



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 08-Jun-2022 | Report No: PIDC33455



BASIC INFORMATION

A. Basic Project Data

Country Albania	Project ID P178202	Project Name Albania Sustainable Growth DPF (P178202)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Board Date Feb 14, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance and Economy	Implementing Agency Ministry of Finance and Economy		

Proposed Development Objective(s)

The program development objective for the proposed operation is to support Albania to (i) strengthen the resilience of its economy by restoring fiscal buffers and better managing risks and (ii) strengthen growth foundations by reinforcing environmental sustainability.

Financing (in US\$, Millions)

SUMMARY

Total Financing	80.00
------------------------	-------

DETAILS

Total World Bank Group Financing	80.00
World Bank Lending	80.00

Decision

The review did authorize the preparation to continue

A. Introduction and Context

1. **This program information document proposes a Sustainable Growth Development Policy Financing (DPF) operation for Albania in the amount of US\$80 million.** This operation supports Albania’s efforts to strengthen the resilience of the economy and reinforce environmental sustainability. The current turmoil in the global economy caused by the war in Ukraine and the COVID-19 pandemic hit Albania following a devastating earthquake in 2019. Albania has weathered these multi-dimensional shocks aptly and is on par to recover alongside its Western Balkan neighbors. But it suffered a fiscal cost, in higher debt, and lapses in attention to critical areas of environmental sustainability. While rising debt and lagging environmental reforms are a cause for action, the increasing frequency of natural disasters that Albania



has been subjected to, coupled with the risks posed by climate change, all argue for rebuilding fiscal buffers and introducing stronger risk mitigation mechanisms. They also argue for refocusing on the pre-pandemic reform agenda and strengthening growth foundations by addressing environmental concerns. The program development objective for the proposed operation is to support Albania to (i) strengthen the resilience of its economy by restoring fiscal buffers and better managing risks and (ii) strengthen growth foundations by reinforcing environmental sustainability.

Country Context

2. **Albania is a small open economy of 2.8 million inhabitants with noteworthy economic performance, subjected to multi-dimensional shocks.** Albania's per capita income grew at about 4.3 percent per annum during 2000-2019, reaching US\$4,390.¹ Various consumption-based surveys, suggest that poverty dropped dramatically from about 40 percent of GDP in 2005 to about 10 percent of GDP in 2019 (measured at \$5.5 per day in constant USD). The drop in poverty has not been linear, as the economy has been subjected to a large number of shocks caused by natural disasters, the global financial crisis in 2009 and the Eurozone crisis in 2011. More than half of Albania's GDP growth during 2000-2019 came from consumption which was supported by large remittances; investment also played an important role for most of the period and was supported by foreign direct investment (FDI), while net exports contributed to growth mainly in 2015-19. Despite the noteworthy economic performance, Albania remains the second poorest country in the Western Balkans. It also has low educational outcomes, which contribute to the country's skills gap and are holding back the economy, and which are preventing the creation of better jobs. Only 20 percent of Albanians employed are in high skilled occupations, compared to 30 percent in the Western Balkans and 40 percent in Southeast Europe.

3. **Albania's economy relies significantly on the country's natural environment as agriculture and tourism make up 50 percent of GDP.** Environmental degradation coming in good part from delayed reforms in waste management jeopardizes current and future growth. While Albania's GDP growth has primarily come from services, the share of agriculture, forestry and fishing in GDP has been increasing over time. It reached 20 percent of GDP in 2019. Tourism's total contribution to GDP comes to nearly 30 percent. In terms of employment, about 36 percent of Albania's labor force is working in agriculture, forestry and fisheries. Another 43 percent are working in services, of which about half are in tourism. The importance of both agriculture and tourism to GDP attest to the criticality that Albania's natural environment plays in its economy. Yet Albania is lagging in waste management, and in doing so, directly undermines current performance of its fisheries and tourism sectors, and environmental sustainability in the future. IN Albania, approximately 73 percent of the waste is estimated to be mismanaged.² It is also estimated that the four countries along the Adriatic coast lost tourist income of more than EUR 34 million in 2015 and spend EUR 1.6 million annually to clean illegally dumped waste as well as EUR 2 million annually to clean beaches.³ The challenge is significant, since the Mediterranean is among the most polluted bodies of water in the world, and a significant share of Albania's tourism revenues come from the Adriatic coast.⁴

4. **Albania's geography renders it prone to natural disasters and climactic shocks, which have been occurring more frequently and more intensely in recent years.** Climate change is likely to increase the occurrence of climactic shocks. The International Disaster Database⁵ identifies earthquakes and floods as the most frequently occurring natural disasters in Albania, followed by extreme temperatures, and other events. Of the 42 events that have occurred since 1905, 23

¹ In 2015 constant USD.

² Realizing the Blue Economy Potential of Albania (<https://openknowledge.worldbank.org/handle/10986/34892>)

³ Impact Assessment of Plastic Bag Ban Law by SIDA

⁴ WWF (World Wildlife Fund), 2019. Stop the Flood of Plastic. How Mediterranean Countries Can Save their Sea; Center of Research of the Epidemiology of Disasters, Catholic University of Louvain.



percent of the earthquakes, 73 percent of the floods, 80 percent of the extreme temperatures, and 57 percent of the other events took place since 2000.⁶ Furthermore, forecasts are for median temperature to rise by as much as 2.2 degrees and median precipitation to fall by 4.3 mm in 2040-2059.⁷ Climate change is expected to have an adverse effect on agriculture, water, energy, and health of the population, and to increase the risk of river floods and wildfires. It is expected to affect livelihoods in coastal zones due to sea level rise, and can potentially affect women more than men.⁸ Albania had made progress almost annually on the ND-GAIN Index (it assesses a country's vulnerability to climate change and readiness to improve resilience) through 2015, but then its score plateaued and its ranking fell. In 2019 Albania scored 50.1 on the ND-GAIN index and 80th out of 182 countries. Albania submitted its Nationally-Determined Contribution (NDC) to the UNFCCC in 2016. Through its NDC commitments, Albania is working to support its wider development goals, which are geared to increase resilience to climate change impacts. Focus is on key sectors such as energy, industrial development, agriculture, public health, and biodiversity. Albania is addressing the vulnerability of key sectors and prioritizing adaptation efforts through integrated policy, research and investment in key areas such as the protection of coastal zones and urban planning, increasing awareness of the agricultural and health communities to climate change risks. Albania remains committed to developing a long-term, low carbon development strategy as well as reducing its current greenhouse gas emissions, which are comprised from Energy and Transport (44.85%), Land Use Change and Forestry (19.35%), Agriculture (15.83%), Industrial (12.61%), and Waste (7.37%).

Relationship to CPF

5. **The reforms supported by this program are well-aligned with the World Bank Country Partnership Framework (CPF).** The CPF for 2015-20 supports Albania's aspirations to achieve equitable growth and integration into the European Union. Its three key focus areas are (i) restoring macroeconomic balances, (ii) creating conditions of accelerated private sector growth and (iii) strengthening public sector management and service delivery. Pillar 1 of this operation supports focus areas 1 and 3. Given environmental protection and the green agenda are critical to the development of sustainable tourism, this operation also supports focus area 2. objective 2b: 'Support sustainable tourism development'. By strengthening PFM policies to address the green agenda, the DPF will also contribute to the CPF's third focus area ('Strengthening public sector management and service delivery'), objective 3a: 'Support increased efficiency of public service delivery'. The project is also aligned with the two cross-cutting themes of the CPF: gender and EU accession.

B. Proposed Development Objective(s)

The program development objective for the proposed operation is to support Albania to (i) strengthen the resilience of its economy by restoring fiscal buffers and better managing risks and (ii) strengthen growth foundations by reinforcing environmental sustainability.

Key Results

6. **Pillar 1: strengthening the resilience of the economy** – the DPF supports reforms that will (i) strengthen revenue

⁶ The 2019 earthquake was of 6.3 magnitude on a Richter scale, and inflicted damages and losses estimated at 7.5 percent of 2018 GDP. Most of the damage concentrated on residential housing with 18 percent of total housing units being affected.⁶ The 2019-22 fiscal cost of earthquake related expenditures came to 4.7 percent of 2019 GDP.

⁷ Climate Risk Profile: Albania (2021): World Bank. Mean annual temperature in 1991-2020 was 11.6 degrees Celsius and mean annual precipitation was 1,019.9 mm in the same period.

⁸ Risk factors for gender differential impact of climate change include: gender-based differences in time use, access to assets and credit, treatment by formal institutions, limited access to policy making, and lack of gender segregated data. See Gender Equality, Poverty Reduction, and Inclusive Growth (2016): World Bank Group.



mobilization, including increasing the number of self-employed that pay tax, (ii) encourage disaster fiscal risk monitoring which will encourage climate adaptation actions, (iii) increase the share of residential properties with earthquake insurance policies and (iv) increase the share of new public investment projects that have gone through a selection process that includes climate mitigation or adaptation considerations.

7. **Pillar 2: reinforcing environmental sustainability** – the DPF supports reforms that will (i) reduce plastic pollution by limiting the number of plastic bags imported or produced in Albania, (ii) establish a system in which producers are responsible for the collection and treatment of waste streams created by their products and (iii) encourage government agencies to include green procurement criteria in their purchasing decisions.

C. Concept Description

8. **The first pillar of this DPF supports Albania in its efforts to strengthen the resilience of its economy.** In terms of fiscal resilience, the DPF supports implementation of key elements of the MTRS under preparation: a new tax income tax law that sets the stage for a fairer tax policy and strengthening the capacity of the tax administration to ensure a fairer implementation of the tax framework. Revenue mobilization today will create fiscal space to allow Albania to respond to shocks tomorrow. In terms of resilience against natural disasters, notably also increasingly caused by climate change, the DPF supports inclusion of natural disaster risk assessments in the government fiscal risk statement – ensuring that budget planning takes into account the potential impact of natural disasters and changing climate. To ensure better risk sharing between households, the financial sector and the government in the aftermath of earthquakes, the DPF supports a new law that mandates earthquake insurance for residential buildings. Inclusion of climate change considerations in the public investment management (PIM) selection process redirects capital spending towards projects that foster climate action and sustainability, including towards project designs that will be more resilient against natural disasters and climate change.

9. **The second pillar of this DPF reinforces the environmental sustainability of Albania's growth model.** Plastic waste is causing significant damage to Albania's blue economy sectors such as coastal tourism and fisheries. The DPF therefore supports the adoption of a law banning single-use plastic bags, encouraging use of alternative sustainable bags and reducing the extent of bag pollution. To ensure that producers bear more of the responsibility for the waste produced by their products, Albania introduces an Extended Producer Responsibility (EPR) law to encourage transition towards a more circular economy. Green procurement legislation allows government contracting authorities to consider green criteria in the contract selection process for goods and services.

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

Poverty and Social Aspects

10. **The reforms proposed by this DPF are expected to have a positive or neutral impact on poverty reduction.** Under Pillar 1, reforms to strengthen the resilience of the economy will particularly benefit the poor and disadvantaged. Disasters tend to impact the poor and vulnerable people disproportionately.⁹ In the aftermath of disasters, the costs of reconstruction are particularly significant for vulnerable households with low income and wealth to start with. By strengthening the environmental sustainability of Albania's growth model, Pillar 2 is expected to improve the living conditions of all

⁹ Global evidence suggests that climate change and other natural risks severely and disproportionately affect persons with disabilities. An analytical overview of evidence is available at <https://bit.ly/30kaIdY>



Albanians. Actions under this pillar are expected to have a neutral poverty impact.

Environmental, Forests, and Other Natural Resource Aspects

11. **The DPF should have significant positive effects on the environment.** Reforms under pillar 1 on strengthening resilience of the economy will decrease potential environmental impacts and risks associated with mitigation of natural disaster direct impacts (e.g., waste disposal, air emissions, water resource impacts, worker and community health and safety following disasters) and indirect impacts (e.g., due to displacement of impacted persons and/or new development of land for agriculture following disasters). Reforms under pillar 2 will help on preventing pollution by reducing the amount of new raw materials used, save energy and reduce greenhouse gas emissions, which contributes towards mitigating climate change.

CONTACT POINT

World Bank

Hilda Shijaku, Christoph T F Ungerer, Christos Kostopoulos
Senior Economist

Borrower/Client/Recipient

Ministry of Finance and Economy

Implementing Agencies

Ministry of Finance and Economy
Adela Xhemali
Deputy Minister
adela.xhemali@financa.gov.al

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>



APPROVAL

Task Team Leader(s):

Hilda Shijaku, Christoph T F Ungerer, Christos Kostopoulos

Approved By

Country Director:

Johannes Widmann

24-Jun-2022