Education can be the great equalizing factor that fosters inclusion of disadvantaged segments of the society and regions across the country. While some improvements have taken place in the past years, significant reforms are required to leapfrog achieving higher education outcomes. The WBG did not provide financing in this sector during the past CPF, as a robust policy dialogue between the Bank and the Ministry of Education was absent. Given the centrality of education for Albania’s development, this CPF will place strong efforts on developing a substantive engagement in this area.</p> <p><b>Lessons Learned and New Knowledge.</b> Deficiencies in education start in early childhood and carry all the way to tertiary levels and later to jobs and life. This translates into low quality and attainment across all education levels, and this situation is likely to be worse in rural areas and among disadvantaged population, contributing to a circle of poverty. The pandemic deepened these challenges and translated into additional learning losses which, without a solid mechanism to recover, can translate into life-long deficiencies. On a systemic level, the system is affected by insufficient public spending, inefficient and misallocated resources and management, weak teacher career growth incentives and professional development, and low instructional time compared to EU. A new National Education Strategy 2021-26</p>		

<sup>17</sup> This indicator is based on work delivered in two projects: GovTech and Health System Improvement. In the first one, the indicator monitors the number of tertiary hospitals with upgraded information systems and new e-health records system, where increase from 0 to 5 is anticipated. In the second project, the indicator specifically monitors the number of regional hospitals with Regional Information System (HIS) established and functional. This is expected to happen in four regional hospitals.



recognizes many of the challenges and proposes some solutions. However, the proposed solutions are not transformative enough to produce the education outcomes that Albania must achieve.

**WBG Ongoing and Planned Support** (emerging area). During the previous CPF, the WBG invested in developing actionable knowledge of the sector through ASA that focused on identifying development challenges and opportunities. Under the new CPF, the WB will aim to develop policy dialogue focusing on transformative reforms in the education sector towards a) improvement of quality of pre-university education, including ECE with strong focus on inclusion; and b) improvement of financial management of the education sector focused on enhancing efficiency in allocation of resources and better linking resources to outcomes. Depending on the success on policy dialogue, a potential investment operation in outer years would support the implementation of critical reforms. As a complement to this, a new GovTech pipeline operation will support the development of digital SmartLabs to enhance digital skills and foundational skills (numeracy and literacy) among the early primary grades. Albania Digital Trade Project ASA would run a pilot program to build skills on online global freelancer websites.

**Key Risks and Mitigation.** While the WBG supports programs that contribute to enhancing skills, the WBG does not have a substantive policy engagement with the Ministry of Education and Sports on sector reform. The success of this CPF objective will rely significantly on the ability to establish a robust and productive dialogue that leads to informing the GoA’s strategic directions and policy options for the sector. The potential subsequent WBG support through financing of needed reforms will also depend on the efficiency of that dialogue. Towards that objective, the CMU will work closely with the WBG’s technical teams to strive to elevate the dialogue to high level authorities.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><b><u>Enhancing skills and ability to access jobs:</u></b></p> <p><b>Objective indicator 13:</b> Number of learners benefiting from SmartLab (<i>Digitalization / Inclusion cross-cutting objective</i>)  <b>Baseline (2021):</b> 0  <b>Target (2027):</b> 35,000  <b>Source:</b> Improving Universal Access to High Standard Public Services through GovTech</p> <p><b>Objective indicator 14:</b> Early grade students in schools with functioning SmartLabs acquiring basic minimum digital competencies (<i>Digitalization / Inclusion cross cutting objective</i>) (Percentage)  <b>Baseline (2021):</b> 0  <b>Target (2027):</b> 50% of Grade 2 students achieving level 2 or above on ICT Curriculum Assessment Framework</p>	<p><b><u>Enhancing skills and ability to access jobs:</u></b></p> <p><b>SPI 2.3:</b> Number of Education SmartLabs established as per the selection criteria and agreed technical and human resources specifications for learning outcomes (<i>Digitalization cross-cutting objective</i>)  <b>Baseline (2021):</b> 0  <b>Target (2024):</b> 200  <b>Source:</b> Improving Universal Access to High Standard Public Services through GovTech</p> <p><b>SPI 2.4:</b> Number of participants in the pilot program to build skills on online global freelancer websites (<i>Digitalization cross cutting objective</i>)  <b>Baseline (2021):</b> 0  <b>Target (2024):</b> 400</p>	<p><b>Financing Pipeline:</b>  Improving Universal Access to High Standard Public Services through GovTech (FY23-FY28) (P177845)</p> <p><b>Ongoing ASA:</b>  Albania Digital Trade Project ASA (P172200)  Western Balkans Education ASA (P169255)</p>

<b>Source:</b> Improving Universal Access to High Standard Public Services through GovTech	<b>Source:</b> Albania Digital Trade Project ASA	
<b>CPF Objective 2.3: Improved provision of municipal services</b>		
Previous CPF: Objective 3a Support increased efficiency of public service delivery; Objective 3d Provide enhanced coverage of water and sanitation services		
<p><b>Intervention Logic</b></p> <p><b>Rationale for the CPF Objective and WBG Engagement.</b> Adequate provision of public services is critical to enable people to have healthy and productive lives and to reduce inequality. Even in areas where services are accessible, quality is often well below what is needed. This is further exacerbated by the problem of uneven coverage of public services across the country, with significant limitations in rural areas. Later necessitates a greater focus on more inclusive public services facilitated in the new CPF period. Usage of digital tools is under-exploited but could play an important role in substantially improving provision of the public services.</p> <p><b>Lessons Learned and New Knowledge.</b> A decentralization effort in 2014 transferred responsibility for provision of public services from the central government to local authorities. While the spirit of this initiative was largely positive, the implementation has been faulty, resulting in deficient public services in critical areas, including water supply, sanitation, waste management, education, childcare, and disaster response. For example, lack of provision of childcare services for women undermines their ability to participate in economic activities. Further, most local authorities have proved unable to acquire the operational and financial capacity to manage and provide these services in a consistent manner, resulting in under-provision and low quality. Deficiencies in coordination with central government, lack of standards and accountability mechanisms have contributed to perpetuate these deficiencies, which have a direct negative impact on human capital, environment, and economic opportunities. These deficiencies are at the center of several development challenges: Public service provision overall is deficient, but it is particularly faulty in rural areas, perpetuating high disparities and inequity. While urban areas benefit from relatively higher public service coverage, the quality is deficient, further creating social and environmental costs. Pollution, congestion, and deficient planning further erode the quality of life in urban areas. Deficiencies in management of solid waste and wastewater limit population’s access to proper solid waste and water services as well as access to good quality water overall.</p> <p><b>WBG Ongoing and Planned Support. Water and waste management:</b> The Water Sector Modernization PforR will: a) improve the sustainability and provision of water supply; b) enhance the operational and financial efficiency of water utilities; and c) introduce incentives for performance. It will also monitor how the improved services are benefitting the most vulnerable populations, especially women and residents of rural areas. The CARE for Blue Seas project will contribute to strengthening the institutional arrangements and accountability for sanitation and solid waste management in Vjosa River Basin and Vlora South Waste Zone municipalities. Sustainable Growth DPO will contribute to better management of plastic waste, including through promotion of private sector solutions. IFC will explore opportunities to expand the Western Balkan Wastewater Treatment Program to include Albania. <b>Other public services:</b> IFC will seek to contribute to policy dialogue with the GoA towards enhancing the efficacy and sustainability of PPPs in public services. Pipeline operations, Green Cities and Improving Universal Access to High Standard Public Services through GovTech, would promote usage of the digital platforms and tools in critical urban activities and key public services with the view to improve their efficiency and quality. Finally, a nascent policy dialogue on enhancing the quality and provision of childcare may lead to a new engagement area towards the end of this CPF period.</p>		
<b>CPF Objective Indicators</b>	<b>Supplementary Progress Indicators</b>	<b>WBG Program</b>
<u><b>Improved access to water supply, including among vulnerable populations</b></u>	<u><b>Improved access to water supply, including among vulnerable populations</b></u>	<b>Ongoing financing:</b> Albania National Water Supply and Sanitation Sector

<p><b>Objective indicator 15:</b> Number of people provided with access to improved water sources (disaggregated by gender and rural residents) <i>(Digitalization / Inclusion cross-cutting objective)</i></p> <p><b>Baseline (2022):</b> 0</p> <p><b>Target (2027):</b> 40,000; of which 20,000 are women and 32,000 rural residents</p> <p><b>Source:</b> Albania National Water Supply and Sanitation Sector Modernization Program</p> <p><b>Improved sanitation</b></p> <p><b>Objective indicator 16:</b> Number of municipalities with improved water sanitation capacity</p> <p><b>Baseline (2022):</b> 0</p> <p><b>Target (2027):</b> 6</p> <p><b>Source:</b> CARE for Blue Seas Project</p> <p><b>Improved solid waste management</b></p> <p><b>Objective indicator 17:</b> Increased municipal waste collection coverage as a percentage of population in selected municipalities <i>(Inclusion cross-cutting objective)</i></p> <p><b>Baseline (2022):</b> 67%</p> <p><b>Target (2027):</b> 90%</p>	<p><b>SPI 2.5:</b> Improved sector financing instruments and incentives for improved performance adopted</p> <p><b>Baseline (2022):</b> No</p> <p><b>Target (2024):</b> Yes</p> <p><b>Source:</b> Albania National Water Supply and Sanitation Sector Modernization Program</p> <p><b>SPI 2.6:</b> Number of functional water supply connections in vulnerable households <i>(Digitalization / Inclusion cross-cutting objective)</i></p> <p><b>Baseline (2022):</b> 0</p> <p><b>Target (2024):</b> 1,000</p> <p><b>Source:</b> Albania National Water Supply and Sanitation Sector Modernization Program</p> <p><b>Improved sanitation</b></p> <p><b>SPI 2.7:</b> Number of wastewater treatment facilities operational</p> <p><b>Baseline (2022):</b> 0</p> <p><b>Target (2025):</b> 6</p> <p><b>Source:</b> CARE for Blue Seas Project</p> <p><b>Improved solid waste management</b></p> <p><b>SPI 2.8:</b> Amendment of Law on plastic ban for single use</p> <p><b>Baseline (2022):</b> no amendment</p> <p><b>Target (2024):</b> amendment adopted</p> <p><b>Source:</b> Albania Sustainable Growth DPO</p>	<p>Modernization Program (FY23-FY28) (P170891)</p> <p><b>Financing Pipeline:</b>  CARE for Blue Seas Project (FY24-FY28) (P176163)  First Resilience and Green Development DPF (FY24 – TBC) (P178202)  Green Cities (planned)</p> <p><b>Ongoing ASA:</b>  Regional WeBa Climate-Ready Cities ASA (P177921)</p> <p><b>ASA Pipeline:</b>  Solid waste management ASA</p>
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<p><b>Source:</b> CARE for Blue Seas Project</p> <p><b><i>Improved basic service delivery in urban areas</i></b></p> <p><b>Objective indicator 18:</b> Urban settlement area upgraded (<i>Inclusion cross-cutting objective</i>)</p> <p><b>Baseline (2022):</b> 0</p> <p><b>Target (2027):</b> 240,000 sqm</p> <p><b>Source:</b> Green Cities</p>	<p><b><i>Improved urban areas with help of digital tools</i></b></p> <p><b>SPI 2.9:</b> A digital platform (skills, data and tools) is used to inform critical urban planning activities and investment studies in the project areas (<i>Digitalization cross-cutting objective</i>)</p> <p><b>Baseline (2022):</b> platform not used</p> <p><b>Target (2024):</b> platform used</p> <p><b>Source:</b> Green Cities</p>	
<p><b><i>CPF Objective 2.4: Better protection of the most disadvantaged</i></b></p>		
<p>This CPF objective is a continuation of work under the previous CPF (Objective 3b: Support improved equity and access to social protection services)</p>		
<p><b>Intervention Logic</b></p> <p><b>Rationale for the CPF Objective and WBG Engagement.</b> Recent progress in poverty reduction is currently at risk because of rising inflation, which disproportionately affects the poor. Albania has demonstrated a strong commitment to improving the equity and efficiency of its social protection system. However, key reforms remain incomplete and, consequently, the system creates inequities and rigidities that limit the ability of the system to respond to shocks, including the ongoing increases in food and energy prices. Overall coverage of social protection is low, and resources allocated to social protection are below the needs of the vulnerable. Children living in poverty do not get the support they need to fully reach their human capital potential, and, as a result, it is difficult for them to break the inter-generational cycle of persistent poverty.</p> <p><b>WBG Ongoing and Planned Support.</b> Under the previous CPF, the World Bank helped to strengthen the social protection system by supporting the reform of the main transfer program for the poor and by helping to improve the disability assessment system. This support was complemented by ASA on how to improve the adaptiveness of the system and a situational analysis of the social protection sector. This work will be finalized in the beginning of the new CPF period. New engagements, being explored, could focus on supporting the authorities’ strategic objective of enhancing the coverage, efficiency, and effectiveness of social assistance and social services, and expanding the provision of employment programs for the poor and vulnerable. This is complemented by ongoing technical assistance on the pension system to improve its effectiveness and sustainability.</p> <p><b>Key Risks and Mitigation:</b> GoA has demonstrated a strong commitment to reforming key social assistance programs and has put in place a new legislative framework for social services. Despite this commitment, implementing these reforms can take time, given the implementation of these programs takes place through local government units. Reestablishing a policy dialogue on the needed reforms in pension system may be challenging and will require conducting analytical work, such as policy simulations of key Albanian pension system parameters.</p>		
<p><b>CPF Objective Indicators</b></p>	<p><b>Supplementary Progress Indicators</b></p>	<p><b>WBG Program</b></p>
<p><b><i>Increase in coverage of social assistance among the</i></b></p>	<p><b>SPI 2.10:</b> Targeting formula for means-tested</p>	

<p><b><u>poorest:</u></b></p> <p><b>Objective indicator 19:</b> Percentage of households in the poorest 10% receiving poverty-targeted social assistance benefits. <i>(Inclusion cross-cutting objective)</i></p> <p><b>Baseline (2020):</b> 31.9%</p> <p><b>Target (2027):</b> 43%</p> <p><b>Source:</b> EU-SILC (based on work under Social Assistance Modernization project and AF; Building Economic Resilience Through the Social Protection System in Albania)</p> <p><b><u>Adequacy of social assistance benefits:</u></b></p> <p><b>Objective indicator 20:</b> Ndihma Ekonomike level as a ratio of average income per capita. <i>(Inclusion cross-cutting objective)</i></p> <p><b>Baseline (2019):</b> 29%</p> <p><b>Target (2027):</b> 40%</p> <p><b>Source:</b> EU-SILC and MoHSP administrative data</p>	<p>benefits revised</p> <p><b>Baseline (2021):</b> not revised</p> <p><b>Target (2024):</b> revised</p> <p><b>Source:</b> Social Assistance Modernization Project and AF; Building Economic Resilience Through the Social Protection System in Albania</p> <p><b>SPI 2.11:</b> Adoption of a method for regularly updating the value of the NE benefit</p> <p><b>Baseline (2021):</b> not adopted</p> <p><b>Target (2024):</b> adopted</p> <p><b>Source:</b> Social Assistance Modernization Project and AF; Building Economic Resilience Through the Social Protection System in Albania</p>	<p><b>Financing Pipeline:</b></p> <p>Building Economic Resilience Through the Social Protection System in Albania (pipeline) (P178855)</p> <p>Albania First Resilience and Green Development Programmatic DPF (P178202)</p>
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<b>High-Level Outcome 3 (HLO-3). Enhanced resilience to shocks</b>		
<i>This HLO is about reducing Albania’s vulnerability to shocks, ranging from financial and environmental to natural disasters. The main focus is on switching from a reactive to a proactive approach that recognizes the various risks, mitigates those that can be mitigated to avoid recurrent occurrences, builds buffers to assist those effected by shocks, enhances the speed of response when disasters occur and helps producers and society to adapt to climate change.</i>		
<b>High-Level Outcome Indicators</b>	<b>Data Source</b>	<b>Current Value</b>
(i) Losses from recurrent climate events (ii) Enhanced revenue collection (% of GDP) (iii) Central government debt, total (% of GDP)	(i) TBD (ii) WDI and WB staff calculations (iii) WDI	(i) Baseline: TBD (ii) Baseline: 26.4% in 2022 (iii) Baseline: 80.7% in 2021
<b>High-Level Outcome Description</b>		

**Rationale.** Albania is highly exposed to natural disasters and external shocks, including low frequency but high impact shocks (earthquake in 2019 and current pandemic) and recurrent adverse natural events (floods, droughts, and wildfires). These shocks have a wide range of outcomes, from loss of lives and livelihoods to impact on the economy and loss of public and private physical assets. Earthquakes and floods alone are estimated to cause on average damages of US\$147 million in Albania every year. Climate change is already exacerbating the frequency and impact of weather-related events. This trend will likely increase over time, as Albania is one of the ECA countries most highly exposed to climate change. Floods create major asset losses and disruption to local economy, trade, and livelihoods - one third of Tirana's built-up area is exposed to river and rainwater floods. Droughts have increased in frequency and severity, compounding challenges on competing use of water for agriculture and energy generation (solely dependent on hydro). Annual precipitation is expected to decrease, and temperatures are expected to increase further due to climate change, increasing risk of droughts and wildfires – which affected Albania severely in 2021. Other climate-related natural hazards, including extreme weather and sea level rise, are projected to severely impact Albania in the next decades. The 2019 earthquake caused losses of over US\$1 billion.

**WBG Engagement.** Under the previous CPF, the WBG supported improvement of roads and their resilience to natural risks; initiated policy dialogue towards improving the agriculture's competitiveness and resilience to climate change; invested in knowledge creation towards unleashing the potential of Albania's Blue Economy; and provided policy advice to the GoA on avenues to enhance DRM. The new CPF builds on the previous engagement and proposes a program that more substantively recognizes the reality of climate change; the vulnerability of the country to natural shocks (and the need to develop a proactive and effective response when disasters happen); and the need to preserve natural resources. The proposed program leverages the interest from authorities to enhance the competitiveness of large sectors (agriculture and tourism) as an entry point to depollute the economy and improve the environment. Digital tools also have a role to play in advancing the agenda under this HLO. The Bank would also to the extent possible try to monitor impact on vulnerable populations.

**Lessons Learned, New Knowledge, and Knowledge Gaps.** While Albania is highly exposed to climate change, many of the relevant strategies are not fully informed by these risks. Overall understanding of the vulnerability and the implications for Albania's development is limited. Deficiencies in DRM (including fragmentation of responsibilities between central and local governments) undermine the effectiveness of preparedness to respond to natural shocks. The WBG will continue investing in assessing the risks and vulnerabilities associated to climate change, environment-related shocks and deficiencies in DRM and use that to inform the GoA's strategies and policies.

**SDGs associated:** SDG 7 Affordable and clean energy; SDG 11 Sustainable cities and communities; SDG 13 Climate action; SDG 14 Life below water; SDG 15 Life on land

### ***CPF Objective 3.1: Enhanced financial resilience***

Previous CPF: Focus Area 1: Restoring macroeconomic balances. Objective 1a Support improved fiscal sustainability; Objective 2c Support enhanced energy security, efficiency & supply

#### **Intervention Logic**

**Rationale for the CPF Objective and WBG Engagement.** Albania is exposed to a wide range of shocks. Over the past years, the country has suffered subsequent crises starting with back-to-back shocks from the earthquake in 2019 and the COVID-19 pandemic, which were followed by an energy crisis (due largely to adverse weather patterns) in late 2021 and the spillovers from Russia's invasion of Ukraine. These crises have eroded hard-won gains on public debt reduction and fiscal consolidation. The need to respond to emergency needs has frequently translated into diversion of budgetary resources from important development priorities, such as the need to upgrade Albania's economic model.

**Lessons Learned and New Knowledge.** There are three main areas of work towards enhancing financial resilience. First, create fiscal space. To reduce public debt and finance necessary public spending, as the recovery from crisis strengthens, Albania needs to create fiscal space. To move in that direction, Albania will need to rationalize and enhance the efficiency of public spending, but more substantively, the country will need to enhance revenue collection by strengthening tax policy (to ensure that the burden is more equitably shared) and improving tax compliance. This will require: i) bolstering the personal income tax; (ii) developing a holistic approach to reduce informality in the labor market; (iii) broadening the tax-payers base; (iv) increasing VAT revenues by reducing exemptions; and (v) improving tax collection systems. Second, make use of risk sharing instruments. It will be important to support the mobilization of private financial instruments such as disaster risk insurance that provide financial support to the population in case of shocks – reducing the need for the Government to step in to compensate all those affected by adverse events. Third, reduce the exposure to energy volatility. Energy crises are recurrent in Albania, as the country’s energy system is highly exposed to weather patterns affecting generation, while tariff rigidity passes on the volatility to the public budget. Enhancing the energy mix, revising the tariff mechanisms, and strengthening targeted social assistance to shield low-income users can reduce the volatility and adverse impact on public budget.

**WBG Ongoing and Planned Support.** To improve macro-fiscal stability, the First Resilience and Green Development DPF will support major actions towards fiscal consolidation, public debt management and strengthening climate change policy. Through TA, the WBG will continue its advisory services to the Ministry of Finance and Economy on policy options to further shore up revenues and enhance efficiency of expenditures. Similarly, the DPO will support the passage of a law on earthquake insurance for households. This, together with the TA provided to the financial sector authorities, will help to foster the development of financial instruments and mobilization of private capital towards instruments that can support risk diversification. To reduce energy-related vulnerabilities, **IFC** will continue its support for energy diversification through the investment in ENSO Hydro Energji and Kurum International, as well as the pipeline Solar Parks investment, which will support the construction of two greenfield solar photovoltaic projects. The ongoing advisory on Albania Energy Market (ALPEX) will support the Government of Albania in the establishment of a well-functioning, transparent and competitive electricity market. This is particularly timely during the current energy crisis caused by the spillovers from Russia’s invasion of Ukraine. The WB will aim at supporting authorities on reforms to strengthen resilience of the energy sector, complementing efforts from other development partners supporting the sector. This support may include TA and investment. In addition, through its advisory services, **IFC** is providing for further mitigation of the sustained negative effects of the global financial crisis in the region. By improving the insolvency systems through facilitating restructuring of viable firms in financial distress, ongoing AS is preserving viable businesses as a going concern and facilitates returning assets of unviable businesses back into productive use through a prompt and efficient liquidation.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><b><u>Increased revenues</u></b></p> <p><b>Objective indicator 21:</b> Income tax revenue (PIT and CIT) (% GDP)  <b>Baseline (2021):</b> 3.8%  <b>Target (2027):</b> 4.3%  <b>Source:</b> Albania Sustainable Growth DPO</p> <p><b><u>Reduced budgetary exposure to natural risks</u></b></p> <p><b>Objective indicator 22:</b> Share of households with</p>	<p><b><u>More efficient and greener use of public resources</u></b></p> <p><b>SPI 3.1:</b> Amendment of the Public investment management guidelines to include climate responsive public investment management  <b>Baseline (2021):</b> no amendment  <b>Target (2024):</b> amendment adopted  <b>Source:</b> Albania Sustainable Growth DPO</p> <p><b>SPI 3.2:</b> Amendment of Public Procurement bylaw</p>	<p><b>Financing Pipeline:</b>            First Resilience and Green Development DPF (P178202)            Albania National Water Supply and Sanitation Sector Modernization Program (P170891)</p> <p><b>Ongoing ASAs:</b>            Albania Government Debt and Risk Management ASA (P165284)            Strengthening Disaster Resilience in Albania</p>

<p>earthquake insurance (percent)  <b>Baseline (2021):</b> 3.8%  <b>Target (2027):</b> 10%  <b>Source:</b> Albania Sustainable Growth DPO</p> <p><b><i>Reduced financial burden through enhanced energy resilience</i></b></p> <p><b>Objective indicator 23:</b> Additional renewable (non-hydro) energy capacity installed  <b>Baseline (2022):</b> 30 MW  <b>Target (2027):</b> 270 MW  <b>Source:</b> IFC RE/Solar Parks Investment (from Electricity Regulatory Entity)</p> <p><b>Objective indicator 24:</b> Population connected to the electricity network receiving an improved power generation dispatching and pricing service through the newly established electricity market  <b>Baseline (2022):</b> 0%  <b>Target (2027):</b> 50%  <b>Source:</b> IFC Albania Energy Market (ALPEX)</p>	<p>allowing for the use of green criteria  <b>Baseline (2021):</b> no amendment  <b>Target (2024):</b> amendment adopted  <b>Source:</b> Albania Sustainable Growth DPO</p> <p><b>SPI 3.3:</b> Water sector financing instruments and incentives for improved performance adopted  <b>Baseline (2022):</b> not adopted  <b>Target (2024):</b> adopted  <b>Source:</b> Albania National Water Supply and Sanitation Sector Modernization Program</p>	<p>(P172145)  Albania Strengthening Quality of Auditing and Reporting Project (P176716)</p> <p><b>IFC ongoing program:</b>  IFC renewable energy (ENSO Hydro Energji) (P45644)  IFC renewable energy (Kurum International) (P33378)  IFC Albania Energy Market (ALPEX) AS (P601598)  IFC Western Balkans Debt Resolution Phase II AS (P603482)</p> <p><b>IFC pipeline program:</b>  IFC RE/Solar Parks Investment (P45644)</p>
<p><b>CPF Objective 3.2: Enhanced resilience to natural shocks</b></p>		
<p>Previous CPF: New area of engagement</p>		
<p><b>Intervention Logic</b></p> <p><b>Rationale for the CPF Objective and WBG Engagement.</b> Albania is highly exposed to natural disasters and external shocks. The frequency and impact of shocks will likely increase over time as a consequence of climate change. Taking this into account, the new CPF builds on the previous engagement and proposes a program that more substantively recognizes the reality of climate change; the vulnerability of the country to natural shocks (and the need to develop a proactive and effective response when disasters happen); and the need to preserve natural resources.</p> <p><b>Lessons Learned and New Knowledge.</b> Much of Albania’s roads network (including bridges) is legacy infrastructure in need of investment to enhance usability. It is also vulnerable to natural shocks, including earthquakes, floods and landslides. Yearly repair costs and losses from road disruption due to natural hazards or climate change events’ damages are a major drain in budget. Floods account for 85 percent of roads losses and in recent years have increasingly affected the infrastructure and disrupted transit of goods and people. The resilience of existing bridges is also compromised due to the poor condition of erosion protection around abutments and riverbanks, and poor maintenance of the water-way areas. Climate change is already exacerbating the frequency and impact of weather-related events and this</p>		



trend will likely increase over time. Droughts have increased in frequency and severity, compounding challenges on competing use of water for agriculture and energy generation (solely dependent on hydropower). Albania was severely affected by wildfires in 2021 and these events are expected to increase in frequency as temperatures increase due to climate change. The ability to respond rapidly to disasters is undermined by deficiencies in DRM, including insufficient strategic preparedness at a national level, challenges in coordination of response, as critical DRM responsibilities are delegated to municipalities – which often lack institutional and financial capacity to undertake their role sufficiently.

**WBG Ongoing and Planned Support.** To improve infrastructure resilience, the ongoing Regional and Local Roads Connectivity project, will continue investments in more sustainable and resilient regional and local roads, creating alternative to the national road network during extreme weather events. The new Building Resilient Bridges project will contribute to road sector resilience to climate change by investing into climate- and disaster-resilient road bridges for road users and adjacent communities, especially among vulnerable populations. The project will explore use of more efficient digital tools and systems to improve bridge management. As a result, this should, for example, reduce the probability of bridge design failure risk due to an extreme event. The National Water Supply and Sanitation Sector Modernization PforR (ongoing) will increase sectoral resilience to climate change and related natural disasters such as floods, droughts, and landslides, through the reduction of water losses, the upgrading of water supply systems, the improvement of energy efficiency, the upgrading of construction standards for small water supply schemes, and the introduction of a requirement that utilities prepare water safety and risk management plans. To enhance resilience of agriculture, the Climate Resilience and Agriculture Development Project (pipeline) will support adoption of improved irrigation and other CSA/climate-resilient technologies and better farming practices, expand cultivated area under improved irrigation and drainage, and reduce energy use in upgraded irrigation and drainage systems. To improve preparedness (emerging area), the WBG will leverage the recently completed ASA on disaster risk financing, and ongoing ASA on climate change risks and DRM to inform policy priorities for the GoA. Based on the success of establishing a policy dialogue on this subject and demand for such interventions, additional instruments (including IPF) may be mobilized. IFC jointly with WB will be working with Tirana municipality to identify a pipeline of opportunities for the mobilization of private and public finance to support urban mobility projects (e.g., through Western Balkan Urban Mobility Project).

**Key Risks and Mitigation.** The WBG does not have an established collaboration with GoA on DRM beyond technical dialogue. A substantive high-level engagement on DRM is necessary to enhance the WBG’s ability to inform the GoA’s strategies in various sectors on the risks that the country faces going forward stemming from climate and natural risks and the needs to enhance preparedness. The success in enhancing resilience to those risks will largely depend on the ability to establish an effective high level policy dialogue. The Country Management Unit (CMU) will work closely with technical teams to elevate the key issues to high-level authorities.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><b><u>Enhance overall economy resilience to climate risks</u></b></p> <p><b>Objective indicator 25:</b> Area provided with new/improved irrigation or drainage services (hectares)  <b>Baseline (2022):</b> 0  <b>Target (2027):</b> 12,300  <b>Source:</b> CRAD</p>	<p><b><u>Enhance overall economy resilience to climate risks</u></b></p> <p><b>SPI 3.4:</b> Agricultural area where climate-smart agriculture practices are implemented (hectares)  <i>(Digitalization cross-cutting objective)</i>  <b>Baseline (2022):</b> 0  <b>Target (2024):</b> 500  <b>Source:</b> CRAD</p>	<p><b>Ongoing Financing:</b>  Regional and Local Roads Connectivity (FY19-FY24) (P163239)  Albania National Water Supply and Sanitation Sector Modernization Program (FY23-FY28) (P1770891)</p> <p><b>Financing Pipeline:</b>  Building Resilient Bridges Project (FY24-FY28) (P174595)</p>

<p><b><u>Digital technologies as tool to enhance resilience</u></b></p> <p><b>Objective indicator 26:</b> Area served by Climate Smart Agriculture Platform (Hectares) <i>(Digitalization cross-cutting objective)</i></p> <p><b>Baseline (2022):</b> 0</p> <p><b>Target (2027):</b> 2,000</p> <p><b>Source:</b> CRAD</p> <p><b><u>Enhanced infrastructure resilience to climate change and disasters</u></b></p> <p><b>Objective indicator 27:</b> Bridges rehabilitated, reconstructed, or constructed following international guidelines on resilience to climate and natural disasters (Percentage)</p> <p><b>Baseline (2022):</b> 0</p> <p><b>Target (2027):</b> 80%</p> <p><b>Source:</b> Building Resilient Bridges Project</p>	<p><b>SPI 3.5:</b> Number of water supply utilities/municipalities from within the 10 largest energy consumers with at least 20 percent energy savings in their operation of the services</p> <p><b>Baseline (2021):</b> 0</p> <p><b>Target (2024):</b> 2</p> <p><b>Source:</b> Albania National Water Supply and Sanitation Sector Modernization Program</p> <p><b><u>Enhanced infrastructure resilience to climate change and disasters, including via digital tools</u></b></p> <p><b>SPI 3.6:</b> Bridges for which designs have been audited for climate resilience before construction (Percentage)</p> <p><b>Baseline (2022):</b> 0</p> <p><b>Target (2024):</b> 100%</p> <p><b>Source:</b> Building Resilient Bridges Project</p> <p><b>SPI 3.7:</b> Systems adopted and remote sensing data used for a bridge management and maintenance medium-term budget planning <i>(Digitalization cross-cutting objective)</i></p> <p><b>Baseline (2022):</b> No</p> <p><b>Target (2024):</b> RAMS/BMS and remote sensing equipment installed and autonomously collecting data</p> <p><b>Source:</b> Building Resilient Bridges Project</p>	<p>Climate Resilience and Agriculture Development Project – CRAD (FY24-FY28) (P178715)</p> <p><b>Ongoing ASA</b></p> <p>IFC/WB WeBa Green Transport Program (planned) Strengthening Disaster Resilience in Albania (P172145)</p> <p>Priorities for Climate Ready Cities in Selected Western Balkan Countries – (P177921)</p> <p><b>IFC Ongoing Advisory:</b></p> <p>IFC Western Balkan Urban Mobility Program (P605811)</p>
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## Annex 2. Albania CPF FY15-FY19 Completion and Learning Review

Date of the Country Partnership Framework for the Republic of Albania for the period FY15-FY19: April 27, 2015 (Report Number 94636-AL)

Date of Performance and Learning Review: January 9, 2019 (Report Number 131038-AL)

Period covered by the Completion and Learning Review of the Country Partnership Framework for the Republic of Albania: from July 1, 2014, to June 30, 2020

### INTRODUCTION

- 1. This Completion and Learning Review (CLR) assesses the performance of the World Bank Group (WBG) under the FY15-FY20 Country Partnership Framework (CPF) for Albania.** A 2019 Performance and Learning Review (PLR) extended the CPF by one year to end FY20 and this CLR therefore analyses the FY15-FY20 period. The CPF was built around three focus areas: (1) restoring macroeconomic balances, (2) creating conditions for accelerated private sector growth, and (3) strengthening public sector management and service delivery. This was the first CPF in Albania under the WBG's new country engagement model, building on a Systematic Country Diagnostic (SCD) analyzing Albania's key development priorities. The five fundamental priorities as identified by the SCD were: i) restoring fiscal sustainability and financial stability; ii) establishing a high-quality business environment that promotes firm growth and job creation; iii) providing clean energy efficiently, equitably and sustainably; iv) formalizing and enhancing the inclusiveness and sustainability of the land market; and v) enhancing governance, transparency and accountability of government.
- 2. The CPF period can be divided into three phases: (1) 2015-2017; (2) 2017-2019; (3) 2019-2020.** The first phase was characterized by significant reform efforts by the government with WBG support. The second phase was characterized by the aftermath of the 2017 elections which continued some reform efforts, but also led to delays in implementation. The third phase is characterized by the November 2019 earthquake and the beginning of the COVID-19 pandemic.
- 3. Economic developments over the CPF period were initially positive, but the November 2019 earthquake and the COVID-19 pandemic have hit the Albanian economy hard.** Albania's economy grew by 3.3 percent in 2015-2019, achieving significant reform progress while aspiring to European Union (EU) membership. A few large renewable energy projects and expansion in tourism and garments' manufacturing exports drove GDP and employment growth. However, growth halted to 2.2 percent in 2019, as the earthquake further exposed the country's low buffers. Fiscal consolidation was put on hold and external vulnerabilities reemerged. The COVID-19 pandemic hit Albania's key sectors of tourism and manufacturing through the recession in the EU, supply chain disruptions, travel limitations and social distancing measures. GDP in 2020 declined by 4.0 percent due largely to a slowdown in tourism, though smaller than initially projected as domestic tourism demand partially compensated for the drop in foreign visits.
- 4. The double shocks of the earthquake and the pandemic also interrupted the progress on poverty reduction.** Albania's poverty rate fell from 40 percent of the population in 2005 to 10 percent in 2019 (measured at US\$6.85 per day in constant US dollars). However, on the wake of the earthquake and the COVID-pandemic poverty and vulnerability may have increased.

5. **The overall CPF development outcome is rated Moderately Satisfactory and overall WBG performance is rated fair.** Overall achievement in two focus areas is assessed as moderately satisfactory, but one area is assessed as moderately unsatisfactory. Portfolio performance improved during the CPF period, but there have been some shortcomings with respect to the CPF design.

#### **PROGRESS TOWARD CPF DEVELOPMENT OUTCOMES**

6. **The WBG program overall made good progress under most focus area but with some shortcomings.** As summarized in CLR Annex 1, focus area 1 is rated Moderately Unsatisfactory with 1 CPF objective achieved, 1 partially achieved and 1 not achieved. Focus area 2 is rated Satisfactory with 3 CPF objectives achieved and 1 partially achieved. Focus area 3 is rated Moderately Satisfactory with 2 CPF objectives achieved and 2 partially achieved.

#### **Focus Area 1. Restoring macroeconomic balances Moderately Unsatisfactory**

7. **Objective 1a. Support improved fiscal sustainability: Partially Achieved.** Based on SCD findings the CPF prioritized macro-fiscal sustainability to address Albania's economic vulnerabilities. High public debt and government arrears were seen as key constraints to the country's ability to move to an accelerated and sustainable growth model. For example, according to the CPF, clearing public sector arrears would result in increased financial flows to the private sector, which would likely raise domestic demand and contribute to growth and job creation.

8. At the beginning of the CPF period, the objective was supported by a Public Finance DPL (P147226) and a Policy Based Guarantee (PBG; P149765) which supported adjustment of the tariff structure in the energy sector towards cost-recovery level and ultimately helped to clear to about 5 percent of GDP of government arrears to the private sector. The operation also supported the implementation of a new pension law and strategy. Within the context of the November 2019 earthquake and the COVID-19 crisis, a Fiscal Sustainability and Growth DPF (P169524) operation supported Albania in (i) strengthening the transparency and sustainability of its public finances, (ii) enhancing finance for recovery and growth and (iii) supporting key sectoral opportunities for sustainable growth. This agenda has been closely coordinated with activities by the EU, the International Monetary Fund (IMF) and other development partners. Bank TA supported a bylaw for local government solvency monitoring and corrective action and the Bank has also continued close policy dialogue on VAT refund arrears. As a result, in 2019-2021, government (i) significantly accelerated clearance of VAT refund arrears, (ii) introduced regular and transparent publication of remaining arrears levels, and (iii) announced the introduction of the automatization of VAT refunds. Recognizing that fiscal pressures stemming from Albania's limited revenue mobilization are an important root cause for arrears creation, the Bank also pivoted an increased support on tax policy and tax administration and supported the introduction of regular tax expenditure reviews. Furthermore, Bank-IMF collaboration supported a reorganization of the tax authority, including strengthening the large taxpayer office. Another Bank TA tested the effectiveness of alternative taxpayer communication strategies through behavioral science and rigorous impact evaluation methods. To help manage off-budget fiscal risks, the Bank also supported a new Public Private Partnerships (PPP) law and introduction of a PPP monitoring framework through TA and a DPL (P169524) operation. IFC complemented the Bank's efforts to reform the PPP framework through its Post-Transaction Advisory at the project level while the Bank also provided TA on monitoring of SOE financial performance.

9. Despite these efforts, the CPF target of zero central government arrears in 2019 (from 2.6 percent of GDP in 2014) could not be achieved due to continued inadequacies in public finance management and still amounted to about 1.6 percent at end-2019. A supplementary target was to reduce the public and

publicly guaranteed debt to GDP ratio to 67.2 percent by 2020. While this target was on track, reaching 68 percent in 2019, the twin shocks of the 2019 earthquake followed by the COVID-19 pandemic led to a significant increase in the fiscal deficit to 82.6 percent in 2020. However, the objective rating is partially achieved due to tangible achievements in other areas, e.g., a reduction in public and publicly guaranteed debt to GDP ratio to 69.5 percent by 2019; and 67.2 percent in 2020 from 72 percent in 2014.

**10. Objective 1b. Provide strengthened public investment management in transport sector: Not Achieved.** The SCD identified the need to improve Albania's planning and management of public investments to foster the country's macro-fiscal sustainability. The CPF selectively prioritized enhancing the transparency and predictability in financing and managing of public investments in the transport sector as a key intervention to improve public expenditure management and reduce inefficient spending. According to the CPF, these efforts would ultimately make more space for investments in social services and public infrastructure to benefit the poor.

11. Throughout the CPF period, the objective was supported by the Bank's Results-based Road Maintenance and Safety Project (P132982). The project, which used Disbursement-Linked Indicators (DLIs), ran into challenges from the onset. The project's anticipated disbursement schedule had to be revised due to the delay in the design of a roads asset management plan. Even though the plan, which was a key DLI, had not yet been developed when the project became effective it was expected to be available within the first year of project implementation. The project also foresaw a steady line of counterpart financing *inter alia* to strengthen capacity at the Albania Road Authority which did not materialize as anticipated. In addition, a PPP tendering process did not go as planned due to a lack of willing investors and flawed public communications about the benefits of the project. But an IFC PPP advisory in Albania highways, which complemented the Bank engagement by assisting Government with structuring a 30-year concession for the operation and maintenance of Albania's first toll road, went ahead as planned.

12. Due to the difficulties in the Bank's engagement, the CPF target that all rehabilitation and maintenance needs on existing roads are prioritized and reflected in a medium-term plan has not been achieved. Another important change that Bank was trying to support during the CPF period, was a focus toward performance-based contracting in the road sector. This progress has also been slower than anticipated.

**13. Objective 1c. Support improved financial stability: Achieved.** A third area that the SCD highlighted as crucial for restoring and sustaining Albania's macroeconomic balances was the stability of the financial sector. A rapid increase in Non-Performing Loans (NPL) was considered a key challenge, linked with problems of portfolio quality, stemming from easing of credit standards and overexposure towards sectors such as construction. The rise in NPLs was driven by several factors including large government arrears, loans in foreign currency to unhedged borrowers and a prolonged collateral execution process by the judiciary. The CPF therefore focused on addressing financial sector weaknesses that jeopardize stability and undermine the role of financial sector institutions in promoting growth and shared prosperity.

14. Following the closing of a Financial Sector DPL (P152064) in FY18, the Bank's engagement was largely through Swiss-financed TA and Austria-financed support by the Financial Sector Advisory Center (FinSAC) in the areas of: (i) banking sector stability and resilience with support to the Bank of Albania on NPLs out-of-court restructuring, banks resolution framework, and TA to the Deposit Insurance Agency in strengthening the deposit insurance regime, and (ii) strengthening the capacity of Albania's non-bank

financial regulator to supervise and regulate the capital markets and the insurance sector. The later engagement helped to strengthen the country's legal framework through new laws on capital markets, collective investments, a new framework for new investment funds, etc. with the overall objective of aligning Albania's legal framework with the EU directive.

15. The CPF target was met and Albania marked a substantial droppage in NPL rates from over 24.9 percent in 2014 to 8.9 percent in 2019, the target date set in the CPF. As a measure of sustainability, NPLs rates dropped even further beyond the CPF period to a historically low level of 7 percent by FY21.

## **Focus Area 2: Creating conditions for accelerated private sector growth**

### **Satisfactory**

16. **Objective 2a. Contribute to improved business environment: Partially Achieved.** In line with the SCD priority of establishing a high-quality business environment, the CPF put a strong focus on accelerating private sector growth and improving the business environment. Central constraints to the business environment included a heavy regulatory burden, inadequate framework for private investment, high informality, weak trade logistics and facilitation, as well as inadequate corporate governance and financial reporting practices. The CPF saw multiple reforms to improve the business environment as critical for job creation and to strengthen the link between economic growth and poverty reduction.

17. While the CPF objective was directly supported through a Competitiveness DPL (P155605) together with various analytical work to inform the policy dialogue, the program was also linked to a Financial Sector DPL (P152064) and a Public Finance PBG (P149765). Together with IFC's advisory program, these operations addressed a broader set of mutually reinforcing policy interventions addressing fiscal, financial, and business climate issues. For example, the Financial Sector DPL supported reforms related to a bankruptcy law which are also part of the policy agenda on the broader business environment. Working jointly with the Bank, the IFC Western Balkans Debt Resolution and Business Exit Project focused on identifying major issues with the insolvency legal framework and building consensus to serve as basis for the reform of the sector. The Competitiveness DPL pursued reforms aimed at reducing the time associated with obtaining construction permits, electricity connections and business licensing. The IFC Investment Climate and Competitiveness Project helped simplify agribusiness related regulations which yielded US\$1.6 million (overall target was US\$4 million) in compliance costs savings. Despite limited success, which is mostly due to slow implementation of reforms in the judiciary system, the private sector positively assessed the reforms in this area.<sup>18</sup> Furthermore, the policy dialogue around the Competitiveness DPL led to the development of a Multi-Annual Action Plan for a Regional Economic Area (MAPREA) in the Western Balkans, which was endorsed by all six countries, including Albania.<sup>19</sup> MIGA has been active in the financial sector, complementing the Bank and the IFC, by providing political risk insurance guarantees to three international financial institutions (Raiffeisen Bank International, ProCredit and AlphaBank) with banking operations in Albania to support lending activities in key strategic areas, such as MSMEs and climate finance.

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<sup>18</sup> In focus group discussions, they noted that information on permit procedures has become more accessible and the process more transparent and easier. Businesses noticed the importance of self-declaration, which shall also discipline private sector.

<sup>19</sup> This dialogue was also supported through the Bank's analytical work on trade facilitation, a regional Trade and Transport Facilitation MPA and IFC's Trade Facilitation Program for Europe and Central Asia.

18. Nevertheless, the overall intended improvements in Albania’s business environment even though relatively modest, but realistic given the challenging country context, did not materialize. As the CPF period has shown, improving the business environment in Albania—a country with a long history of state interventions in the economy—is a long-term effort. The CPF target of improving the *Doing Business* Distance to Frontier (DB TF) Score to 71 in 2020 (from 66 in 2015) was not reached and improved to only 67.7 in 2020. However, changes to the DBTF methodology during the CPF period makes it also difficult to compare this score. Even though the main indicator was not achieved, other tangible progress justifies the rating of partially achieved.<sup>20</sup>

19. **Objective 2b. Support sustainable tourism development: Achieved.** The SCD pointed out the high potential of tourism development as a driver for private sector growth, job creation and investments. Economic regeneration of Albania’s beautiful southern coastal region through integrated tourism development could open a range of economic opportunities and contribute towards overcoming regional poverty disparities. To realize this potential, the CPF identified the need for a major upgrade of Albania’s environmental infrastructure, the protection of coastal assets and the promotion of sustainable tourism to leverage the rich cultural heritage and natural beauty.

20. The Integrated Coastal Zone Management & Clean-Up Project (P086807) supported improvements to critical public environmental infrastructure and basic municipal services. More than 85,000 of inhabitants of coastal communities benefited from the engagement; close to 55 percent of stakeholders acknowledged a potential positive effect on tourism as result of the project. The ongoing Project for Integrated Urban and Tourism Development (P155875) has completed some key project activities that improved urban infrastructure, enhanced tourism assets, and strengthened institutional capacity to support tourism-related local economic development in selected areas in South Albania.<sup>21</sup> The holistic and multisectoral approach of integrated urban and tourism development proves to be effective in supporting livability and sustainable tourism development in a complementary way.

21. Given the good progress, the CPF target of making key infrastructure for sustainable tourism in Southern Albania operational, is considered achieved. This is evidenced by several project outcomes including: (i) a sanitary landfill, accommodating disposal of 25,000 tons of waste per year; (ii) new sewer networks and water supply benefiting 40,000 residents; (iii) doubling of water capacity to 70 liters per second; (iv) new water supply constructed to benefit about 3000 inhabitants; (v) rehabilitation of a Passenger Port Terminal with passenger traffic increasing by 25 percent; (vi) disposal of over 45,000 m<sup>3</sup> of hazardous waste, etc.

22. **Objective 2c. Support enhanced energy security, efficiency, and supply: Achieved.** The CPF highlighted the SCD priority on providing clean energy supply within the context of improving the business environment, given that businesses identified lack of reliable electricity as a top constraint. Moreover, the CPF emphasized government subsidies at a fiscally unsustainable level in a sector where technical and non-technical losses had risen to nearly half of supplied electricity by 2013. Ensuring a reliable and

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<sup>20</sup> This includes: (i) improvements in resolving insolvencies with an improvement in Albania’s Resolving Insolvency ranking in *Doing Business* from 62th in 2014 to 39th in 2020; (ii) reductions in the time needed to for a new electricity connection from 177 days in 206 to 107 in 2020; (iii) improvements in trading across border with an improvement in the DB score from 72 in 2015 to 96.3 in 2020; (iv) increase numbers of investment leads generated annually by the Albanian Investment Development Agency from 16 in 2015 to 28 in 2018; (v) increased annual value of imports under local clearance procedures from zero in 2015 to US\$147 million in 2018; etc.

<sup>21</sup> So far, the project investments resulted in 35,631 square meters of new or rehabilitated urban public spaces and 47,000 of direct project beneficiaries.

affordable power supply was highlighted as one of the most important foundations for increased investment, growth, job creation and poverty reduction. Development of Albania's hydropower potential was seen as a strong driver for economic growth and to help disadvantaged regions.

23. A combination of WBG support focused on energy security, efficiency and supply. On energy security, the Dam Safety Project (P122233) supported the rehabilitation, dam safety improvement, and emergency preparedness of hydropower plants on the Drin Cascade. These activities helped increase Albania's power generation capacity and extend power plants operating lifetime for additional 30 to 40 years.<sup>22</sup> The Bank also supported the optimization of use of hydro resources through rehabilitation of hydropower plants which helped to increase availability and reliability of energy production units while eliminating leakages. Through this support, electricity losses at Albania's largest hydro power plant (Komani) went from GWh 25/year to zero. In terms of energy efficiency, the Power Recovery Project (P144029) supported the rehabilitation of the electricity distribution network and improvement in electric metering, billing and collection. As for energy supply, the first 20 MW of solar power plants commenced operations and additional capacities are under development. Bank support was complemented by financing from the EBRD and Germany. IFC provided TA toward introducing a new power market model, along with new market rules and amended Power Sector law which once approved by the Government, opened up the way to the establishment of the Albanian Power Exchange in October 2020.<sup>23</sup> Throughout the CPF period, MIGA supported the 52.9 MW Energji Ashta hydropower project with a guarantee originally signed in 2012 for a 10-year coverage period. The project helped reduce the country's load shedding and electricity imports by generating more electricity from the same amount of water flow even during low hydrology seasons. In addition, this was the first large-scale independent power producer in the country and provided a positive demonstration effect for investors in the sector.

24. The CPF targets were achieved. Bank supported efforts led to a reduction in electricity losses from 38 percent in 2014 to 22 percent in 2020.<sup>24</sup> Electricity customer collection rates averaged 95 percent in 2016-2022 above the target of 90 percent. Finally, the deregulation of the electricity market on the demand side was above the targeted 12 percent for 2016-2020.

25. **Objective 2d. Contribute to increased productivity and sustainability of land use: Achieved.** In line with the SCD priority of formalizing and enhancing the inclusiveness and sustainability of the land market, the CPF identified land and property right issues and inefficiencies in the management of natural resources as key constraints for Albania to take advantage of its rich natural endowments. It focused on making better use of Albania's abundant agro-forestry resources while also addressing the challenges of land degradation.

26. Bank support was provided through the Environmental Services Project (ESP; P130492) and the Water Resources and Irrigation Project (WRIP; P121186) both co-financed with Sweden. WRIP served as an important delivery mechanism to modernize Albania's water irrigation and drainage systems and infrastructure, and the adoption of more effective and efficient water resource management practices. At the same time, ESP provided grants to individual farmers and forest pasture users' groups that are improving forestry and pasture lands in municipalities. Both projects faced some problems during implementation but nevertheless ended up being successful. For example, ESP suffered from a complex

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<sup>22</sup> An important achievement was also the safety enhancement for people and the environment around the power plants and in settlements downstream.

<sup>23</sup> But operations have not yet commenced.

<sup>24</sup> At the same time, electricity companies' distribution rates increased from 78 to 95 percent.



governance structure and too many stakeholders with competing priorities. It sought to carry-out too many activities at once and with an unrealistic expectation. Also, shifting responsibilities between ministries and agencies made project implementation difficult. WRIP faced similar challenges due to shifting institutional responsibilities, e.g., from the state level to the local level. It also suffered from a lack of a long-term vision and would have benefited from improved stakeholder engagement, for example consultations with individual small farmers. Nevertheless, the adoption of sustainable land management practices provided direct monetary or non-monetary benefits to 3,386 people; 48,000 water users, have benefited from improved irrigation and drainage services. In total about 106,000 people directly benefited from the project including protection from the recurrent flood.

27. Despite the various implementation challenges, the CPF program ended up being successful and the targets were achieved. The additional land area where sustainable land management has been adopted increased from zero in 2014 to over 11,000 ha in 2022 compared to the CPF target of 7,000 ha for 2019. The area provided with improved irrigation and drainage service in agriculture land benefiting water users increased from zero to 40,000 ha (compared to the CPF target of 24,000 ha) over the same period.

### **Focus Area 3: Strengthening public sector management and service delivery** **Moderately Satisfactory**

28. **CPF Objective 3a. Support increased efficiency in public service delivery: Achieved.** Within the SCD priority of enhancing governance, transparency, and accountability of government, the CPF selectively focused on interventions related to public sector management and service delivery. Bank support under the focus area was aimed at building citizens' trust in government, strengthening service provision and improving service delivery and access to basic services. The CPF focused on the general efficiency of public service delivery. A weak legal, regulatory and governance environment was seen as a key contributor to poor service quality, limited accountability to service users, and unequal service provision for the poor and vulnerable.

29. The Bank's engagement through the Citizen-Centric Service Delivery Project (P151972) focused on building greater trust between citizenry and government through changes in citizens' interface with government. The project very successfully led to efficiency gains in services both for service providers and users. Overall, citizens and businesses now need to spend less time to access services and to obtain service-related information. Through the project, 75 new services reached level 3 automation, i.e., no more paperwork is required to access these services at the client-level. Access to services improved for all citizens but especially also for the poor and vulnerable as well as women. The time to obtain three selected services declined substantially: from 5.3 days in 2016 to 30 minutes in 2020 for registering a vehicle; from 53 days in 2016 to 29 days in 2020 for processing the old age pensions application; and from 5 days in 2016 to a few minutes in 2020 for the health card, as the process is now fully on-line and automated. The percentage of users stating that receiving services was "easy" or "very easy" improved by the end of the project (versus the beginning of the project) to 69 percent among the poor (versus 50 percent), 65 percent among Roma (versus 52 percent) and 71 percent among women (versus 50 percent).

30. The CPF target of reaching a 15 percent reduction in the time required for citizens to obtain targeted administrative services was achieved. This is based on an average time reduction of 37 percent for 70 services covered by the project.

31. **Objective 3b. Support improved equity and access to social protection services: Partially Achieved.** The CPF identified weak governance, poor targeting and inefficiency as the root of poor access to social protection services by poor, remote and excluded populations. Only a quarter of the poorest households

received targeted last-resort social assistance and spending on disability payments had been growing wildly due to inadequate screening and targeting. Government reform efforts included improvements to enhance capacity, simplify the complex application processes and establish systems for managing information of the country's *Solidarity Albania* social assistance program. In addition to focusing on improving the equity and efficiency of the social assistance program, reforms also aimed at improving the disability assistance benefits.

32. The Social Assistance Modernization Project (P122233) supported these reforms and showed solid progress both with respect to the improved equity and efficiency of the country's main anti-poverty program (*Ndihme Ekonomike*) and the reform of the assessment of persons with disabilities. Bank support resulted in improvements in the systems eligibility criteria to better identify the extreme poor, increased benefit levels for the households that are most vulnerable, and improvements in core delivery systems. This includes the establishment of a management information system (MIS), creating an inspection mechanism that aims to reduce the level of error and fraud in the system, and developing a grievance redress mechanism. In addition, a strategy and an action plan to support the exit of beneficiaries through labor market inclusion was prepared and approved by the Council of Ministers in December 2018. With respect to the Bank's support on improving the disability assessment (DA) benefits, results included: (i) development and testing of the DA methodology, including forms and guidelines and training materials; (ii) development of a MIS; (iii) development and approval of the necessary legislation; (iv) training of the assessment committees and other physicians.

33. The CPF target was to increase the coverage of the poorest income quintile by the *Solidarity Albania* from 25 percent in 2012 to 38 percent in 2018. Unfortunately, no Household Budget Survey (HBS) data is available after 2016. However, the Bank's engagement contributed to several important reforms to provide an enabling environment for improved social protection services which were highlighted as supplementary progress indicators.<sup>25</sup>

34. **Objective 3c. Contribute to increased efficiency and access to health services: Partially Achieved.** The CPF acknowledged that health outcomes in Albania are relatively strong by regional standards. However, public spending in the health sector suffers from inefficiencies and inequities with the poor and those with chronic diseases facing high out of pocket health expenditures. According to the CPF, the health sector required reforms in governance and performance management in public hospitals to better plan and adapt service capacity to needs, strengthen management and governance, and improve efficiency and quality of care.

35. The Health System Improvement Project (P144688) supported systemic changes by supporting the drafting of the health law, the hospital law, and the development of the hospital master plan with a focus on improving health services efficiency and access. This includes: (i) support to the implementation of the hospital master plan, establishment of hospital information systems, payment reforms toward output-based financing for hospitals, etc.; (ii) provision of medical equipment, capacity building, hospital accreditations, and the financing of rehabilitation work. Progress includes: (i) 4 (from 0) hospitals meeting the minimum requirements of the accreditation agency; (ii) 4 (from 0) hospitals having social accountability mechanisms in place; (iii) training to 308 women and 155 men including health personnel

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<sup>25</sup> These include: the development of pensions sub-laws to implement pension reforms, the adoption of a social model for disability assistance eligibility criteria, the establishment of a MIS for social assistance programs, the adoption of operations guidelines to the detection and remedy of fraud and error in social assistance programs. The percentage of households receiving benefits for the *Solidarity Albania* Program that have been screened for eligibility using the Unified Scoring Formula increased from 50 percent in 2016 to 95 percent nationwide in 2018.

and Health Insurance Fund (HIF) staff; (iv) the HIF adopted the roadmap for hospital payment reforms; (v) 11 regional hospitals have been newly equipped and one renovated. Furthermore, the Bank supported the reconstruction of hospitals damaged by the 2019 earthquake, while also making them more sustainable and resilient, and the health sector's response to the COVID-19 pandemic. In addition, IFC worked with the Government to increase accessibility, quality, and reliability of laboratory services to citizens by attracting a PPP partner to structure and operate an integrated network of 18 public laboratories, to invest in lab infrastructure and IT and to introduce a quality management system.<sup>26</sup> IFC also provided Post Transaction Advisory Services to the Ministry of Finance which complements Bank's activities in the creation of a PPP monitoring framework. This includes support to budget control mechanisms and monitoring mechanisms for the first 18 months of Laboratory PPP contract implementation.

36. The CPF target of a 7 percent reduction by 2018 of out-of-pocket expenditure for the poorest quintiles could not be fully assessed, because of a methodological change of the Household Budget Survey (HBS) in 2018. As the Bank project went through a restructuring, which revised the project's results framework at the time of the drafting of the PLR, outcome indicators directly attributable to the project were dropped from the results matrix. However, the PLR kept a CPF target of a reduction to 7 percent reduction by 2018 of the out-of-pocket expenditure for the poorest quintiles in 2018. This indicator is not tracked under the project. However, although not strictly comparable, the out-of-pocket payments for health care as a share of household consumption for poorest quintile was estimated at 3.27 percent in 2018.

37. **Objective 3d. Provide enhanced coverage of water and sanitation services: Achieved.** The CPF pointed out the poor governance of investments in water and wastewater services and their low performance requiring significant support to maintain both quality and sustainability of services. Service delivery in the water sector has historically lacked a transparent and well governed planning process leading to unreliable services to citizens, weak utility performance and poor management. According to the CPF, existing utilities require efficient and transparent management and a medium-term incentive framework.

38. During the CPF period, the Bank's activities through the Water Sector Investment Project (P102733) focused on improving the quality of water and wastewater services in Durres (Albania's second largest city) and improve the utility's financial performance. The Bank also contributed to an improvement in the Durres' utility's financial and operating efficiency through the implementation of a comprehensive business plan. This included identifying and analyzing these challenges through a preliminary energy audit and securing of financing from the French Development Agency (AFD) for a network rehabilitation and optimization program.<sup>27</sup> Furthermore, the Bank supported first steps to improving the utility's financial sustainability by improving the capacity of operational and technical teams for commercial management and network operations. Finally, the project engagement also facilitated relevant TA and policy advise also at the national level.

39. Despite delays in project implementation due to delays in declaring the project effective, the CPF target was fully met by providing 87,885 household water connections (versus a target of 77,000) and

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<sup>26</sup> The Project suffered delays caused by a long pre-and-post election period and changes in key ministerial positions. Delays in appointments of the new counterparts deferred certain key decisions to be taken which caused the project to stop and IFC to disengage and then re-engage when the Government reenforced its commitment.

<sup>27</sup> The AFD program builds on a detailed audit and technical preparations under the Bank's project.

3,074 household sewer connections (versus a target of 3,000 by 2020). In addition, the project helped to double the average hours of water supply for all residents (from 6 to 12 hours) and 68,100 people (i.e., roughly 13 percent of Durres City residents) benefited from improved sewage connections.

## **WORLD BANK GROUP PERFORMANCE**

40. **The overall WBG performance is rated fair, with respect to CPF design and its implementation.** The overall design of the CPF responded well to Albania's development challenges and provided the necessary flexibility to respond to emerging challenges, including the 2019 earthquake and the COVID-19 pandemic. However, shortcomings in the CPF design in particular the results framework did not support a realistic assessment of the progress. Implementation and performance of the Bank's portfolio improved significantly over the CPF period even though the move toward more sophisticated results-based financing instruments was accompanied by some challenges, e.g., challenges in understanding of the flow of funds between the line ministries and the Ministry of Finance.

### **Design and Relevance**

41. **The overall design of the CPF responded well to Albania's development challenges.** The three focus areas were well aligned with Albania's key development challenges. The PLR also confirmed that the CPF remained aligned with the Government's program for 2017-2021.

42. **The design of WBG interventions evolved during the CPF period.** The CPF proposed an ambitious IBRD lending program of about US\$1.22 billion over six years, of which US\$1.0 billion was delivered (see Annex 4). While there was a reform momentum during the first phase of the CPF (2015-2-17), it became more challenging to identify reforms and champions during the second phase (2017-2019) which also coincided with elections. Some areas that were anticipated in the CPF, including on land reform or the skills saw significant slowdown and remain challenging today (land) or are being support through grants by bilateral partners (skills). For these reasons 3 operations from the original CPF had to be dropped in the PLR. On the other hand, the CPF remained flexible and responded well to new challenges. For example, the Bank responded to the 2019 earthquake with a restructuring of the health project and to Covid-19 emergency with a dedicated emergency COVID-19 operation. In terms of instruments, the CPF proposed a balanced mix between DPFs, IPFs, and results-based financing with the introduction of DLIs.

43. **The CPF results matrix showed shortcomings in measurability and realism.** Especially, the alignment between CPF objectives and indicators proved problematic. The PLR made no changes to the focus areas and CPF objectives but dropped some indicators and introduced a few revised indicators to better reflect changes in the portfolio. While these changes overall led to improvements in the results matrix, the CLR also found several shortcomings. For example, (i) the CPF indicator on strengthening public investment in the transport sector was not well designed to measure an improvement (or not) in the actual management of public investments; (ii) none of the indicators on sustainable tourism development measured actual outcomes; (iii) the indicators related to enhanced energy security, efficiency and supply did not cover all three dimension of the CPF objective; (iv) the indicators aligned with an increase in the productivity and sustainability of land use did not measure well the productivity angle of the objective. Even though the aligned indicators with the CPF objectives on social protection and health looked useful on paper, they proved impossible to calculate in practice due to the lack of HBS data.

44. **The CPF identified well the risks during the CPF period which will remain relevant also for the new CPF.** The CPF and the PLR emphasized the risks from institutional capacity for implementation and

sustainability of the WBG program. Especially, weak capacity in implementation agencies, frequent staff changes at ministries, and weak inter-agency coordination are areas that will continue to pose challenges also for the new CPF. Weak fiduciary capacity, including recurring procurement and contract management problems, and general governance issues will also remain. Adding to these challenges are broader challenges related to the Albania's economic prospects as well as domestic macroeconomic and fiscal risks.

## **Program Implementation**

45. **Portfolio performance improved during the CPF period.** Annex 5 shows the trend in portfolio performance. The highest number of problem projects was in FY18 with 3 out of 11 projects. In FY20, the last year of the CPF period, as well as in FY21 the portfolio performed without any problem projects or projects at risk. On average, 12 percent of the portfolio was at risk which translates to an average US\$112 million of IBRD commitments—compared to US\$605 million in new commitments on average per year—at risk during the CPF period. Of six projects evaluated by IEG, all but one rated satisfactory for achievement of development outcomes. The main implementation challenges during the CPF period related to lengthy approval processes, weak intra-government coordination and capacity.

46. **Disbursements improved significantly towards the latter half of the CPF period.** The disbursement ratio averaged 9 percent in the first half of the CPF period (FY15-17) but increased to 22 percent in the second half (FY18-20) and even 23 percent in FY21. The average disbursement ratio during this period was 16.3 percent. Slow disbursements at the beginning of the CPF period, were due to lengthy procurement processes, especially for large IT components. Also, the second phase of the CPF period, following the elections, saw a consolidation in ministries which initially led to implementation delays. The improvement in disbursements in the latter half is due in some parts to the composition of the portfolio and large-scale contracts in infrastructure projects coming due. But it is also thanks to improved coordination between the Bank, implementation agencies and ministries as well as some improved coordination within government. Another reason is the increasing shift towards results-based financing and DLIs. While these instruments were more challenging to prepare as discussed above, they did end up contributing to a more steady and predictable disbursement profile. Nevertheless, some reasons for low disbursements persist and, as reflected in the lessons learned sections, will need to continue to be addressed in the new CPF.

47. **Collaboration and coordination with development partners was strong during the CPF period.** The WBG continued its participation in key donor I and has a strong strategic partnership with the EU. Strong support from Austria, Sweden and Switzerland was instrumental in financing parts of the program, while Germany and the EBRD provided complementary financing. There has also been increased outreach to civil society and non-traditional partners.

48. **In the original CPF, IFC investments were expected to be in the order of US\$150-200 million but had to be revised to an estimated US\$40-60 million in the PLR.** IFC's outstanding portfolio amounts to US\$21.6 million as of June 2020, in addition to an outstanding US\$22.3 million mobilized from IFC partners. IFC has two active clients in the country: Kurum International and Enso Hydro Energy. IFC did not meet its CPF investment target due to a number of factors including (i) lack of suitable FDI opportunities, (ii) frequent changes in the legal and regulatory framework and a weak judicial system, impacting investors' decision to invest and (iii) excess liquidity in the banking system resulting in limited prospects for IFC financing for SMEs and women entrepreneurs. An example of low credit demand is an IFC's client, which received a trade line guarantee facility under IFC's GTFP program. However, the line has not been used by the bank due to limited demand from companies operating in Albania. In addition,

significant changes and inadequate staffing within the ministries resulted in PPP implementation delays and sometimes project cancelation, limiting the possibility for IFC financing infrastructure projects. Out of three IFC PPP mandates, one PPP was cancelled, and one suffered significant delays. Given low level of integration with the European and global supply chains there was also a lack of interest from FDIs to invest in certain sectors including manufacturing and agribusiness. IFC jointly with IBRD conducted a private sector diagnostic analyses and a CPSD report was drafted and shared with the Government for feedback. The CPSD explores the growth potential of private investment and financing and formulates concrete recommendations which could help unlock private investments in three sectors: Agribusiness, Tourism and Automotive Manufacturing. Nevertheless, IFC engagement with the energy sector in the country and continuous efforts from the investment team yielded long awaited results and IFC will likely be investing US\$56 million greenfield project financing for 240 MWs of solar PV in Albania. The Project will improve the resilience of the electricity supply in a country where almost 100% of domestic supply comes from hydrology-dependent hydro power plants and is highly dependent on imports.

49. **At the end of the CPF period as of end-June 2020 MIGA's outstanding gross exposure in Albania stood at US\$106.5 million but as of end-June 2021 it was US\$277.1 million, in support of four projects (three in the financial sector and one in the energy sector).** In the financial sector, MIGA provided political risk insurance guarantees to three international financial institutions (Raiffeisen Bank International, ProCredit and Alpha Bank) in support of new lending, including to underserved segments such as MSMEs, as well as to climate finance activities. As the banking sector in Albania was gradually recovering from legacy NPLs and unfavorable macroeconomic conditions hindering credit growth, the MIGA guarantees proved to be an effective tool to help de-risk banks' balance sheets, achieve regulatory capital relief and thereby allow for the needed extra capacity to support continued lending, which was also extremely timely in view of the COVID-19 crisis. In the energy sector, MIGA, in 2012, provided political risk insurance guarantees in support of the Energji Ashta power project which was ongoing during the CPF period. The project involved the construction and operation of a 52.9 MW run-of-river hydropower plant under a 35-year Concession Agreement. The Project has been operational since 2013, with an annual production of approximately 242,000 megawatt hours, and has contributed to the broad development of Albania's generation sector in the renewable energy space. Given expensive energy imports and power shortages in the country, MIGA's support to the project has expanded generation capacity, reduced generation costs and, being the first large-scale IPP in the country, provided a positive demonstration effect for future investors in the sector.

#### **ALIGNMENT WITH CORPORATE GOALS**

50. **The CPF was well aligned with the WBG's twin goals and corporate commitments.** The CPF focus areas were well aligned with the WBG goals of eradicating poverty and increasing shared prosperity. The climate change agenda achieved increased importance but more needs to be done to enhance the share of climate co-benefits in Bank operations. Significant progress was made in supporting Albania on gender-specific economic opportunities culminating in a gender DPL. On citizen engagement, the positive trends recorded already during the PLR continued for the rest of the CPF period.

51. **The CPF supported the climate change agenda in some key areas even though the share of climate co-benefits in Bank operations still needs to improve.** Support included the focus on sustainability in the tourism sector and land management practices as well as enhanced energy efficiency as discussed above. Average climate co-benefits in IBRD operations in Albania between FY15-20 were only 13.6 percent, well below the corporate target of 28 percent for FY20 (and 35 percent for FY21-25). The reason for this is the fact that the bulk of IBRD lending focused on CPF objectives which, while crucial for the Albania's

economic development, were less conducive in generating large climate co-benefits. This includes operations to support health systems, public finance, the financial sector, public services, competitiveness, social assistance, and gender. Towards the latter half of the CPF, the program though managed to increasingly incorporate climate objectives within less-traditional climate supporting operations for example a development policy operation on fiscal sustainability and growth in FY21.

**52. Albania made excellent progress on bridging social and economic gender gaps.** Albania is close to gender parity in education and health outcomes, has a legal framework that ensures equal treatment of men and women, and women are well represented at various levels of government. But given that not all these achievements translated into the labor market as well as women entrepreneurship, the Bank supported—through the Bank’s first solely gender focused DPL (P160594)—tackling gender inequality in access to economic opportunities especially vis-à-vis property rights and access to labor markets. The CPF identified gender as a cross-cutting area to be mainstreamed across various engagements. Gender was also identified as an important reform area in the SCD. From this engagement, a policy-level dialogue emerged which eventually led to a DPL in FY20 focusing on gender equality in access to economic opportunities.

**53. A citizen engagement roadmap was implemented during the CPF period.** The CPF highlighted the importance of citizen engagement (CE) in operations and the PLR developed a CE roadmap for the rest of the CPF period. The portfolio has since been 100 percent CE compliant.

## LESSONS LEARNED

54. Annex 3 lists detailed lessons learned under each CPF objective. Key overall lessons for the WBG’s engagement under the new CPF, include:

**55. The CPF should focus on the reform areas that garner the necessary political support and have or can build government ownership.** The implementation of the CPF showed that those WBG interventions which received more political support had better development outcomes. This was the case in the engagements on gender, fiscal sustainability, financial sector, and public service delivery. But it is equally important to stress the fact that some reforms take longer, and that continuous ownership is critical for their success. A lesson from the IFC engagement also showed that investment targets need to be aligned with government’s willingness to engage with un-wavering commitment. Going forward, a continuous dialogue for challenging reforms with key political stakeholders should be key as we design and implement the new CPF.

**56. To improve implementation and sustainability of supported reforms, the new CPF needs to contribute to a better understanding by the WBG teams of Albania’s institutions and coordination within government, as well as provide support towards capacities and processes.** A challenging coordination environment between ministries and agencies, frequent staff rotations at ministry level paired with overall reduced staffing have been key factors affecting implementation and ultimately sustainability in Albania. Coordination issues can be exacerbated in cross-sectoral engagements which can bring bigger impacts but also larger challenges. WBG engagements need to provide the necessary support to change management processes with a focus on strengthening institutional coordination, ownership, and agencies’ accountability for results. Furthermore, the new CPF programs should support a sustained and informative dialogue with key public institutions on the benefits of specific reform measures and financing instruments that will ultimately help to improve development outcomes.

**57. The shift to new results-based instruments, e.g., PfoRs, should continue during the upcoming CPF, with extra efforts dedicated to capacity building and increased understanding, especially during the preparation phase.** The Bank's shift to a stronger focus on results-based financing from traditional investment financing, is being increasingly appreciated but also showed the need for a good understanding of the functioning of government institutions including, e.g., the resource flows between MOF and line ministries. The fact that DLIs do not allow for direct financing of implementing agencies might provide disincentives for some line ministries and agencies to participate in Bank projects and lead to several implementation challenges. On the other hand, it reinforces the same agencies to make a better case to MOF, precisely to achieve the DLIs. An increased understanding of this cycle and continuous training to Government and WBG teams would improve the design of these operations and faster implementation during the new CPF.

**58. While there have been important achievements in key areas under the previous CPFs, several important priorities remain relevant for the new CPF.** For example, there has been good progress on supporting improved fiscal sustainability, and overall strengthening the country's macroeconomic foundations. But the new CPF need to continue these efforts including on the clearing of the country's arrears. Even though there has been some important progress in the improvement of Albania's business environment, the CLR also shows that providing an enabling environment for private sector growth is a long-term agenda for Albania and one that cannot be tackled under just one CPF cycle. The CLR also shows the need for the WBG to keep engaged in the support to provide better and more sustainable services for the citizens of Albania and the new CPF should build on the progress achieved under the previous CPF. An improved protection of the poor and improved access to health and other social services will remain an important agenda for Albania in the years if not decades to come. Finally, while the previous CPF covered some important areas related to greening the economy and the management of natural resources, especially with respect to improvements in the sustainability of land use and improvements in the efficient use of energy, the new CPF will have to put a stronger focus on both improved resilience from natural shocks and climate change as well as efforts to better manage natural resources.

**59. The new CPF should continue supporting ongoing engagements in important reform agendas, but selectively engage in new areas where the WBG's financial support and know how are critical.** Fiscal sustainability, macroeconomic support, improved protection to vulnerable groups should continue to remain at the core of the CPF. Even more so in view of Russia's invasion of Ukraine, and its effects on the economy, including overall price increases and other external shocks. The CPF should also build on the excellent results achieved under the previous CPF, including the service delivery or social assistance modernization operations. New areas, including improved resilience from natural shocks and climate change, should be more prominent in the new CPF. The earthquake as well as floods experienced during the previous CPF, led to support and analytical work which resulted in important policy guidance that can form the basis of the WBG's support during the new CPF.

**60. The new CPF's results matrix should have a stronger focus on realism.** The CLR found several issues with the alignment between objectives and indicators in the previous CPF. The introduction of the High-Level Outcomes (HLOs) for the new CPF should guide an improved alignment between the long-term horizon, and shorter more project/program guided objectives and indicators. Overall, the CPF should avoid formulating objectives that are too broad and miss being able to identify indicators to cover all dimensions.



CLR Annex 1: Status of CPF Results Matrix

<b>Focus Area 1: Restoring macroeconomic balances</b>		<b>Moderately Unsatisfactory</b>
<b>CPF Objective 1a: Support improved fiscal sustainability</b>		<b>Partially Achieved</b>
CPF Indicator 1: No accumulation of new central government arrears and arrears backlog cleared	Not Achieved	
<b>CPF Objective 1b: Provide strengthened public investment management in transport sector</b>		<b>Not Achieved</b>
Indicator 1: All rehabilitation and maintenance needs on existing roads are prioritized vis a vis road conditions, traffic and safety aspects, and included in medium-term (three-year) plan	Not Achieved	
<b>CPF Objective 1c: Support improved financial stability</b>		<b>Achieved</b>
Indicator 1: Reduce NPLs to 20 percent or below	Achieved	
<b>Focus Area 2: Creating conditions for accelerated private sector growth</b>		<b>Satisfactory</b>
<b>CPF Objective 2a: Contribute to improved business environment</b>		<b>Partially Achieved</b>
Indicator 1: Improve Doing Business <i>Distance to Frontier</i> Score	Not Achieved	
<b>CPF Objective 2b: Support sustainable tourism development</b>		<b>Achieved</b>
Indicator 1: Key infrastructure operational for sustainable tourism in Southern Albania	Achieved	
<b>CPF Objective 2c: Support enhanced energy security, efficiency, and supply</b>		<b>Achieved</b>
Indicator 1: Electricity distribution losses are 22%	Achieved	
Indicator 2: Electricity customer collection rate is maintained at a sustainable average rate of 90% between 2015-19	Achieved	
Indicator 3: The electricity market deregulation on the demand side has reached 12% of total net demand	Achieved	
<b>CPF Objective 2d: Contribute to increased productivity and sustainability of land use</b>		<b>Achieved</b>
Indicator 1: Additional land area (ha) where sustainable land management has been adopted	Achieved	
Indicator 2: Area (ha) provided with improved irrigation and drainage services in agriculture land benefiting water users	Achieved	
<b>Focus Area 3: Strengthening public sector management and service delivery</b>		<b>Moderately Satisfactory</b>
<b>CPF Objective 3a: Support increased efficiency in public service delivery</b>		<b>Achieved</b>
Indicator 1: Reduction in time required for citizens to obtain targeted administrative services	Achieved	
<b>CPF Objective 3b: Support improved equity and access to social protection services</b>		<b>Partially Achieved</b>
Indicator 1: Coverage of the poorest income quintile by Solidarity Albania (social assistance program) increases to 38%.	N/A	
<b>CPF Objective 3c: Contribute to increased efficiency and access to health services</b>		<b>Partially Achieved</b>

Indicator 1: Reduced percentage of income spent on out-of-pocket health expenditures, for the poorest quintile	N/A	
<b>CPF Objective 3d: Provide enhanced coverage of water and sanitation services</b>		<b>Achieved</b>
Indicator 1: Piped household water and sewer connections that are benefitting from rehabilitation works undertaken by the project	Achieved	

CLR Annex 2: CPF Results Matrix Evaluation

<b>FOCUS AREA 1: RESTORING MACROECONOMIC BALANCES</b>	
<b>CPF Objective 1a: Support improved fiscal sustainability</b>	
<b>CPF Objective Indicators</b>	<b>CLR Status</b>
<p><i>Indicator 1:</i> No accumulation of new central government arrears and arrears backlog cleared <b>Baseline:</b> 2.6% of GDP - 2014 <b>Target:</b> No central government arrears - 2019</p>	<ul style="list-style-type: none"> <li>• <b>Not Achieved.</b> Budgetary arrears self-reported by the budgetary institutions amounted to about 1.6 percent of GDP at end-2019, down from about 2 percent in end-2018, with a majority of about 0.7 percent of GDP in the form of arrears on VAT refunds, about 0.5 percent from local governments and about 0.4 percent from central government institutions often related to spending on infrastructure projects.</li> </ul>
<b>CPF Objective 1b: Provide strengthened public investment management in transport sector</b>	
<b>CPF Objective Indicators</b>	<b>CLR Status</b>
<p><i>Indicator 1:</i> All rehabilitation and maintenance needs on existing roads are prioritized vis a vis road conditions, traffic and safety aspects, and included in medium-term (three-year) plan.  <b>Baseline:</b> Ad hoc planning and budgeting of roads rehabilitation and maintenance investments– 2015 <b>Target:</b> All road rehabilitation and maintenance needs prioritized and included in medium-term (three-year) plan – 2020</p>	<p><b>Not Achieved.</b> Targets and the respective DLI were adjusted to end-2021 outside the CPF period.</p>
<b>CPF Objective 1c: Support improved financial stability</b>	
<b>CPF Objective Indicators</b>	<b>CLR Status</b>
<p><i>Indicator 1:</i> Reduce NPLs to 20 percent or below NPL Reduction: <b>Baseline:</b> 24.9% - 2014 <b>Target:</b> 20% - 2019</p>	<p><b>Achieved.</b> 8.4 percent as of December 2019. [7 percent as July 2021].</p>
<b>FOCUS AREA 2: CREATING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH</b>	
<b>CPF Objective 2a: Contribute to improved business environment</b>	
<b>CPF Objective Indicators</b>	<b>CLR Status</b>
<p><i>Indicator 1:</i></p>	<p><b>Not Achieved</b></p>

<p>Improve <i>Doing Business Distance to Frontier</i> (DTF)<sup>28</sup> Score  <b>Baseline:</b> DB2015 Score: 66  <b>Target:</b> DB2020 Score: 71</p>	DB2020 Score: 67.7
<b>CPF Objective 2b: Support sustainable tourism development</b>	
<b>CPF Objective Indicators</b>	<b>CLR Status</b>
<p><i>Indicator 1:</i>  Key infrastructure operational for sustainable tourism in Southern Albania  <b>Baseline:</b> Absence of key operational infrastructure - 2014  <b>Target:</b> Key infrastructure operational - 2019</p>	<b>Achieved.</b> As of April 2021, 35,631 square meters of new or rehabilitated urban public spaces under the Project for Integrated Urban and Tourism Development.
<b>CPF Objective 2c: Support enhanced energy security, efficiency and supply</b>	
<b>CPF Objective Indicators</b>	<b>CLR Status</b>
<p><i>Indicator 1:</i>  Electricity distribution losses are 22%  <b>Baseline:</b> 38% - 2014</p> <p><i>Indicator 2:</i>  Electricity customer collection rate is maintained at a sustainable average rate of 90% between 2015-19  <b>Baseline:</b> 80% - 2014</p> <p><i>Indicator 3:</i>  The electricity market deregulation on the demand side has reached 12% of total net demand  <b>Baseline:</b> 9% - 2014  <b>Target Year 2020</b></p>	<p><b>Achieved.</b> 21.6% by 2020.</p> <p><b>Achieved.</b> 95% average in 2016-2020.</p> <p><b>Achieved.</b> In 2020 the deregulated customers (HV and 35 kV GWh 906) reached 12% of total demand GWh 7590. The last four years average is above 12%.</p>
<b>CPF Objective 2d: Contribute to increased productivity and sustainability of land use</b>	
<b>CPF Objective Indicators</b>	<b>CLR Status</b>

<sup>28</sup> DTF as of October 31, 2018, was replaced with “ease of doing business”. In September 2021, the Doing Business report was discontinued.

<p><i>Indicator 1:</i> Additional land area (ha) where sustainable land management has been adopted <b>Baseline:</b> 0 - 2014 <b>Target:</b> 7000 ha - 2019</p>	<p><b>Achieved.</b> 11,153 ha in 2020.</p>
<p><i>Indicator 2:</i> Area (ha) provided with improved irrigation and drainage services in agricultural land benefiting water users. <b>Baseline:</b> 0 - 2014 <b>Target:</b> 24.000 (ha) – 2019</p>	<p><b>Achieved.</b> 40,000ha in 2020.</p>
<p><b>FOCUS AREA 3: STRENGTHENING PUBLIC SECTOR MANAGEMENT AND SERVICE DELIVERY</b></p>	
<p><b>CPF Objective 3a: Support increased efficiency of public service delivery</b></p>	
<p><b>CPF Objective Indicators</b></p>	<p><b>CLR Status</b></p>
<p><i>Indicator 1:</i> Reduction in time required for citizens to obtain targeted administrative services: <b>Baseline:</b> 0% - 2014 <b>Target:</b> 15% reduction - 2019</p>	<p><b>Achieved.</b> Average time reduction of 37 percent for 70 services under the Citizen-Centric Service Delivery Project.</p>
<p><b>CPF Objective 3b: Support improved equity and access to social protection services</b></p>	
<p><b>CPF Objective Indicators</b></p>	<p><b>CLR Status</b></p>
<p><i>Indicator 1:</i> Coverage of the poorest income quintile by the Solidarity Albania (social assistance program) increases to 38% <b>Baseline:</b> 25% - 2012 <b>Target:</b> 38% - 2019</p>	<p><b>Not Available.</b> 2019 data is not available; baseline date is missing to calculate progress. No HBS data is available after 2017.</p>
<p><b>CPF Objective 3c: Contribute to increased efficiency and access to health services</b></p>	
<p><b>CPF Objective Indicators</b></p>	<p><b>CLR Status</b></p>
<p><i>Indicator 1:</i> Reduced percentage of income spent on out-of-pocket health expenditures, for the poorest quintile <b>Baseline:</b> 9% - 2012</p>	<p><b>Not Available.</b> Out-of-pocket payments for health care as a share of household consumption, for poorest quintile - 3.27 – 2018<sup>29</sup></p>

<sup>29</sup> Not strictly comparable to 2012 due to methodological changes.

<b>Target: 7% - 2018</b>	
<b>CPF Objective 3d: Provide enhanced coverage of water and sanitation services</b>	
<b>CPF Objective Indicators</b>	<b>CLR Status</b>
<p><i>Indicator 1:</i>  Piped household water and sewer connections that are benefiting from rehabilitation works undertaken by the project</p> <p>Household water connections  <b>Baseline:</b> 0 - 2013  <b>Target:</b> 77,000 – 2019</p> <p>Sewer connections  <b>Baseline:</b> 0 – 2013  <b>Target:</b> 3000 – 2019</p>	<p><b>Achieved.</b> 87,885 household water connections and 3,074 household sewer connections by 2020.</p>

**FOCUS AREA 1: RESTORING MACROECONOMIC BALANCES**

**CPF Objective 1a: Support improved fiscal sustainability**

1. Fiscal consolidation needs to come from additional revenue mobilization and improved tax compliance by removing indirect tax exemptions and improving the direct tax formulation. Albania's gains in terms of fiscal consolidation were quickly reversed during the Covid-19 pandemic, as the country embarked on programs to support the affected sectors households. While the economic recovery is now underway, uncertainty related to the management of the pandemic is still high, energy prices are soaring, and inflation is picking up; all ultimately posing a risk to the recovery and the budget. While spending needs to support growth remain high there is an urgent need to create fiscal buffers that can be deployed in times of crisis.
2. While the Bank's engagement supported major milestones to improve fiscal sustainability, including the organic budget law as well as transparency and accountability of public finance management, political support remains a key requirement for successful reforms. In the absence of this support, implementation delays, limited invested capacity in core government functions and discretionary decisions that overrule fiscal consolidation jeopardize the achievement of the intended results. For example, when the economy picked up speed in 2021 and grew by over 11 percent in the first half of the year, a normative act issued in July 2021 suspended the organic budget law and allowed additional infrastructure projects to commence with a resulting increase in the public debt.
3. Development partner coordination is vital for the continuity of implementation support following policy reforms. Albania's institutions are still developing and vulnerable to frequent reorganization, overlapping mandates and unclear accountability lines which makes reform implementation difficult. A sequencing of development partners' support is key to support a sustained reform progress.

**CPF Objective 1b: Provide strengthened public investment management in transport sector**

1. Need to put an extra focus on project readiness and making sure that the key requirements for achieving project outcomes are in place especially when using DLIs. Especially, project activities that are to be procured should not be linked with rigid DLIs and specific deadlines. Pre-bid information and clarification need to be more extensive to allow for successful contract execution.
2. DLIs should be applied situation-specific and tailored to the type of activities and institutional reforms that the project is trying to achieve. They should be scalable and/or transferable from one year to the next, especially if they depend on procurement processes. A more flexible project design, e.g., allowing DLIs to be scalable and not expecting specific results to be achieved within the first year, would have been preferable.
3. Specific responsibilities between key stakeholders need to be well defined potentially in the project operating manual especially with respect to any resource flows from MOF to agencies or line ministries that are vital for project implementation.
4. Need for Government's strong commitment to implementing an appropriate and effective communication plan to respective stakeholders/public before a project is formally initiated.

### **CPF Objective 1c: Support improved financial stability**

1. Financial regulators, operationally and financially independent from the government, are better positioned to ensure efficient and longer-term absorption of TA.
2. of the WBG needs to have a good understanding of the political situation, especially if attempting legal changes. This includes the need to understand which political leaders and members of parliament need to be approached to avoid any delays as well as to understand who in government should receive training to better understand the reforms that are being introduced.
3. The engagement also yielded several lessons to the setup of the TF engagement especially with selection of providers and procurement processes. Even though the TA foresaw three different contracts to mitigate the risk of having to rely on a single provider, the TA ended up with only one provider. This proved useful at the end in order to reduce transaction costs and avoid duplicative efforts.

### **FOCUS AREA 2: CREATING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH**

#### **CPF Objective 2a: Contribute to improved business environment**

1. Need to be more realistic in which level of outcomes can be achieved over a relatively short CPF period. Some difficult but highly necessary engagements, such as the improvement in Albania's business environment which, will take much more time to yield actual results.
2. While the engagement did not achieve the intended higher-level outcomes contributed to important reform efforts with some tangible outcomes. The approach was to combine several Bank lending instruments and sequence them with accompanying TA and IFC investments. This concerted effort shows that, overall, it is possible for the WBG to contribute to complex reforms through well sequenced and coordinated engagements.
3. This engagement also showed that to contribute to reform requires achieving a high degree of coordination among various government institutions, along with sufficient resources dedicated to communicating relevant messages to public officials to increase awareness and understanding of the intended reforms.

#### **CPF Objective 2b: Support sustainable tourism development**

1. Some of the completed tourism investments in carefully selected urban areas of historic significance and tourism potential, catalytic urban upgrading interventions have increased livability for local residents. In addition, it improved the overall attractiveness for visitors and businesses and ultimately led to enhanced economic opportunities. Further, the preservation and revitalization of major cultural heritage assets and strengthening of institutional capacity to manage these assets provides government with additional financial resources to ensure the sustainability of the infrastructure investments and continued delivery of basic municipal services.
2. Resilience and DRM dimensions should be considered more in future investments. Moving forward, achieving a resilient recovery from the COVID-19 pandemic presents a significant and urgent challenge to sustainable tourism development of the country and other areas of WBG engagement under the new CPF.



### **CPF Objective 2c: Support enhanced energy security, efficiency, and supply**

1. The project design covered the whole country but, in hindsight, it should have concentrated in a more targeted geographical area to increase implementation effectiveness and pave the way for future interventions in other areas. This would have allowed the Bank to pay more attention to the local environment and key issues, e.g., the condition of infrastructure, questions about ownership and how to deal with lengthy expropriation processes. In addition, it would have allowed the Bank to develop a better division of responsibilities vis-à-vis other actors, including utilities.
2. Putting the Bank in charge of electricity equipment procurement as well as installations would have given the Bank's engagement a better start and, most importantly, would have allowed to show results at an earlier phase of the engagement.
3. Significant changes to the structure of the electricity supply market could face delays in implementation due to political, financial, human resources and technical considerations. The Bank's IPF was an insufficient instrument to support the required policy or regulatory actions by government authorities.
4. Projects of this nature can take many years to implement. It is necessary for the implementing agencies and the Bank to allocate adequate resources for prolonged implementation periods and be flexible in the case of unforeseen events.

### **CPF Objective 2d: Contribute to increased productivity and sustainability of land use**

1. Despite suffering from a complex project design, the ESP project covered the whole governance framework of sustainable use of natural resources while in parallel supporting an improvement in the technical capacity of the Ministry of Tourism and Environment, municipalities, and the National Forest Agency.
2. The ESP engagement also includes lessons on the how to make project investments sustainable. The project successfully pilots forestry grants activities that supported forest and pasture improvement investments, but in addition through a learning by doing approach, helped develop the capacity of both the government agencies to administer and implement forestry grants, as well as to successfully prepare sound grant applications.

## **Focus Area 3: Strengthening public sector management and service delivery**

### **CPF Objective 3a: Support increased efficiency in public service delivery**

1. The engagement was successful thanks to high-level political support underpinned by a clear purpose and delivery model, which strengthened design and implementation. The reforms that the Bank supported were championed by Albania's PM, who had a clear vision, and who proactively followed the design of the project. This helped facilitate inter-departmental coordination—often a key bottleneck in Albania—and accelerated the mobilization of relevant resources. On the Bank side, this provided increased impetus to bring together a high-quality multi-sectoral team, to “think outside the box” and to go beyond a one-size-fits-all approach to the identified problems.
2. The instrument use (IPF with DLIs, now known as IPF with Performance-Based Conditions) yields important lessons for the Albania program. On the one hand, the instrument proved appropriate to combine physical investments with complex institutional reforms and to foster a results-based culture in the involved public institutions. On the other hand, the use of DLIs—as in other parts of the Bank's

Albania portfolio—led to implementation challenges that had to be mitigated. For example, it proved important to provide sufficient TA and capacity building to enable government to achieve the intended results. In addition, the fact that DLIs do not allow for direct financing of implementing agencies provided a reduced incentive for some agencies to participate. A sustained and informative dialogue with the client regarding the instrument proved critical to ensure alignment between the incentives from the instrument and the incentives of the relevant agencies.

3. The engagement also provides important lessons for improving public service delivery in the Albania program. Digitization of service delivery was critical in ensuring access to services, particularly in the face of the COVID-19 pandemic, such as through the E-Albania portal. Yet, these efforts need strengthening to ensure that the digital services are more user-friendly and more efficient, and to expand the types of services beyond administrative services to social, financial and infrastructure services. Moreover, to improve services in lagging regions and to reach vulnerable groups (such as the Roma or women), it was also important to provide tailored services through physical delivery channels, such as citizen service centers or municipalities.
4. It is important for projects to support change management processes. Especially inter-institutional coordination could have been further strengthened. Future projects would benefit from dedicated activities focused on change management to strengthen inter-agency coordination and to strengthen ownership and accountability for results across multi-agency teams.

#### **CPF Objective 3b: Support improved equity and access to social protection services**

1. Support of government strategies needs to be complemented by agreements that make sure that these strategies are also being implemented, e.g., through monitoring systems, mandatory regular revisions or evaluations of key programs.
2. When supporting such specific reforms, the Bank should in parallel support a set of more holistic reform efforts to ensure a positive impact on the attended beneficiaries. For example, NE beneficiaries should benefit not only from the monetary benefits that were supported under the project but should also be able to benefit from other services for their effective inclusion into society. Persons with disabilities, once assessed through the new system, should have access to benefits and social services that respond better to their needs and help them live an independent life.
3. The Bank's project should have had mechanisms that would allow the institutions that are tasked to implement the reforms to tap into the financial resources they need for completing them. Third, Bank lending should be complemented by analytical work. Going forward, reimbursable advisory services (RAS) to support the country in areas where it requires the Bank's expertise could be an important option going forward.

#### **CPF Objective 3c: Contribute to increased efficiency and access to health services**

1. Adjust project design to the implementation environment and to avoid a too complex design.
2. Educate policy makers across parties and point out the similarities within their respective policy platforms. For example, both main political parties in Albania support policies on improving the efficiency of health services. By focusing on this area, implementation was shielded from major interruptions even during changes in political leadership. Similar as the Bank's approach in social protection, it first focused on supporting legislative reforms through a DPF program to provide the basis for implementation of the reforms supported through IPF.

3. Secure the Government's strong commitment to the post PPP monitoring activities for at least the initial 2-3 years, through signing formal post PPP monitoring advisory agreement in parallel with signing of the advisory agreement.

**CPF Objective 3d: Provide enhanced coverage of water and sanitation services**

1. Including institutional building components with infrastructure development improves performance efficiency and sustainability. The Bank's engagement included a capacity building component to support the utility which helped to support the project implementation, sector modernization, enhance institutional sustainability and overall improved the client's capacity.
2. Project preparedness before effectiveness and strong coordination between implementing agencies and transparency help in expediting implementation, avoiding delays, and improving ownership. This includes the need to prepare procurement documents, feasibility studies, project bidding documents, etc. before effectiveness to expedite implementation and avoid delays.
3. Government support and satisfaction with the project objectives and expected outcomes was key to encourage policies and decisions to positive difference in the sector.
4. A strong PIU with motivated and experienced staff helped achieve project outcomes. Strong M&E systems helped identify project shortcomings and keep the project on track.

*CLR Annex 4: The CPF and the Impact of Earthquake and COVID-19 in FY20-FY21*

**1. Albania's economy has been tested drastically during the CPF period.** Its economy suffered a devastating earthquake in 2019, which resulted in loss of lives and livelihoods, as well as significant damage to infrastructure, particularly housing. Soon after that, the pandemic forced the introduction of lockdowns and restrictions of movement and economic activity that resulted in a GDP contraction of 3.5 percent in 2020. Albania's economy rebounded rapidly in 2021 with GDP growth of 8.5 percent. However, the pandemic has left a lasting impact on lives and livelihoods – with more than 3,400 lives lost, poverty and vulnerability increased, jobs yet to recover and unquantified losses for businesses and entrepreneurs.

**2. The response from authorities to the pandemic has been largely swift.** They introduced a set of measures to strengthen social protection, providing assistance to the health and other affected economic sectors. In response to the earthquake and to support the economy during the COVID-19 crisis, the Government rolled out significant fiscal support measures. To respond to the COVID-19 crisis, Albania rapidly rolled out a fiscal package and increased budget for the public health response and immediate humanitarian relief.

**3. In response to the earthquake and the pandemic, and not foreseen under the FY15–20 CPF, the WBG provided additional support to the Albanian authorities.** In response to the earthquake, the Health Systems Improvement Project was fully restructured with a new project development objective to contribute to the modernization of selected public hospital services and to support the reconstruction of selected medical facilities damaged by the 2019 earthquake. In response to the pandemic, US\$16.8 million was mobilized under the emergency COVID-19 Multiphase Programmatic Approach for the Albania Emergency COVID-19 Response Project. The project aims to support strengthening of the health sector's ability to respond to the pandemic (through procurement of equipment and supplies) while strengthening resilience of the sector through investment in testing facilities, improving capacity of the main Infectious disease hospital and the Institute of Public Health, and supporting health care workers with tailored training and guidelines.

CLR Annex 5: Planned IBRD Lending and Actual Deliveries over the CPF Period

FY	Planned	Instrument	IBRD (US\$M)	Actual and Proposed	Instrument	IBRD (US\$M)	Dropped
FY15	Policy Based Guarantee	DPL	220.00	Policy Based Guarantee P149765	DPL	220.00	
	Roads Safety and Maintenance	IPF	80.00	Roads Safety and Maintenance P132982	IPF	80.00	
	Albania Health System Improvement	IPF	40.00	Health System Improvement P144688	IPF	40.00	
	Power Recovery Project	IPF	150.00	Power Sector Recovery P144029	IPF	150.00	
	<b>Sub-total FY15</b>		<b>490.00</b>	<b>Sub-total FY15</b>		<b>490.00</b>	
FY16	Citizen-Centered Public Services	IPF	32.00	Citizen-Centered Public Services P151972	IPF	32.00	
	Integrated Land Management	IPF	45.00				Dropped
	Coastal Regeneration &	IPF	53.00				
	Competitive & Jobs DPL	tbd	tbd				
	Financial Sector DPL		100.00				
<b>Sub-total FY16</b>		<b>230+</b>	<b>Sub-total FY16</b>		<b>32.00</b>		
FY17				Financial Sector DPL (+1year) P152064	DPL	100.00	
				Competitiveness DPL P155605	DPL	70.00	
	Subnational \$ Finance Gov.		tbd				Dropped
	SAMP Additional Financing		tbd				
	<b>Sub-total FY17</b>		<b>tbd</b>	<b>Sub-total FY17</b>		<b>241.00</b>	
FY18				Dam Safety AF P125856	IPF	14.20	
				AF Social Assistance Modernization P122233	IPF	11.00	
	Energy Sector Development		tbd				
	Skills & Employment		tbd				Dropped
	Development Policy Loan	tbd					
	Albania WRIP AF	IPF	26.75				
<b>Sub-total FY18</b>		<b>26.75+</b>	<b>Sub-total FY18</b>		<b>75.20</b>		
FY19	Transport Reform	tbd	tbd				
	Development Policy Loan	tbd	tbd				
	<b>Sub-total FY19</b>		<b>tbd</b>	<b>Sub-total FY19</b>		<b>0.00</b>	
FY20				Albania Gender Equality DPF P160594	DPF	10.00	Added
				Fiscal Sustainability and Growth DPF P169524	DPF	80.00	
				Regional Trade and Transport Facilitation P173620	IPF	20.00	
	<b>Sub-total FY20</b>		<b>0.00</b>	<b>Sub-total FY20</b>		<b>110.00</b>	
<b>TOTAL PLANNED</b>			<b>1220.00</b>	<b>TOTAL ACTUAL &amp; PROPOSED</b>		<b>948.20</b>	

CLR Annex 6: Portfolio Indicators over the CPF Period

**PORTFOLIO AND DISBURSEMENTS (CPF Period FY15-FY20)**

Data as of	2015	2016	2017	2018	2019	2020	2021
	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Projects #	9	9	12	11	11	11	8
	632.20	544.20	785.20	718.30	717.28	618.36	469.58
Total Disbursements \$m	165.85	100.89	130.43	233.92	331.26	350.65	300.56
Total Undisbursed Balance \$m	457.57	432.67	637.78	456.03	345.67	232.91	151.65
Disbursements in FY \$m	129.01	50.20	29.36	103.49	97.08	81.50	119.93
Disbursement Ratio	7.2	11.1	6.9	22.7	21.9	21.4	22.9
IBRD Disb in FY	123.85	44.69	28.40	101.46	96.34	81.10	119.89
IDA Disb in FY	5.16	5.51	0.96	2.03	0.74	0.40	0.03
Comm IP/DO	85.30	142.20	40.00	270.00	190.00	0.00	0.00
IBRD Net Cmt Amt	596.90	508.90	749.90	683.00	681.98	583.06	434.28
IDA Net Cmt Amt	35.30	35.30	35.30	35.30	35.30	35.30	35.30
Flg Slow Disb	1	1	2	0	2	2	1


**PORTFOLIO RISKINESS (CPF Period FY15-FY20)**

Data as of	2015	2016	2017	2018	2019	2020	2021
	FY15	FY16	FY17	FY18	FY19	FY20	FY21
# Prob Projects	1	2	1	3	2	0	0
Problem Project %	11.1	22.2	8.3	27.3	18.2	0.0	0.0
Potential Problem Project #	1	2	1	3	2	0	0
Project at Risk #	1	2	2	3	2	0	0
Project at Risk %	11.1	22.2	16.7	27.3	18.2	0.0	0.0
Commitments at Risk \$m	85.30	142.20	96.90	270.00	190.00	0.00	0.00
Commitments at Risk %	13.5	26.1	12.3	37.6	26.5	0.0	0.0
Proact Projects	2	1	2	1	3	2	

**IEG RATINGS (CPF Period FY15-FY20)**

Data as of	2015	2016	2017	2018	2019	2020	2021
	FY15	FY16	FY17	FY18	FY19	FY20	FY21
# of Exits	2	1		2		1	
No. of Projects Evaluated by IEG	2	1		2		1	
Outcome % Satisfactory	100.0	100.0		50.0		100.0	
ICR Quality Sat %	100.0	100.0		100.0		0.0	
Net Disconnect	0.0	0.0		50.0		0.0	
Bank Performance at Entry % Sat	50.0	100.0		50.0		0.0	
Bank Performance at Supervision %	100.0	100.0		100.0		100.0	
% Substantial or Better M&E Quality	50.0	100.0		0.0		0.0	
Borrower Overall Performance % Sat	100.0	100.0		100.0			

CLR Annex 7: IFC's committed and outstanding portfolio over the CPF period

 International Finance Corporation WORLD BANK GROUP		Statement of IFC's Committed and Outstanding Portfolio											Run Date : Oct 27, 2021			
		(Amounts in USD Millions)											Run Time: 11:52:41 AM			
													Page : 1 of 1			
Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2012/2013	enro Albania	0	0	4.96	0	0	0	4.96	0	0	4.96	0	0	0	4.96	0
2014	KURUM INTER	16.63	19.98	0	0	0	0	16.63	22.34	16.63	0	0	0	0	16.63	22.34
<b>Grand Total:</b>		<b>16.63</b>	<b>19.98</b>	<b>4.96</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21.59</b>	<b>22.34</b>	<b>16.63</b>	<b>4.96</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21.59</b>	<b>22.34</b>

CLR Annex 8: MIGA outstanding exposure as of FY21

Project name	Effective date	Expiration date	Investor	Sector	Gross exposure (million)
<b>Ongoing during CPF period</b>					
<b>Hydroelectric Power Plant Ashta</b>	02/01/2012	04/19/2022	EVN AG	Infrastructure	US\$50.0
<b>New during CPF period</b>					
<b>Alpha Bank Albania SH.A</b>	06/04/2020	06/03/2023	Alpha Bank A.E.	Financial	US\$56.5
<b>New after CPF period</b>					
<b>ProCredit Mandatory Reserves</b>	12/22/2020	12/21/2025	ProCredit Holding AG & Co. KGaA	Financial	US\$13.6
<b>Raiffeisen Sh. A.</b>	03/31/2021	03/30/2024	Raiffeisen Bank International AG	Financial	US\$157.0
				<b>Total</b>	<b>US\$277.1</b>

### Annex 3. IBRD Lending Program and Pipeline

As of January 2023

Table 1. IBRD Current Portfolio

Project ID	Project Name	Commitment Amount (\$M)	Closing Date	Instrument
P163239	Regional and Local Roads Connectivity	50.0	30-June-2024	IPF
P144688	Health System Improvement Project	69.5	31-Dec-2024	IPF
P155875	Project for Integrated Urban and Tourism Development	105.6	31-Jul-2025	IPF
P162043	Western Balkans Trade and Transport Facilitation	20.0	15-Dec-2025	MPA
P170891	National Water Supply and Sanitation Sector Modernization Program	75.0	31-Dec-2027	PforR
	<b>TOTAL</b>	<b>320.1</b>		

Table 2. CPF Pipeline

Project ID	Project Name	Indicative Amount (\$M)	FY Approval	Instrument
P174595	Building Resilient Bridges Project	100	2023	MPA
P176163	Clean and Resilient Environment for Blue Sea Project	80	2023	IPF
P177845	Improving Universal Access to High Standard Public Services through GovTech	65	2023	PforR
P178202	First Resilience and Green Development DPF	120	2023	DPF
P178715	Climate Resilience and Agriculture Development Project	70	2023	IPF
P178855	Building Economic Resilience Through the Social Protection System	40	2024	IPF
	<b>Total pipeline</b>	<b>475</b>		
	<b>To be allocated during the rest of the CPF period</b>	<b>425</b>	TBD	



## Annex 4. Gender Equity and Equality: A Long Road Ahead

Albania has a solid legal framework to guarantee gender equality and nondiscrimination<sup>30</sup>, but in practice it is difficult to assess gender parity in citizen participation, access to services, and opportunities<sup>31</sup>. Women continue to face inequities in access to primary health services, especially those living in rural areas and among minorities.

Although there are no gender gaps in educational attainment, fewer women than men transit from university to the labor market and many take jobs that require lower qualifications, as occupational stereotypes limit women's choices to sectors that are characterized by lower salaries (e.g., agriculture remains the primary sector employing women).

During the pandemic, women suffered relatively higher job losses and withdrew in higher numbers from the labor force. This is likely linked to long-standing deficiencies in provision of childcare and early childhood education (which have traditionally undermined women's ability to return to work after childbirth) as well as the pandemic-related impact from school closures. Among those that remained employed, women are paid around 10 percent less than men for similar jobs. In terms of entrepreneurship opportunities, only around a quarter of businesses are owned or managed by women and these are predominantly micro and small businesses with low productivity.

Gender based violence affects more than 50 percent of women in Albania. Although official statistics indicates fewer cases of domestic violence in recent years, it is widely known that this problem is vastly underreported. The COVID-19-induced crisis exposed gaps in the prevention and response services to victims of domestic violence. In terms of public expenditure, while there has been an increase in gender responsive budgeting, resources are still far from sufficient to address gender disparities and protect women at risk.

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<sup>30</sup> Albania scores very high on several global gender indicators, including the United Nation's Gender Equality and Empowerment of Women and the World Bank's Women, Business, and the Law indices of gender parity.

<sup>31</sup> Accurate disaggregated statistical data is unavailable on many important dimensions of gender equality.

## **Annex 5. Lessons from Albania’s Response to the Earthquake and the Pandemic**

**Albania has weathered the COVID-19 pandemic and the aftermath of the earthquake relatively well.** Response from authorities was swift, with a set of measures to strengthen social protection, providing assistance to the health and other affected economic sectors, some of which were supported by the WBG. Social and economic activities have returned to a normal state. However, the impact of these shocks has been significant, in terms of loss of lives and livelihoods, decreased economic activity and additional fiscal pressures.

**In response to the earthquake and to support the economy during the COVID-19 crisis, the Government rolled out significant fiscal support measures.** For the post-earthquake reconstruction, Albania allocated 2.2 percent of GDP for the budget in 2020, 1.5 percent of GDP in 2021 and 0.3 percent of GDP in 2022. In addition, it raised EUR 1.15 billion (8.6 percent of GDP) at a February 2020 international donor conference, in support of its efforts to address the impact of COVID-19. To respond to the COVID-19 crisis, Albania rapidly rolled out a fiscal package worth 2.4 percent of GDP. This included increased budget for the public health response and immediate humanitarian relief. A grant program provided minimum wage payments for the workers of small firms forced to close during the lockdown – support was subsequently expanded to additional firms in a second wave. Credit guarantee windows incentivized banks to make business loans. Various corporate income tax payments were rescheduled. The social safety net was strengthened by temporarily doubling unemployment benefits and social assistance payments. In a sign of solidarity, key government institutions have temporarily cut salaries for high-level officials.

**The response of the Government to the crisis was swift and helped contain the impact of the shocks on lives and livelihoods.** Several lessons emerged for future crisis preparedness. These include:

- Government fiscal space was a prerequisite for a strong government response during the crisis. As Albania emerges from the crisis with higher public debt, fiscal space needs to be rebuilt – which will allow for a countercyclical response should another crisis occur.
- Strengthening ex-ante budget processes can play a key role in ensuring that crisis response measures are fast, transparent, and targeted. Investing in these reforms today can ensure a better crisis response tomorrow.
- While social benefits were topped up during the pandemic, eligibility criteria remained largely unresponsive. Reforming the social safety net to make it more crisis responsive before the next crisis occurs can help to better protect the vulnerable.

## Annex 6. IFC Portfolio

### Albania Investment Portfolio by Industry Group (US\$ million)

Industry Group	Financial Institutions Group (FIG)	Manufacturing, Agribusiness, and Services (MAS)	Infrastructure (INR)	Total
<b>Committed Exposure</b>	-	9.9	5.0	14.9
<i>Portfolio Outstanding</i>	-	9.9	5.0	14.9
<i>of which Loan Outstanding</i>	-	9.9	-	9.9
<i>of which Equity Outstanding</i>	-	-	5.0	5.0
<i>Undisbursed</i>	-	-	-	-

## Annex 7. MIGA Guarantees in Albania

### MIGA Portfolio

Project name	Effective date	Expiration date	Investor	Sector	Gross Exposure (US\$ Millions)
<b>ProCredit Mandatory Reserves</b>	12/22/2020	12/21/2025	ProCredit Holding AG & Co. KGaA	Financial	11.4
<b>Raiffeisen Banka Sh. A</b>	03/31/2021	03/30/2024	Raiffeisen Bank International AG	Financial	131.8
<b>Total</b>					<b>143.1</b>

## Annex 8. Citizen Engagement

Albania's efforts towards creating an enabling environment for citizen engagement (CE) and social accountability are promising. However, a number of challenges remain, which, if left unaddressed, can delay or even set back the country's progress. Albania's fifth Open Government Partnership (OGP) Action Plan prioritizes key institutional reforms designed to strengthen public service delivery (e.g., through ICT and e-government platforms), share disclosable information, improve access to justice, and increase transparency of state assets and revenue. Implementation of these reforms will benefit from further engagement with civil society organizations. This can help to improve accountability and trust in institutions. The Corruption Perceptions Index (2021) places Albania 110th out of 180 countries.

The COVID-19 pandemic and 2019 earthquake shrank the civic space in the past years. While there are approximately 11,500 registered nongovernmental organizations (NGOs), the number of active NGOs is low. National legislation requires the engagement of civil society in consultations for new draft legislation, yet the practical inclusion of civil society organizations in such consultations has been relatively limited. According to the International Open Budget Survey (2021), Albania has a public participation score of 6 out of 100, at different stages of the budget development process.

The Albania's IBRD lending portfolio has reached 100 percent compliance with corporate CE requirements, yet the quality and the level of implementation of CE mechanisms could be strengthened, and their integration with country CE systems could be enhanced. Several promising CE practices are present in the Albania portfolio. The Emergency COVID-19 Response Project (P174101) has integrated strong community engagement from the beginning through (i) socially inclusive needs assessments which helped to formulate priorities; (ii) a participatory monitoring and reporting mechanism to enable communities to help monitor the COVID-19 response at the local level; and (iii) the development of digital solutions that promote and support community feedback throughout the project. The AF Health System Improvement Project (P173351) implements a patient scorecard process, which is organized bi-annually and accompanies the existing satisfaction exit-surveys in each hospital. The AF Project for Integrated Urban and Tourism Development (P171438) organizes regular consultation workshops in the project municipalities.

Enhancing the quality of CE mechanisms requires deepening the breadth of CE mechanisms, ensuring that beneficiaries are engaged throughout the project cycle and close the feedback loop, facilitating the provision of different types of feedback through a variety of channels, and enhancing the inclusiveness of CE mechanisms. CE mechanisms in the portfolio will also be leveraged to strengthen the country's CE systems—strengthen the provision of timely and accessible information to beneficiaries in line with the Freedom of Information Law and support the functioning of the Ombudsman's office (i.e., by integrating it with projects' grievance redress mechanisms). Innovative CE approaches that rely on ICT tools should also be incorporated into projects in line with HLOs, including the two embedded cross-cutting themes: digitalization and inclusion.

Going forward, specific objectives of the WBG's CE agenda in Albania will include to: (1) ensure full compliance with corporate CE commitments in all IPFs with focus on inclusive approaches; (2) intensify CE and rely on digital technologies in projects implemented in the healthcare sector; (3) proactively engage with civil society as part of project design and implementation; (4) build the capacity of PIUs to implement CE through in-country workshops and clinics; (5) incorporate national good CE practices; and (6) strengthen the country's CE systems by incorporating them into the World Bank-financed projects.