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INTERNATIONAL DEVELOPMENT ASSOCIATION

AND

INTERNATIONAL FINANCIAL CORPORATION

COUNTRY ASSISTANCE STRATEGY

FOR

ALBANIA

FOR THE PERIOD FY06-FY09

January 10, 2006

South East Europe Country Unit (ECCU4)
Europe and Central Asia Region (ECA)

Southern Europe and Central Asia
International Financial Corporation, IFC

The date of the last Country Assistance Strategy was May 28, 2002.

CURRENCY EQUIVALENTS

Currency unit = Albanian Lek (LEK)
US$ 1.00 = LEK 104.7 (18 November 2005)

GOVERNMENT FISCAL YEAR

January 1st – December 31st

Abbreviations and Acronyms

AAA	Analytical and Advisory Activities
ADF	Albanian Development Fund
AIDS	Acquired Immune-Deficiency Syndrome
APL	Adaptable Program Loan
ARCS	Administrative and Regulatory Cost Survey
BEEPS	Business Environment and Enterprise Performance Survey
CAS	Country Assistance Strategy
CASCR	Country Assistance Strategy Completion Report
CASPR	Country Assistance Strategy Progress Report
CDD	Community Driven Development
CFAA	Country Financial Accountability Assessment
CFAU	Country Fiduciary Assessment Update
CPAR	Country Procurement Assessment Report
CEM	Country Economic Memorandum
CFPs	Country Financing Parameters
DFID	Department for International Development (UK)
DP	Democratic Party (Albania)
DPL	Development Policy Lending
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EIOP	European Investor Outreach Program (MIGA)
ESW	Economic and Sector Work
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
FMO	Fishery Management Organization
FSAP	Financial Sector Assessment Program
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GDLN	Global Distance Learning Network
GED	Group of Experts for Decentralization
GEF	Global Environmental Facility
GRD	General Road Directorate
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting System
IMF	International Monetary Fund
INT	Department of Institutional Integrity (World Bank)
IPRS	Immovable property Registration Service
IPS	Integrated Planning System
ISA	International Standards for Auditing

JSA	Joint Staff Assessment
KESH	Albanian Electroenergetic Corporation sh.a.
LSMS	Living Standards Measurement Survey
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MMR	Maternal Mortality Rate
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MoI	Ministry of Interiors
MoPWTT	Ministry of Public Works, Transport and Telecommunications
MSTQ	Metrology, Standardization, Testing and Quality
MTBP	Medium-Term Budget Plan
MTEF	Medium-Term Expenditure Framework
NATO	North Atlantic Treaty Organization
NCD	National Committee for Decentralization
NSSED	National Strategy for Social and Economic Development
OECD	Organization for Economic Cooperation and Development
OED	Operation Evaluation Department (World Bank)
OSCE	Organization for Security and Co-operation in Europe
PER	Public Expenditure Review
PEIR	Public Expenditure and Institutional Review
PIU	Project Implementation Unit
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
QAG	Quality Assurance Group
ROSC	Report on the Observance of Standards and Codes
SAA	Stabilization and Association Agreement
SAp	Stabilization and Association process
SEE	South East Europe
SIDA	Swedish International Cooperation Agency
SII	Social Insurance Institute
SME	Small and Medium Scale Enterprise
SNV	Netherlands Development Organization
SP	Socialist Party (Albania)
TA	Technical Assistance
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
U5MR	Under-Five Mortality Rate
WBI	World Bank Institute
WDI	World Development Indicators (World Bank)
WHO	World Health Organization
WTO	World Trade Organization
WUA	Water Users Association

	World Bank	**IFC**
Vice President:	Shigeo Katsu	Assaad Jabre
Country Director:	Orsalia Kalantzopoulos	Shahbaz Mavaddat
Task Team Leader(s):	Nadir Mohammed/ Timothy Gilbo	Gjergj Konda

THE REPUBLIC OF ALBANIA
COUNTRY ASSISTANCE STRATEGY

Table of Contents

Annexes

Tables

Figures

Boxes

The following World Bank staff contributed to the preparation of the CAS: Odeta Bulo, Evis Cerga, Olav Rex Christensen, Carine Clert, Nancy Cooke, Andrew Dabalen, Drita Dade, Artan Guxho, Ibrahim Hackaj, Elda Hafizi, Ana Gjokutaj, Richard Martin Humphreys, Monika Huppi, Anila Iljazi, Sanjay Kathuria, Iftikhar Khalil, Toru Konishi, Lorena Kostallari, Julian Lampieti, Brian David Levy, Silvia Minotti, Greta Minxhozi, Alia Moubayed, Zlatko Nikoloski, Andreas Rhode, Nand Shani, Florian Tomini, Jolanda Trebicka, Piet Hien Van Heesewijk and Wael Zakout. The preparation team also includes Elira Sakiqi from IFC and Mario Marchesini from MIGA.

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EXECUTIVE SUMMARY

i. ***Background.*** Albania has continued its strong performance in achieving high economic growth through the implementation of its National Strategy for Social and Economic Development (NSSED). During the implementation of the previous CAS, Albania enjoyed macroeconomic stability and average real GDP growth rates of over 5 percent – the highest in Southeastern Europe - underpinned by rising exports (albeit from a low base), and continuing improvements in factor productivity. However, maintaining this performance will be increasingly difficult, and Albania will need to attract much needed foreign direct investment (FDI), increase public and private savings, accelerate accumulation of physical and human capital, and improve governance structures to maintain its impressive progress to date. Despite GDP per capita reaching an estimated US$ 2,040 in 2004, widespread poverty, high unemployment, and wide regional disparities remain daunting challenges.

ii. ***Much has been achieved towards establishing a market-based economy in Albania since the beginning of transition in 1992***. The last CAS period saw major progress especially in privatization, trade liberalization and building a sound financial sector in the aftermath of the pyramid schemes crisis of 1997 which profoundly interrupted Albania's social and economic progress. Institutional capacity at central levels has improved, although problems of poor governance and state capture persist and constitute substantial barriers to investment. Albania has also begun to decentralize government functions but the pace of devolution has been slow due to political constraints and limited capacity at the municipal and local Government levels. Nonetheless, the decentralization process holds great promise, given Albania's characteristics, to improve the delivery of services to the poorest Albanians, especially in health, education and water supply.

iii. ***The Stabilization and Association process (SAp) with the European Union (EU) is crucial to Albania.*** Eventual membership in the EU remains an overarching long-term vision in the country, and negotiations on a Stabilization and Association Agreement with the EU have been a national priority. However, progress has been slow, due in part to a lack of progress in improving perceptions of poor governance. Albania has recently completed the third progress report of its NSSED, and has begun to implement a new Integrated Planning System (IPS) in an ambitious effort to streamline its policy development processes and integrate numerous planning frameworks such as the NSSED, the SAp, the Millennium Development Goal (MDG) framework, and the NATO Partnership for Peace. The IPS offers much promise with respect to aligning government decision-making behind a coherent and coordinated long-term vision, and ensuring that investment decisions are made within the framework of a sound Medium-Term Budgeting Process (MTBP). The IPS also promises a framework to consolidate recent improvements in donor coordination.

iv. ***The World Bank Group (WBG) continues to be a strong development partner with Albania.*** The WBG has provided strong support to Albania since 1991, including IDA commitments totaling US$ 820 million, IFC commitments of US$ 125 million, and MIGA guarantees totaling US$ 8.6 million. The quality of the active portfolio has continued to improve, with an increasing focus on long-term capacity development and implementation through Government structures. A CAS Completion Report for the 2002 CAS, informed by evaluations by OED and QAG, concluded that the Bank's assistance has been satisfactory, although outcomes in the areas of governance have not been as positive as anticipated.

v. ***The new Results-Based Country Assistance Strategy.*** This fourth World Bank Group CAS for Albania (a joint product of IDA/IBRD and IFC), covering the period FY06-FY09, outlines a program of support including financing on modified IDA terms of up to US$ 86 million as well as IBRD financing of up to US$ 110 million. Albania is expected to fully graduate from IDA to IBRD by the end of FY08. The timing of the CAS coincides with the political cycle in Albania -- parliamentary elections in July 2005 resulted in the formation of a new Government with a four-year mandate in September 2005.

vi. ***The CAS program seeks to support Albania's efforts in improving governance while increasing selectivity.*** The new CAS recognizes that more coherent efforts need to be made to address the challenge of poor governance in Albania, and introduces a 'Governance Filter' compromising of four core principles which will be used to ensure that governance considerations are mainstreamed into all of the Bank's interventions. The CAS program is also more selective, focused on two pillars:

(I) <u>Continued Economic Growth through Support to Private Sector Development</u>, with expected outcomes including (a) macroeconomic stability; (b) improved business climate through better quality of business regulations and improved public-private sector dialogue; (c) improved public infrastructure; (d) increased operational efficiency of financial institutions; (e) improved functioning of the land market; (f) improved corporate governance; (g) increased transparency and efficiency in the management of public spending and stronger institutions for planning, tendering and providing infrastructure and services; (h) better accountability in public administration; and (i) better management and planning for Albanian coastal resources.

(II) <u>Improving Public Service Delivery, particularly in the Social Sectors</u>, with expected outcomes including: (a) improved educational attainment and quality of basic education; (b) improved efficiency and equity of health financing; (c) better quality of health care; (d) improved fiscal sustainability of the social insurance system and increased access to well-targeted, sustainable, and effective assistance; and (e) improved access to safe rural water supply and sanitation.

vii. ***A focused lending and ESW program is planned.*** Up to 11 new IDA/IBRD lending operations are proposed in FY06-FY09, of which three would be a Programmatic Development Policy Loan (DPL) series building on the success of the PRSC series in the previous CAS. A lending range (US$ 75 – 196 million) is proposed for the CAS, with actual lending to be determined by progress against a set of key milestones specified in the monitoring framework for the CAS. A CAS Progress Report is planned for FY08.

viii. ***The program is designed to mitigate risks that could limit the effectiveness of the proposed program and impede achievement of outcomes.*** The new CAS recognizes that achieving the outcomes articulated in the Results Framework will be subject to risks, particularly in the form of internal or regional political instability and external economic shocks. Strong political commitment in the region to EU integration and flexibility in the proposed support program will serve to reduce these risks.

THE REPUBLIC OF ALBANIA: COUNTRY ASSISTANCE STRATEGY

I. INTRODUCTION

1. ***Albania's record since it embarked on its transition in the early 1990s has been impressive.*** The country has successfully built the foundations of market-based economy, created democratic institutions and gradually built capacity in the public administration to cope with political and economic transformation. These efforts have resulted in a track record of macroeconomic stability, as well as achievement of the fastest rates of GDP growth in South Eastern Europe (SEE). Such achievements notwithstanding, Albania remains one of the poorest countries in Europe with an income per capita estimated at US$ 2,040 (Atlas method) in 2004, widespread poverty, high unemployment rate, substantial regional disparities, and weak governance structures.

2. ***The proposed CAS for FY06-FY09 builds on the experience of the World Bank Group (WBG) since the early 1990s (through three CASs).***[1] It is oriented towards results, is based on systematic WBG collaboration, and was prepared in consultation with country authorities, development partners and other stakeholders. The CAS aims to support Albania's National Strategy for Social and Economic Development (NSSED) and the European Union (EU) Stabilization and Association process (SAp) with the ultimate objective of EU integration and the attainment of the Millennium Development Goals (MDGs). The proposed activities of the CAS are clustered around two pillars: (i) fostering economic growth through support to private sector development; and (ii) improved service delivery, particularly in the social sectors. Governance will be mainstreamed in all programs and projects supported by the CAS through the use of clearly defined criteria for evaluating the design and impact of all Bank interventions. The CAS will employ a selected mix of Bank and IFC financing and a targeted program of WBG Analytical and Advisory Activities (AAA) support.

II. COUNTRY CONTEXT

A. Political and Social Context

3. ***For the fifth time since 1990 Albanian citizens successfully selected 140 members of Parliament, through national elections held in July 2005.***[2] The elections process was conducted in line with the Electoral Code and adhered to fundamental democratic principles.[3] The voting process itself was peaceful and demonstrated improvements over previous parliamentary elections, but the vote counting process and finalization of results witnessed considerable delays and faced technical and administrative problems. The Democratic Party (DP), led by ex-President Sali Berisha, emerged as the largest party in the new Parliament with 56 seats and consequently formed the new Government in a broad coalition with other smaller parties. The

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[1] The `Bank' refers to the IBRD and IDA and the 'World Bank Group' generally refers to the Bank, IFC, FIAS and MIGA.

[2] This CAS will coincide with Albania's political cycle as the new parliament will serve from 2005 until 2009.

[3] The European Commission "Albania 2005 Progress Report" SEC (2005) 1421; Brussels; 9 November 2005.

DP platform for the elections and its current program focus on improving governance and the rule of law, reducing corruption and breaking monopolies, improving the business environment, accelerating rural development and fostering human capital development. Dr. Berisha was elected as Prime Minister in September 2005. The transfer of power was smooth and the new government has since consolidated the number of ministries in an effort to rationalize public spending and to improve coordination within the public administration. The new government confirmed its strong commitment to accelerating Albania's efforts towards integration in the EU (through the SAp) and NATO structures, the implementation of the NSSED (Albania's PRSP), and the integration of the various existing policy frameworks into a single medium term development plan through the Integrated Planning System (IPS).

4. ***The Socialist Party (SP) now forms the major opposition party.*** Though the SP-led governments changed four times during 1997-2004, a good record in economic management and in the formulation and implementation of the NSSED was maintained. The split in the leadership of the SP and the formation in September 2004 of the independent Socialist Movement for Integration (SMI), by ex-Premier Ilir Meta, contributed partly to the loss of the SP's majority in the 2005 parliamentary elections. Following the resignation of the former prime minister, Mr. Fatos Nano, from the leadership of SP, the party elected the Mayor of Tirana, Mr. Edi Rama, as its new leader in October 2005 and reviewed its platforms in preparation for the local elections in 2006. Political polarization and strong rivalry between the two largest parties (DP and SP) remain sources of potential instability, and represent hurdles for forging a national consensus for necessary reforms to accelerate the pace of economic development and successful integration in the EU.

5. ***The decentralization process gained considerable momentum in the last five years.***[4] Although Albania started on a path of political decentralization in 1992, the pace of devolution picked up markedly in the last five years because of the strong demand for improving public service delivery, governance and accountability in the use of public resources, and strengthening local autonomy. Following the ratification of the European Charter for Local Self-Local Government and the adoption of the Law on the Functioning and Organization of Local Self-Government in 2000, a Government Decentralization Implementation Strategy was approved, and good progress has since been made in establishing institutional arrangements for implementation of the strategy. The major achievements in the last three years include: (i) completion of the basic legislative framework for territorial administration; (ii) implementation of the existing regulation on local government property rights; (iii) assignment of specific responsibilities and authorities to local governments—including those concerning shared-functions; (iv) assignment of an adequate degree of revenue autonomy to local authorities, and establishment of an equalization transfer mechanism to minimize bureaucratic and political influence; and (v) adoption of a training strategy for local public officials.

6. ***However, the decentralization process is still hampered by several constraints.*** Though confidence in local governments is increasing and a few municipalities and communes have been able to achieve tangible results in service delivery and urban development (e.g., the Municipality

[4] For a detailed review on progress in decentralization in Albania and the remaining challenges, see World Bank (2004) "Albania: Decentralization in Transition". Report No. 27885-ALB, Poverty Reduction and Economic Management Unit, Europe and Central Asia Region, the World Bank; February 2004.

of Tirana), the implementation of reforms to successfully decentralize fiscal and administrative decisions has been uneven and is lagging behind schedule. There are still institutional weaknesses and low implementation capacity which limit the voice and participation of citizens in local affairs as well as the transparency, and accountability of local governments. Political resistance and bureaucratic stumbling blocks also continue to delay the pace of decentralization. The specific competencies of regions, municipalities and communes need more clarification, especially for shared functions, to avoid inefficiencies and duplication or under-provision of services. The drafting of the new Law on Local Budget and the new Law on Local Finance (including the badly needed national tax sharing arrangement) is still pending. The fragmentation of local government units and the undefined role of the regions complicate a uniform attribution of responsibilities and affects local public service delivery efficiency, fiscal transparency and fiduciary accountability.

7. ***Albania has also made good progress in improving social sector outcomes.*** In addition to economic and political transformation, Albania is also on track to meet the MDGs particularly those related to social sector outcomes, although data constraints precludes comprehensive analysis of the post-transition trends (Box 1). Albania's current demographic profile is characterized by three main phenomena: large internal and external migratory waves, improving mortality rates and declining fertility rates. The population's age structure has changed significantly in the past decade. The population below 15 years of age is now decreasing and the population over 65 years is growing faster than the rest of the adult population. Though population growth and fertility rates have been falling, Albania still has one of the highest fertility rates and the youngest population in Europe.[5] The Albanian population remains predominantly rural, although the cities, particularly Tirana, have grown very rapidly over the past 15 years. The labor force began the transition balanced by gender but has shown a growing preponderance of males. It is mostly rural (65 percent) and 62 percent have less than secondary education. Labor force participation rates dropped by 14 and 19 percentage points for males and females respectively between 1993 and 2003. Unemployment remains widespread (officially estimated at 14.4 percent in 2004, down from 15 percent in 2003) especially in urban areas despite marked declines in registered unemployment in the last decade.[6]

8. ***Most health and education indicators have continued to improve over the past decade.*** Current health outcomes compare favorably with those of lower middle income countries outside Europe and Central Asia (ECA) region, but lag behind those of other countries in SEE. Despite recent progress, Albania still has the lowest healthy life expectancy and the highest infant mortality rates in SEE. Albania achieved universal enrollment rate in basic education at the start of transition, but began with among the poorest enrollment rates in secondary and tertiary education in the region. Between 1990 and 2002, gross enrollment rates declined at all levels of education except for higher education.[7] In the last three years, modest improvements in enrolments rates at all education levels have been recorded.

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[5] Albania's total population is estimated at 3.1 million in 2004 and is projected to increase to 3.7 million by 2025. An estimated 0.8 – 1.0 million Albanians currently live outside of Albania.

[6] Between 1993 and 2003, registered unemployment fell by 46 percent.

[7] Between 1989 and 2002, gross enrollment rate declined from 103 percent to 99.6 percent for basic education, and - more drastically - from 78.5 percent to 43.6 percent in secondary education (mainly due to the closure of many secondary vocational training schools). During the same period, gross enrollment rates in higher education rose significantly from 6.6 percent to 17 percent mainly as a result of expansion in part-time enrollments.

BOX 1: ALBANIA'S PROSPECTS OF MEETING THE MILLENNIUM DEVELOPMENT GOALS

SEE Countries	MDG1	MDG2	MDG3	MDG4	MDG5	MDG6	MDG7
Albania	**M**	**L**	**L**	**L**	**M**	**M**	**M**
Croatia	L	M	L	L	L	L	N
Romania	M	M	L	L	L	U	U
Bulgaria	L	L	L	L	L	L	L
Macedonia, FYR	L	L	M	L	L	L	N
Serbia &Montenegro	N	M	L	L	L	L	L
Bosnia & Herzegovina	N	N	L	L	L	L	L

L: Likely; **M**: May be; **U**: Unlikely; **N**: No Data

The SEE countries have already achieved or are likely to achieve over half of the MDGs, though some countries have vulnerability with regard to meeting few of the MDGs. The MDG on HIV/AIDS and other diseases is the major regional concern.

Albania is on track to meet all of the MDGs, though data constraints renders this assessment tentative.

MDG1 (Eradicate poverty and hunger): Albania is on track to meet the poverty MDG. However, the country has only one nationally representative survey in many years (LSMS, 2002) to provide the first reliable estimate of poverty (with a consumption module). The LSMS 2005 will enable better assessment of the trend next year.

MDG2 (Achieve universal primary education) and ***MDG3 (promote gender equity and empower women)***: The official national enrollment rates and primary completion rates tend to suggest that the MDG target for education is likely to be met. The most recent LSMS, however, produces an enrolment rate of 93 percent. On the basis of the most recent data, the Gender MDG target is also likely to be met. The high girl/boy completion rate (grade 8), however, indicates that there may be a problem with boys leaving school early.

MDG4 (reduce child mortality – U5MR) and ***MDG5 (improve maternal health-MMR***): While the apparent downward trend in U5MR is encouraging, there is not enough data and evidence to conclude that the MDG target for child mortality will be met. Immunization rates for measles and DTP3 are showing slight increases. Administrative MMR data point to a declining trend over recent years (though estimates of UNICEF, UNFPA and WDI point to increases in MMR). Static health spending along with poorly performing prenatal care, hospital network and referral systems makes achievement of these goals less certain than others.

MDG6 (Combat HIV/AIDs, Malaria and other diseases-HIV infection rates and Tuberculosis incidence): Albania is on track to meet the MDG target regarding Tuberculosis. However, while the current HIV/AIDS levels appear low, Albania is a high risk population and the number of cases is rising rapidly.

MDG7 (ensure environmental sustainability – proportion of people with access to improve water sources): While WHO-UNICEF data indicate that this target is likely to be met, the most recent LSMS data implies that there is still some way to go to meet it.

Source: World Bank (2005) "Millennium Development Goals in Europe and Central Asia: Progress, Prospects and Data", A Report of the Human Development Unit, Europe and Central Asia Region.

B. Economic Developments since the Last CAS

9. ***Albania succeeded in sustaining high rates of economic growth and pursuing structural reforms in the last three years.*** After a slowdown in 2002 caused by electricity shortages and floods, output growth recovered to 5.7 percent in 2003 and 5.9 percent in 2004.[8] Aggregate demand (consumption and investment), supported by external aid flows and remittances, have been the driving forces behind GDP growth. Export growth also accelerated, underpinned by favorable weather conditions, which benefited both agriculture and agro-processing, and by a pick-up in tourism. Favorable weather conditions also resulted in

[8] See the CAS Completion Report (Annex 1) for economic developments during 1990-2002. Albania has also been benefiting from IMF support in the form of post-conflict emergency assistance program (November 1997) and two ESAF/PRGF arrangements (1998-2001, 2002-2005).

improvements in power generation. In the last three years, structural reforms have progressed, particularly in areas of privatization, financial sector development, energy reforms and trade liberalization. The privatization process advanced significantly with the successful privatization of the Savings Bank in December 2003, followed by steps to privatize public enterprises in the insurance, telecom and oil sectors expected to be completed in 2006. Electricity sector reforms have substantially reduced the vulnerability of the economy to external shocks, including through increased production and improved collection. Albania continues to implement its commitments under the WTO and has signed and ratified Free Trade Agreements (FTAs) with all neighboring countries. In other key areas of structural reforms however, progress remains slower than desired, including reforms in the business environment for the private sector, infrastructure services, and the quality of public sector management.

TABLE 1: ALBANIA – ECONOMIC DEVELOPMENTS AND MEDIUM-TERM ECONOMIC PROSPECTS
(Percent of GDP, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Actual			Estimate	Projections				
Real GDP growth (%)	**7.0**	**2.9**	**5.7**	**5.9**	**5.5**	**5.0**	**6.0**	**6.0**	**6.0**
Gross domestic investment	27.5	24.5	23.4	23.8	23.6	24.8	25.8	26.3	27.1
Gross domestic savings	4.4	-1.6	-1.7	2.0	1.4	2.5	4.4	5.7	6.5
Total Public expenditures	31.6	31.4	29.0	29.2	27.7	28.7	28.4	28.1	28.1
o/w public investment	7.3	6.6	4.5	5.2	4.6	5.5	6.0	5.9	6.1
Total Fiscal revenues (including grants)	23.7	24.7	24.5	24.1	23.9	24.5	24.7	24.8	25.0
Total fiscal deficit	**-7.9**	**-6.6**	**-4.5**	**-5.1**	**-3.9**	**-4.2**	**-3.8**	**-3.3**	**-3.1**
Exports of goods and services	18.3	19.5	20.7	21.9	23.3	24.5	25.5	26.4	27.1
Imports of goods and services	38.7	46.7	45.8	44.0	45.4	46.8	46.9	47.1	47.7
Current account balance (after grants)	**-3.4**	**-7.0**	**-5.7**	**-3.8**	**-5.5**	**-5.8**	**-5.1**	**-4.7**	**-4.8**
Total external debt outstanding *	**26.7**	**25.1**	**21.4**	**18.8**	**18.2**	**19.1**	**19.4**	**18.8**	**18.5**
Total external debt / Export of goods & Services ** (%)	70.9	67.4	56.2	49.2	46.7	47.6	47.4	44.9	43.6
Retail price inflation (e.o.p.) **(%)**	**3.1**	**5.2**	**2.4**	**2.9**	**2.2**	**2.5**	**3.0**	**3.0**	**3.0**

Source: World Bank (Live Database). (i) * includes private external debt; and (ii) ** includes workers' remittances.

10. ***Macroeconomic stability in Albania has been maintained since 2002.*** Monetary and financial policies have curbed inflation, fostered confidence in the national currency and spurred credit to the private sector. Monthly inflation rates have been maintained within the 2–4 percent target range. Confidence in the national currency has improved as reflected in the steady appreciation of the Lek. This was mainly driven by the favorable macroeconomic outlook, large inflows of official assistance, private remittances and growing, though limited, foreign direct investment (FDI). The Savings Bank's privatization and the easing of the monetary policy stance through a steady lowering of interest rates, has contributed to a rapid pick-up in private sector credit growth, albeit from a low base.

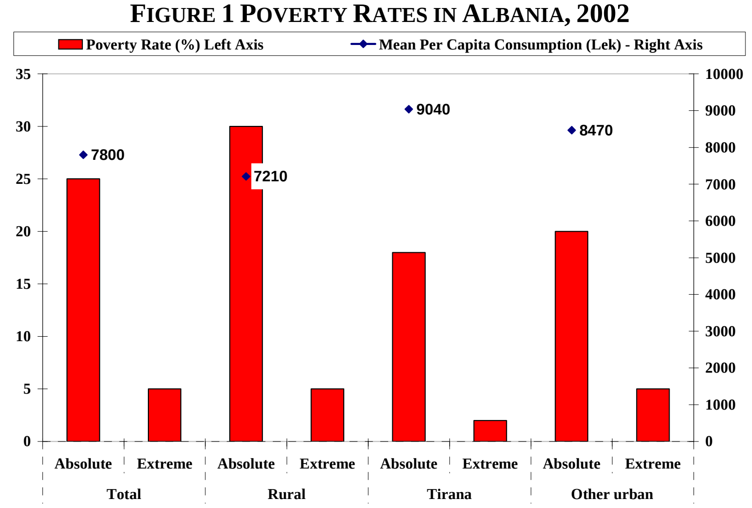
11. ***Nonetheless, the quality of fiscal adjustment has not seen marked improvements***. First, the efficiency of public spending remains low particularly in the social sectors. Second, while fiscal consolidation has been successful in reducing large public sector deficits, expenditures on priority areas have often fallen short of the stated objectives under the NSSED. The overall budget deficit (after grants) declined from 7.9 percent of GDP in 2001 to 5.1 percent in 2004. In parallel, the total public debt to GDP ratio fell from nearly 67 percent to about 56.6 percent during the same period. Sustained economic growth, falling interest rates, and the use of

privatization proceeds to retire public debt have all contributed to the decline in debt ratios. This improvement notwithstanding, the reduction in the deficit resulted largely from a decline in capital spending, and has slightly affected spending on education, which declined from 3.3 percent of GDP in 2001 to 3.1 percent in 2004. In almost every year, revenues fell short of projections, remaining almost constant as a share of GDP. Weak tax and customs administration capacities and a large informal sector and lack of tax compliance, resulted in a tax to GDP ratio among the lowest in transition economies. The Government has recently redoubled its efforts to address these problems, and achieved a current surplus for the first time since transition. The 2005 budget also included measures to reduce public sector borrowing requirements and improve the realism of revenue forecasting. The program of the new Government focuses on widening the tax base and reducing tax evasion as well as improving tax administration.[9]

12. ***A broad-based export-driven output growth has not yet taken root.*** Improvements in the external position notwithstanding, Albania's trade deficit remains at relatively high levels and the country is lagging behind other SEE countries in terms of openness as measured by the ratio of trade to GDP. Exports picked up with an annual real growth rate of 19 percent in 2003-2004. This expansion, however, has a narrow base and is heavily concentrated in low value added exports, despite productivity gains resulting from an increasingly open trade regime and greater economic liberalization.[10] Consequently, the trade deficit remains relatively large at 22 percent of GDP. Remittances, at around 14 percent of GDP, still constitute the main source of financing the trade deficit. FDI remains among the lowest in the region (less than 3 percent of GDP). While the current account balance declined from 7.0 percent of GDP in 2002 to 3.8 percent in 2004, expectations of a reduction in concessional external financing, and the hardening of borrowing terms, remain key challenges. The sustainability of FDI trends remains fragile, as the privatization program is nearing completion and improvements in the business climate have been slow.

C. Albania's Poverty Profile

FIGURE 1 POVERTY RATES IN ALBANIA, 2002



13. ***Poverty is still widespread despite more than a decade of sustained GDP growth.*** About 25 percent of the Albanian population (780,000 individuals) had consumption levels below the poverty line in 2002 (Figure 1). The distribution of consumption suggests that a large number of individuals are clustered around the poverty lines. In the event of an exogenous shock increasing the poverty line by 10 percent (from

[9] Tax revenues range from 30 percent to 50 percent of GDP in the region. In Albania, the level of tax rates is in line with regional and international standards. However, collection of the personal income and the social security taxes has been the lowest performers [IMF (2002) "Albania: Selected Issues in Tax Design". IMF -February 2004].

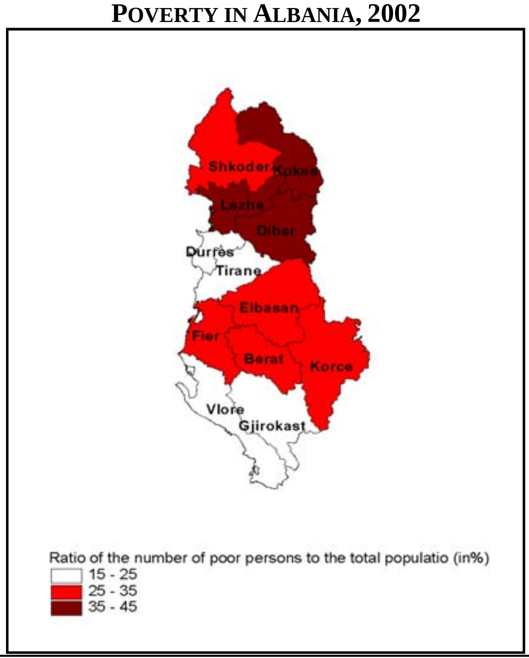
[10] The vast majority of Albanian exports and imports have been destined to or originating in the EU (around 90% and 70 % respectively), while exports to SEE countries accounted for only 0.8 percent of total exports in 2003.

Lek 4,891 per capita per month to Lek 5,380) the proportion of the population counted as poor would be expected to increase from a quarter to a third. However, little extreme poverty - defined as the proportion of the population with a monthly income of no more than Lek 3,050 (the food poverty line) - exists. In 2002, only 5 percent of the population was estimated to be extremely poor. Inequality in Albania is also modest - an observation confirmed by a moderate Gini coefficient of 0.28 and a ratio of 90th to 10th percentile consumption of 3.6.[11]

14. ***Most of the poor people are concentrated in the Mountain region.*** The 2002 Living Standard Measurement Survey (LSMS) and detailed poverty mapping, using the Population and Housing Census of 2001, lead to three conclusions regarding the spatial dimensions of poverty. First, rural poverty is significantly higher than urban poverty, by a factor of at least 10 percentage points. Rural residents comprise more than two-thirds of the two poorest consumption quintiles. Second, the Mountain region (the North and the North-east agro-ecological area) has the worst poverty outcomes of four well-defined regions (Tirana, Coastal, Central and Mountain). Almost one-half of the population in this area is poor and one in five (20 percent) cannot meet basic food needs (Figure 2). Finally, within prefectures, Dibra, Kukes, Lezhe and Shkodra exhibit the highest levels of head count poverty, with more than one-third of the population living below the poverty line.

15. ***Unemployment and low level of education attainments are the main factors driving poverty.*** While household size is a strong indicator of poverty, employment status and education attainment are important determinants of poverty in Albania. Households with unemployed heads of household have poverty rates that are twice as high as in those in which the head of the household is employed. In Tirana, 32 percent of the unemployed heads of households are poor, compared to 16 percent among employed heads of households. In rural areas the corresponding figures are 51 percent and 28 percent respectively. Among the poor, only 20 percent of children enroll in secondary education compared to 50 percent among the non-poor. Individuals employed in agriculture had significantly higher poverty rates (29 percent), compared to the self-employed and wage earners (11 percent and 14 percent respectively). Poverty affects women more than men and is widespread among minorities in Albania. The small communities of Roma and self-identified "Egyptians" have been negatively affected by the transition. They are now the poorest and most marginalized people in the country.[12]

FIGURE 2: SPATIAL DIMENSION OF POVERTY IN ALBANIA, 2002



[11] World Bank (2003) "Albania Poverty Assessment". Report No. 26213-AL; Human Development Sector Unit, Europe and Central Asia Region, the World Bank; 5 November 2003.

[12] World Bank (2005) "Roma and Egyptians in Albania: From Social Exclusion to Social Inclusion". World Bank Working Paper No. 53; by Hermine De Soto, Sabine Beddies and Ilir Gedeshi, Washington D.C., March 2005.

16. ***Non-income dimensions of poverty are also pervasive.*** There are significant differences in access and quality of basic social and infrastructure services. In rural and Mountain region areas, both basic coverage and quality of services, such as education, health care, transportation, running water and sanitation, are low. Less than 50 percent of rural households have running water or toilets. While coverage of these services is nearly universal in urban areas, there is evidence of quality failures, especially in peri-urban areas where families moving from deprived regions have overcrowded already inadequate school systems and health facilities. The dynamics of poverty in the last three years cannot be accurately determined. The additional LSMS data sets collected in 2003 and 2004 did not include a consumption module, making it difficult to follow consumption and poverty trends since 2002. However, a new LSMS is currently being finalized with a consumption module. This will provide information to infer the recent poverty dynamics.

III. ALBANIA'S LONG-TERM VISION, MEDIUM-TERM PLANS, AND OUTLOOK

A. Albania's Long-Term Vision and European Integration

17. ***Albania has articulated its long-term vision of joining the EU since it began its transition.*** Since 1991, successive Albanian governments have placed the prospect of European accession at the top of their agendas (Annex 9). The country is currently engaged in a Stabilization and Association process (SAp) with the EU.[13] Primary aspects of the SAp dialogue include provisions for: (i) strengthening of the judicial system, rule of law and public administration; (ii) fighting against organized crime, trafficking and corruption; (iii) ensuring the proper functioning of democracy (including elections) and preserving political stability; (iv) improvement in human and minority rights; (v) further formalization and reform of the economy, as well as increased fiscal sustainability through more efficient customs and tax administrations; (vi) regional cooperation and reduced barriers to trade and foreign investment; and (vii) approximation of Albanian legislation to EU legislation in a wide range of areas.

B. The National Strategy for Social and Economic Development (NSSED)

18. ***The NSSED is an inclusive development strategy***. The NSSED, adopted in 2001, aims to bring Albania's living standards and income levels closer to the levels of its neighboring European countries. It represents Albania's serious effort to use a comprehensive medium-term national development strategy to move from short-term crisis management to creating the conditions that promote long-term growth and poverty reduction. The NSSED has strong government ownership and was prepared through an unprecedented participatory process. It is based on three pillars: (i) improving governance, (ii) promoting private sector development, and (iii) fostering human resources development. The NSSED recognizes that weak governance and institutions are at the root of Albania's developmental problems, and acknowledges that economic growth will be the main instrument to reduce poverty, raise standards of living, and accelerate the attainment of the MDGs. It also contains improved poverty diagnostics and an ambitious plan for monitoring and evaluation.

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[13] See Annex 9 for more detail of Albania' relations with the EU and progress under the SAp.

19. ***Good progress has been made in implementation of the NSSED in the last three years***. The third Annual Progress Report of the NSSED, submitted to the World Bank and the IMF in FY06, highlighted progress with regard to the increased focus on poverty reduction and support to the social sectors, improved alignment of the NSSED with the SAp and the MDG frameworks, and efforts to improve the linkages between the strategy, the Medium-Term Budget Process (MTBP) and the annual budget. It underlines the need to continue structural reforms aimed at maintaining economic stability and improving public service delivery. However, challenges remain including weaknesses in the overall system of public expenditure management, persistent weaknesses in the identification of priority projects by line ministries, and poor capacities for implementation, monitoring and evaluation.[14] The recent adoption of the IPS confirmed the Government's commitment to modernize and upgrade strategic planning, and strengthen public expenditure management by linking resources to outcomes and gradually moving towards performance based budgeting. The third NSSED progress report outlines the details of the new planning architecture as the basis upon which the new NSSED will be built.

BOX 2: THE INTEGRATED PLANNING SYSTEM (IPS)

Albania's Integrated Planning System (IPS), approved by the Council of Ministers in April 2005, was the result of a 10-month collaborative process between the Government and donors. Initially, the mutually-agreed objective was to increase the effectiveness of external assistance. The government's assessment, however, endorsed by donors, concluded that external assistance problems could not be treated in isolation from design and execution flaws in the broader government planning system. In preceding years, numerous planning frameworks, including the NSSED, SAp, MTBP, NATO accession, the Government Program, and the annual legislative plan were implemented as separate exercises, each with its own set of priorities, procedures and reporting requirements. Not surprisingly, this produced multiple priorities, overlapping processes, an excessive reporting burden in ministries, and public confusion. The overriding goal of the IPS is not to overlay yet another new planning system; rather it was designed to serve as a unifying framework for existing systems. Key elements include:

- Creation of a political mechanism - the Strategic Planning Committee - chaired by the Prime Minister, to provide strategic policy and fiscal planning directions;
- Establishment of a Government Modernization Program that may eventually include related initiatives, such as functional reviews, e-government and service quality improvement;
- Transformation of the NSSED into a government-wide, strategic planning process, incorporating EU and NATO integration, MDGs, the Government Program, decentralization and other cross-cutting strategies;
- Restoration of the MTBP as the exclusive process through which all cross-cutting and sector strategies compete for funding and are translated into concrete plans, budgets, and expected results;
- Establishment of more strategic and comprehensive public investment and external assistance planning and financial management processes;
- Restructuring of central institutions with planning mandates: moving NSSED to the Council of Ministers; transferring public investment and external assistance functions from the Ministry of Economy to the Ministry of Finance; creating an integrated delivery function (planning, budgeting, monitoring) within line ministries;
- Institutionalization of the Government-donor coordinating mechanisms to ensure ongoing collaboration and effective deployment of external assistance.

Implementation of the IPS is a daunting task and will confront a range of challenges despite the firm commitment of the new government on its implementation and the strong support of all development partners. If, however, IPS is implemented at a measured pace over the next 3-5 years, a more coherent and stable policy environment will emerge. For decision makers, the IPS will identify a series of clear decision points, where similar decisions (e.g., setting strategic priorities) are taken concurrently and competitively across all planning frameworks. For donors, the IPS will create a single point of initial contact and a demand-driven system where external assistance proposals flow from stated government priorities. For the public, the IPS will produce a single, annual published plan and corresponding set of results for each ministry.

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[14] See World Bank/IMF (2004) "Albania: Joint Staff Assessment of the Poverty Reduction Strategy Paper Annual Progress Report". A Report prepared by staffs of the International Monetary Fund and the International

20. ***The NSSED program for 2005-2006 focuses on pro-poor growth***. Based on the pillars of improving governance and sustaining high economic growth— the NSSED program for the next two years focuses on economic growth to foster demand for labor as a key to broader participation in the benefits of economic growth. It underlines the need to promote private sector development by improving the investment climate and strengthening governance structures. It places heavy emphasis on education, health care, and infrastructure as priority areas for addressing key non-income dimensions of poverty, and to provide a sound basis for long-term growth and competitiveness. It also recognizes the need for stronger public accountability and increased public participation in decision making to empower the poor.

21. ***The program of the new Government builds on the SAp and implementation of the NSSED and the IPS*** (Box 2). In the short-term, the new Government program (*'me duar të pastra'* – with clean hands) will focus on governance reforms including reduction of corruption and organized crime, breaking monopolies, improving the business climate, and continuation of administrative reforms. The Government program also accords special attention to preserving macroeconomic stability, supporting rural development and social sectors and upgrading of infrastructures. It gives special attention to the reforms of the education and health services and social inclusion particularly for the Roma people. It also seeks to deepen reforms in the energy sector, address the electricity shortages and rapidly open up the telecommunications markets.

C. The Medium-Term Economic Outlook

22. ***Albania could achieve relatively healthy growth in the medium-term***. Despite stiffer international competition, the prospects for high and sustained growth are good, provided that structural reforms are stepped up in various areas. During the CAS period, macroeconomic performance is assumed to be sustained, predicated on the following assumptions: (i) continued fiscal consolidation and improvements in the quality of fiscal adjustment conducive to private investment; (ii) acceleration of structural reforms aimed at improving the business environment, the quality of infrastructure and public sector governance; and (iii) a relatively favorable external environment that would help boost export growth. In the medium-term, sustaining high GDP growth rates is conditional on an increase in aggregate demand, coupled with higher productivity and exports. The combination of prudent macroeconomic policies and strong structural reforms is projected to facilitate a rise in gross domestic investment (both public and private) from 23.8 percent of GDP in 2004 to 27.1 percent in 2009. This increased investment would be supported by higher public and private domestic savings, with most of the increase taking place on the public sector side. Current transfers from abroad (remittances) and factor incomes will continue to be a major contributor to private national savings, but will increasingly be replaced by domestically-generated private sector savings, thus reducing Albania's current over-reliance on external inflows. The increasing capacity to save and invest will be facilitated by bank and enterprise sector reforms, fiscal consolidation, and increased competitiveness.

23. ***The overall budgetary balance will continue its gradual improvement.*** Through the pursuit of prudent fiscal measures, the overall fiscal deficit is projected to improve from 5.1 percent of GDP in 2004 to 3.1 percent of GDP in 2009. The public sector contribution to growth

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Development Association; Washington D.C.; 18 June 2004.

would result from a gradual reduction in current spending, primarily due to reduced subsidies and operational costs, broadly matched by an expansion in capital expenditure, from 5.2 percent of GDP in 2004 to 6.1 percent in 2009. Expenditure policies would also focus on improving efficiency in the use of resources, and better prioritization of investments. On the revenue side, improved tax collection and a gradual expansion of the tax base (the major thrust of the program of the new government) would increase revenues by at least 1 percentage point of GDP by 2009.

24. ***Financing needs are projected to increase, and will gradually rely on access to non-concessional financing.*** Total gross external financing needs are on average slightly above US$ 1 billion per year during 2006-2009. These are required to finance: (i) large annual current account deficits amounting to roughly US$ 2.7 billion over the period; (ii) amortization of external debt of around US$ 502 million, and (iii) US$ 818 million of increases in net foreign reserves. With the envisaged improvement in the fiscal balance, these financing needs will be increasingly driven by private sector activity, as the expected fiscal retrenchment will leave more room for the private sector. The base case scenario envisages a steady inflow of FDI resources, although the pace will depend critically upon maintaining privatization efforts and further improving the environment for doing business. Net FDI is projected to finance up to 41 percent of total financing needs in 2006-2009, while long-term loans from multilateral, bilateral, and other creditors are projected to account for 20 percent (Table 2).

TABLE 2: ALBANIA'S EXTERNAL FINANCING REQUIREMENTS, FY06-FY09
(Millions of US$)

Requirements and Sources	2004	2005	2006	2007	2008	2009
Financing Requirements	**684.1**	**679.2**	**953.1**	**923.5**	**1,023.6**	**1,148.8**
Current account deficit	406.4	602.0	668.9	647.8	645.7	713.3
Long term amortizations	40.6	64.0	89.0	106.0	144.0	163.0
Reserves Changes of Monetary Authority	239.9	16.0	183.9	155.7	219.6	258.5
IMF Credit (net)	-2.9	-2.8	11.3	14.0	14.3	14.0
Financing sources	**684.1**	**679.2**	**953.1**	**923.5**	**1,023.6**	**1,148.8**
Official capital grants	127.0	122.0	126.0	129.0	130.0	134.0
Foreign Direct Investment (net)	344.0	299.0	344.0	389.0	434.0	487.0
Long term Disbursements	123.1	143.0	201.2	204.5	199.9	217.3
Change in arrears (increase = +)	-14.3	-29.2	-66.7	-8.9	0.0	0.0
Other capital flows	104.4	144.4	348.5	209.9	259.7	310.5

Source: World Bank LDB and IMF Data.

25. ***World Bank analysis concludes that Albania can gradually increase non-concessional borrowing without worsening debt indicators over time***. Albania needs to implement economic and financial policies measures in order to mobilize internal resources and to allow the country to achieve creditworthiness and gradually tap market-based external resources. To maintain fiscal and external sustainability in the medium term, the country has to focus on: (i) furthering fiscal consolidation and improving the quality of the ongoing fiscal adjustment, (ii) substantially improving the strategic management of debt, to reduce rollover risk for domestic debt and smoothen out repayment flows, and (iii) deepening structural reforms aimed at increasing exports and investment flows. Under the base-case scenario Albania could secure its financing needs while maintaining solvency and liquidity indicators below standard sustainability thresholds over the next decade. By gradually replacing short-term and higher cost domestic borrowing with longer-term and lower cost external financing, while lengthening the maturity of

domestic debt stock, the ratio of total public debt to GDP would decline from around 55.9 percent in 2005 to 53.5 percent in 2009. The ratio of external debt to GDP would decline only marginally to stay at a reasonably low level of 18.5 percent by 2009, while that of domestic debt would be reduced from 37.7 percent to 35 percent over the CAS period (Annex 8).

IV. ALBANIA'S DEVELOPMENT CHALLENGES

A. Improving Governance Structures

26. ***Further progress in poverty reduction, attainment of the MDGs and EU integration will largely depend on addressing governance concerns.*** Despite continued efforts and some recent progress, overall indicators of governance for Albania are at very low levels compared to other countries in the region and other lower middle-income countries. Governance problems continue to cloud Albania's recent achievements and impact on the prospects of sustained economic growth (e.g., low investment) and improved public service delivery. Corruption, for example, has a direct impact on economic growth, FDI and quality and access to service delivery in Albania. The Government's performance on combating corruption and crime has become a yardstick by which Albania's readiness to progress towards EU accession will be measured.

27. ***Weak governance is the major obstacle to improving the business climate.*** Pervasive corruption, weak enforcement of the rule of law, limited government effectiveness and inadequate regulatory quality are the main factors inhibiting private sector development. However, recent governance data collated from various sources do point to modest improvements in governance indicators in the period 2002 to 2004.[15] Most positive is further strengthening of the public space that allows civil society and the media to voice their views. Regulatory quality is another dimension of governance on which Albania has made modest improvements, bringing it closer to comparator countries. Administrative reforms at the central government level are also beginning to have some positive impact. Recently, however, party politics appear to have become increasingly competitive, and Albania continues to perform far worse on political stability dimension of governance than other countries in the region.

28. ***Control of corruption is the most pressing governance challenge for Albania***. Survey results indicate that customs, courts and hospitals are the institutions with the highest perceived incidence of corruption, with analysis indicating that corruption of officials in Albania exceeds the levels experienced in other countries in the region.[16] State capture is pervasive, and likely includes the infiltration of criminal elements in state entities. Respondents to opinion surveys in Albania identify corruption as a primary cause of the lack of growth in jobs, and express a general mistrust in political, legal and public sector institutions. Among public services, views about corruption in the health sector are particularly bleak.

[15] Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi (2005) "Governance Matters IV: Governance Indicators for 1996-2004". World Bank Policy Research Working Paper Series No. 3630; May 2005.

[16] The government of Albania (2005) "Removal of Administrative Barriers: Ongoing Process to Improve the Business Climate". Report of the Ministry of Economy, May 2005.

B. Maintaining High Rates of Economic Growth

29. ***Future sustainability of output growth hinges on export expansion, increased productivity and higher levels of factor accumulation.*** While Albania's economy has been growing over the past decade at an average annual growth rate of 7 percent, the outlook for fast and sustained GDP growth, which is critical to bringing living standards closer to those of new EU member countries, faces several pivotal constraints.[17] Poor governance in general is pervasive across all sectors of the economy. Inefficient public sector hinders improvements in the business environment. Quality of public services to support business is poor. Heavy reliance on remittances and weak export performance constrain macroeconomic stability. Educational attainments are lower than in most transition countries. Structural bottlenecks in infrastructure lead to high input costs and also reduce effectiveness of service delivery.

30. ***Heavy reliance on remittances and weak export performance are the main economic challenges***. A broad based expansion of tradable output has not yet taken place and non-tradable sectors have contributed to most of the growth since the beginning of transition. Despite far reaching measures to liberalize trade and integrate Albania with the regional and world markets, private investment, FDI and exports remain among the lowest in the region. Continuing high trade deficits reflect the poor climate for competitive production and also point to an over-reliance on remittances for financing the persistent high current account deficit. While macroeconomic stability has been maintained, additional efforts are needed to reduce uncertainties and policy volatility. Public sector performance, and tax administration in particular, remains weak. This will entail addressing constraints to efficient expenditure management and prioritization, efficient tax administration and sustaining the steady increase in tax revenues which started over the past 5 years. And while the current levels of external indebtedness are moderate, the expected decline in concessional financing and access to international financial markets may gradually change in the medium term, requiring reforms to enhance competitiveness, export promotion and addressing risks posed by reliance on remittances.

31. ***Future growth will increasingly rely on higher investment levels***. With the recent slowing of total factor productivity growth from post-transition reallocation, future growth will have to increasingly rely on increased factor accumulation and sectoral increases in total factor productivity (as opposed to productivity gains from resource reallocation). Albania's investment to GDP ratio declined from 21 percent in 1995 to around 16 percent in 1998. It then picked up gradually until it peaked in 2001 at about 29 percent. However, the ratio continued to decline in the last four years until it reached 23.8 percent in 2004. Continued economic stability and concerted efforts to enhance the investment climate are critical for raising foreign and domestic investment levels.

32. ***Investment and growth prospects in Albania largely hinge on improvements in the business climate.*** A weak business environment is undermining future growth prospects as the private sector is expected to take a more prominent role in ensuring sustainable growth and job creation. The business environment is plagued with considerable administrative barriers, weak governance, corruption, ambiguities in property and land rights, poor quality and high cost of

[17] World Bank (2004) "Albania: Sustaining Growth Beyond the Transition" World Bank Country Economic Memorandum; Washington D.C.; December 2004.

infrastructure and utilities combine to increase the cost of doing business and limit access to credit and financial services. These constraints represent major barriers for firms to grow despite improvements in entry/exit regulations.[18] In the past few years, with the support from FIAS, the Government has undertaken a number of measures which has reduced administrative barriers in 2004 compared with 2002. This progress notwithstanding, design flaws, corrupt practices and harassment in tax and custom collection contribute to unfair competition between firms by providing incentives for evasion. Instability and poor enforcement of laws and regulations in most areas of business activity reduce government accountability and increase the scope for discretion. The information available on regulations is inadequate and of poor quality. An ineffective competition policy regime contributes to the proliferation of monopolistic behaviors and unfair practices. Weak capacity of the ex-ante sectoral regulators, delays in establishing secondary legislation and regulations for the utilities sector, and lack of coordination between sectoral regulators and the Competition Authority continue to impede the efficient operations of markets, and reduce the benefits of market liberalization. Albania's competitiveness also suffers from a national Metrology, Standardization, Testing and Quality (MSTQ) system that is obsolete and not in line with the European norms.

33. ***Financial intermediation remains weak.*** Albania has made significant progress towards the adoption of a market-based economy and almost the entire financial sector is in private hands. Despite recent increases in bank lending, with a loan-to-GDP ratio of 8.1 percent in 2004, the level of banking intermediation in Albania remains the lowest in Europe. Although the legal, institutional and supervisory framework for the financial sector is in line with international practices, implementation is weak, especially in the insurance sector. Financial intermediation suffers from a business environment not conducive to robust and sound lending practices. The poor transparency and management practices and unreliable financial reporting of private enterprises coupled with uncertainty over property rights hinder secured lending.

34. ***Despite recent efforts, difficulties in land tenure and title registration persist.*** Land privatization, registration of ownership rights, and urban and coastal land use planning have been addressed by the Government and donors in a piece-meal fashion. Key laws such as the Law on Land Restitution and the Law on Legalization of Informal Settlement have been passed during the last 12 months but implementation is likely to be difficult due to a lack of consultation with stakeholders and absence of detailed implementation guidelines. Since the completion of a USAID-financed Land Registration Project, progress in the land registration process has been slow. While registration of land in rural areas has advanced over the past years, land and property registration has been particularly slow in valuable urban and coastal areas, resulting in tedious, costly, and time consuming transactions. Legal and administrative procedures for resolving ownership disputes are inadequate, contributing to a lack of secure and unambiguous property rights. The capacity of the Immovable Property Registration Service (IPRS) remains weak despite progress in reforming it since 1990. There also remains a serious problem in urban and coastal areas with illegal construction and dubious zoning practices. These factors all contribute to high transaction costs, inefficient resource use, and a preponderance of informal land and property markets. They also constitute a major impediment to access to finance.

[18] World Bank/IFC (2005) "Doing Business in 2005: Removing Obstacles to Growth". A Co-publication of the World Bank, International Financial Cooperation and Oxford University Press.

35. ***Poor infrastructure lowers the marginal productivity of private capital in Albania***. In the transport sector, the overall quality of the infrastructure is poor, raising the time and money costs of transportation, reducing competitiveness and increasing poverty. The identification and selection of projects in the sector remains non-transparent and in many cases does not reflect NSSED priorities. Limited capacity, absence of a clear accountability framework in many of the public institutions within the sector, and insufficient emphasis on maintaining existing transport networks has resulted in an inappropriate balance between recurrent and capital expenditures. The responsibilities for managing and maintaining the local road network were decentralized to the 36 administrative districts, communes and municipalities in 1996, but the capacity, resources and finances necessary to undertake this role are still inadequate. This has resulted in growing concerns over road safety in the country. In the energy sector, recurrent power shortages still represent a pivotal impediment for private sector activity. Inadequate and unreliable electricity supply continues despite marked improvements in the energy situation, due to the poor stock of electricity infrastructure (generation, transmission and distribution), over-reliance on hydropower, and poor cost recovery for electricity supply.

36. ***A lack of policy response to rapid urbanization is becoming a major threat to sustainable development.*** Albania does not yet have an urban development strategy or plans to define urban management tasks at the central, regional and local levels. Urban areas suffer from serious deficiencies in essential infrastructure, causing considerable environmental damage and decreasing productivity. At the same time, capacity and governance at the municipality level remains inadequate and results in inefficient use of resources. The challenge is compounded by emerging large informal settlements around urban areas in the central region and in the coastal areas, which threatens good tourism potential.

37. ***Productivity in the agricultural sector is low.*** The agricultural sector employed 58 percent of the labor force in 2004. It has high potential for increased productivity, exports and consequently for reducing rural poverty. Currently, agricultural activities are hampered by farm fragmentation, limited irrigation services, weak institutions managing water resources, poor quality of extension services, an overly restrictive regulatory framework for seeds, and poor market infrastructure. In the fisheries sub-sector, infrastructure is dilapidated and the institutional framework for the management of fishery resources remains weak, preventing the exploitation of aquaculture potential and the utilization of fishery resources in a sustainable manner.

38. ***Improvements in Albania's living standards thus require implementation of a comprehensive reform agenda.*** The recent Country Economic Memorandum[19] concluded that sustained output growth in Albania would require adoption and implementation of a comprehensive reforms program based on the following major themes:

- ***Maintaining a stable macroeconomic framework,*** notably through continued adherence to fiscal discipline, creation of fiscal space while pursing fiscal consolidation, reduction of debt stock aimed at raising public savings and the quality of public investment. This would require a focus on efficiency of current and planned spending and priority to recurrent and maintenance costs of existing infrastructure, and improving revenue mobilization efforts;

[19] World Bank (2004) "Albania: Sustaining Growth Beyond the Transition" World Bank Country Economic Memorandum; Washington D.C.; December 2004.

- ***Mobilizing human resources,*** by improving the quality, relevance and access to education, training and health care and facilitating the movement of labor to more productive and higher paying jobs;
- ***Boosting trade and accelerating regional and European integration***, in order to create a more favorable environment for FDI and to boost export prospects;
- ***Upgrading public infrastructure,*** mainly by strengthening allocative efficiency through the systematic use of economic analysis in the prioritization of expenditures on infrastructure; price-setting to ensure cost recovery for public infrastructure services; sustained implementation of the Power Sector Action Plan, and implementation of the national and a rural water sector strategies; and,
- ***Improving governance and strengthening institutions*** to ensure managerial integrity within the public administration; reliable, predictable and fair enforcement of the rule of law; and building mechanisms that can strengthen good governance by facilitating more effective 'voice' (feedback and monitoring) in service delivery.

C. Improving Public Service Delivery

39. ***The quality of, and access to, social services in Albania lag behind other countries in the region.*** Expenditures in the social sectors represented about 45 percent of total budgetary spending in 2004 (the largest part of the budget), with social protection attracting the largest share (25 percent), followed by education (10 percent) and health (9 percent). Despite these allocations, results have fallen below the objectives stated in the NSSED, and expected outcomes have not materialized. Previous and ongoing sector reviews, point to several shortcomings along the 'service delivery production chain', beginning from government policies and strategies, down to the translation of policies into budgetary allocations and delivery of services at the local level.

40. ***Labor market outcomes – unemployment and migration – reflect skills mismatch and education inadequacies.*** The education system needs to prepare school leavers to effectively function in labor markets that contribute to strengthening Albania's competitiveness. With an average school attainment of 8.5 years, the Albanian population lags substantially behind that of its neighbors and falls almost 6 years below the OECD average. Low average educational attainments are compounded by marked variations across regions and income groups. Gross enrollment rates at the primary and secondary levels declined in the rural and peri-urban areas in the post-transition period. Albanian students compare unfavorably with their peers in international achievement tests, pointing to the overall low quality of education. Key challenges facing the education sector are: (a) poor quality and weak relevance of education; (b) lack of access to educational establishments, especially in rural areas;[20]and (c) inadequate sectoral financing and lack of transparency in the resource allocation and budget execution.[21]

41. ***The Albanian health sector requires fundamental reforms in service delivery, financing and sectoral governance.*** The health care system is ill prepared to face the increasing

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[20] Almost 16 percent of the children between the ages of 14-17 years attributed their non-attendance at school to distance.

[21] World Bank (2005) "Poverty and Education in Albania: Who Benefits from Public Spending?". Report No. 31983-AL; Human Development Sector Unit; Europe and Central Asia Region; Washington D.C.; March 2005.

incidence of non-communicable diseases while also continuing to control infectious diseases. Physical and human resources are poorly aligned with the population's health needs, productivity in the sector is low and resources are used inefficiently. The quality of health service delivery is low due to the combination of a highly centralized delivery system, weak technical skills, absence of appropriate governance structures and inadequate provider incentives**.** Despite recent progress, the sector continues to be afflicted by deteriorating physical infrastructure due to reduced spending on operations and maintenance, and, lack of clarity in the process of investment decision making. Public expenditure on health remains low (2.5 percent of GDP or US$ 51 per capita/year) by regional and international standards and is highly fragmented, with frequent shifts in financing responsibilities between central and local governments. Uncertainty in financing responsibilities provides ample room for abuse. Informal payments have proliferated, with substantial impact on the poor.[22]

42. ***Coordinated policy reforms across the social insurance system are now critical.*** The financial stability of the social insurance system and the coverage and targeting of the social assistance system require attention. The social protection system absorbs almost one quarter of public expenditures. Social insurance contribution rates are high compared to other countries in the region (41.9 percent), which substantially increases labor costs and hampers the competitiveness of Albanian labor.[23] The social insurance system's fiscal imbalance is driven by large deficits in the rural pension system, a high dependency ratio and substantial uncertainty with respect to the contribution base. Despite its deficit, the rural pension system affords limited financial protection to its beneficiaries. Substantial contribution evasion is likely to lead to a decline in the pension system's coverage in the medium to long run. The social insurance system's fiscal fragility is further compounded by continuous pressures to reallocate contributions from social protection towards health insurance, although the capacity does not exist to assess the fiscal impact of such changes. Reforms of the social insurance system need to be synchronized with reforms of health financing. The effectiveness of the social assistance system is constrained by limited coverage, small benefits and ineffective targeting.

43. ***Access and quality of water supply and sanitation services are also problematic.*** Although 80 percent of Albania's urban population has access to piped water, supply is intermittent, and the quality of drinking water is far below internationally accepted standards. Inadequate maintenance and repairs and the absence of metering and operational control have resulted in water losses of over 50 percent of water production in cities. Despite recent progress in decentralization, governance and accountability in the sector remain in flux. The pace of transfer of water utilities' assets and management responsibilities to local governments has been slow, and weak capacities of local governments for planning, implementing and monitoring performance of water companies constrain improvement in service delivery and quality.[24] While the size of subsidies to water supply and sanitation services remains lower than 1 percent of GDP, poor cost recovery, combined with the slow pace of reform within the sector could

[22] Out-of-pocket health expenditures increase Albania's poverty incidence by more than one third.

[23] World Bank (2004) "Albania: Social Safety Net Review". Report No. 31011-AL; Human Development Sector Unit; Europe and Central Asia Region; the World Bank, Washington D.C.; 29 December 2004.

[24] The law assigns responsibility for water and sanitation services as an exclusive function to the local level, making municipalities and communes responsible for investment and operational decision-making of water and wastewater services in their jurisdictions. The central government retains responsibility for managing water resources, water quality, and regulation of water supply and wastewater services (e.g., service standards).

increase fiscal risks from arrears accumulation to the electricity company. Tariffs are far below cost recovery levels and are not based on metered consumption, encouraging thus over-consumption. While most of the 52 utilities are running operational losses, the current subsidy system does not reward well-performing utilities and therefore does not make the most efficient use of scarce resources. Poor households are generally not connected to the water network and therefore do not benefit from subsidies to the sector. The situation in rural areas is worse: access to piped water supply has decreased from 75 percent in 1989 to 50 percent today, and areas without piped supply often rely on heavily contaminated sources.

V. WORLD BANK GROUP'S CURRENT PORTFOLIO

A. Past Bank Assistance and Quality and Management of the Existing Portfolio

44. ***The World Bank Group partnership with Albania has continued to strengthen.*** The WBG is the second largest donor to Albania after the EU. Since Albania joined the World Bank in 1991, IDA commitments to the country through 57 operations total approximately US$ 820 million; IFC commitments have reached US$ 125 million, while MIGA's net exposure totaled US$ 8.6 million. The WBG assistance to Albania during FY02-FY05 has been evaluated as satisfactory (see Annex 2 on the CAS Completion Report, Annex 3 and 4 on IFC and MIGA support program respectively). The proposed strategy both builds on the lessons of the previous CAS and relies on the existing portfolio of 15 projects to achieve the expected outcomes and results in the next four years.

45. ***The quality of IDA's current portfolio in Albania continues to improve.*** The portfolio has witnessed significant consolidation with the decline in the number of projects from 25 in FY02 to 15 by the end of FY05. Currently the portfolio does not contain any problem project and none of the projects is at risk (Table 3). For projects exiting between FY97 and FY04, OED rated 89 percent of the project outcomes (by value) as satisfactory; 47 percent had substantial institutional development impact and 77 percent were considered to have likely sustainability.

TABLE 3: ALBANIA: INDICATORS OF WORLD BANK LENDING PORTFOLIO (FY01-FY05)

	FY02	FY03	FY04	FY05
Number of projects	25	21	21	15
Average age of projects (years)	2.7	3.0	3.2	2.5
Net Commitment Amount (US$)	342.4	268.2	290.5	229.3
Disbursement Ratio (%)	21.2	24.1	23.6	25.2
Disbursements in FY (US$)	35.9	75.6	63.6	66.5
Projects at Risk (%)	8.8	4.8	14.3	0
Commitment at risk (%)	9.8	4.2	12	0
Realism Index	100	100	100	100
Proactivity Index	100	100	-	100

Source: World Bank Business Warehouse (BW).

46. ***From FY05, capacity is being mainstreamed with all new projects designed to be implemented through existing government structures***. As highlighted by the recent OED CAE and the CAS Completion Report (Annex 1), the implementation of projects through Project Implementation Units (PIUs) has reduced the potential impact of projects on institutional

development and sustainability. An agreement was reached with the Government in late FY04 to implement, to the maximum extent possible, all new projects inside existing government structures. A key change is that a project authorizing person from government (at level of Director, Director General or Deputy Minister) is now assigned to oversee the implementation of each project. When necessary skills are lacking in the public administration, they will be externally contracted to assist in the project implementation (e.g., financial management, procurement, etc). Such expertise, however, will report to the project authorizing person and the concerned government agency or ministry.

B. Albania's Country Financing Parameters (CFPs)

47. ***Country Financing Parameters (CFPs) for Albania were established in March 2005 after consultation with the Government*** (see Annex 7).[25] The CFPs for Albania provide for added flexibility in allowing Bank financing of up to 100 percent of project costs, although the level of Bank financing will be considered on a case by case basis. In aggregate it is expected that past financing patterns would continue broadly unchanged. The CFPs also allow recurrent cost financing on a selective basis, and Bank financing of local and foreign costs in any proportion. The CFP will greatly facilitate Bank operations in Albania and reduce the transaction costs of implementing Bank financed projects by allowing the avoidance of the complex regime for ensuring taxes and duties are not paid that has hitherto created major difficulties. The additional flexibility will support project implementation and is fully consistent with the approach of the CAS in emphasizing Government ownership of the underlying project objectives. The maximum flexibility allowed by the CFPs will nonetheless be applied selectively, in reflection of the different levels of mutual agreement on sector reforms and approaches across different areas, and with due regard to sustainability and fiduciary oversight.

VI. THE WORLD BANK GROUP ASSISTANCE STRATEGY

A. Key Features and Pillars of the Results Based Assistance Strategy

48. ***The WBG will support Albania in its efforts to meet its development objectives through various instruments.*** The proposed program is based on the NSSED, the priorities of the European integration and the SAp, the program of the new Government approved by Parliament in September 2005, and the results of consultations with the Government and other stakeholders. The CAS aims to support the Government around two core pillars: (i) continued economic growth through support to private sector development; and (ii) improved public service delivery. Improving governance and strengthening accountability mechanisms will be the main cross-cutting objective and thematic focus of the entire support program which includes investment projects, a series of programmatic Development Policy Loans (DPLs),[26] and a focused program of analytical support.

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[25] Pursuant to the Bank's policy on financing for investment projects (*OP/BP 6.00, Bank Financing*).

[26] While it is intended that the first two of the series would be IDA-financed Development Policy Credits, the Bank's planned programmatic support is referred to collectively as Development Policy Loans (DPL) throughout this document.

(i) Mainstreaming Governance

49. ***A 'Governance Filter' has been developed to ensure that the Bank consistently takes all opportunities to improve governance.*** In conjunction with the Results Matrix, the Bank will use four guiding principles to ensure governance considerations are mainstreamed into all its interventions in Albania:

Principle I: Seek greater transparency in the use of public resources. This principle implies the need to work on strengthening the lines of accountability, improving transparency and participation in resource allocation and enabling better access to information by all stakeholders. Specific attention needs to be given to the functioning of oversight bodies, to procurement, to internal and external audit, to transparent financial reporting, to public-private partnerships, and to the functioning of integrated planning and budgeting processes and their execution by government. In all WBG efforts, explicit attention will be paid to how well the annual and medium–term budget allocations are aligned with NSSED priorities and the transparency in the allocations and use of resources and project selection.

Principle II: Support increased autonomy and de-politicization of key public sector counterpart organizations. Delineation between the political and administrative spheres in government is vital for improved public sector performance and the creation of a professional administration. Checks and balances between political and administrative institutions need to be effective. The Bank's strategy to date of supporting initial civil service reform on a small scale has proven to be effective. These results need to be safeguarded and the practices of a merit-based bureaucracy need to be expanded to encompass a larger numbers of officials with direct involvement in service delivery, in particular in line ministries and in local governments.

Principle III: Analyze the formal (and likely future) roles of local governments, and develop capacity -- and local mechanisms of accountability -- to enable local governments to effectively take on these roles. Local government needs to play a central role to improve service delivery, and there are opportunities to improve governance by strengthening local government. Albania has made progress in laying the foundations for decentralization and ongoing reform at the central level and in sectors will be implemented at the local government level in the next four years. Implementation of these reforms needs to be accompanied by a solid understanding of the constraints faced at this level of government.

Principle IV: Strengthen mechanisms for advocacy and increased involvement of citizens (including nongovernmental stakeholders) to encourage improved performance of public service delivery and policy-making bodies. 'Voice and accountability' is a dimension of governance in which Albania performs well. There is a vibrant civil society and press, as well as demand and opportunity to express and discuss views publicly. The existing mechanisms need to be harnessed and strengthened by empowering communities, especially in service areas such as the management of schools and service delivery by hospitals. Strengthened stakeholder involvement is required as a corollary to decentralization.

BOX 3: STRENGTHENING GOVERNANCE IN THE BANK PORTFOLIO

With significant concerns about weak governance in Albania and increased perceptions of corruption in recent surveys and public opinion polls, the World Bank Group is taking steps to improve monitoring and strengthen governance in its own portfolio. The following mitigation measures will be reinforced and enhanced during the implementation of the CAS to minimize such risks:

A. Existing Measures to Minimize Corruption Risks in the Bank Portfolio:

(i) Decentralization of more functions and responsibilities to the Country Office particularly in portfolio management (with gradual building of capacity in procurement and financial management).
(ii) Continuous support to the auditing, procurement, supervisory and regulatory agencies.
(iii) Continuous support to the demand side of governance and citizen-based mechanisms of transparency and accountability through CDD approaches and involvement of beneficiaries in development planning and the design, implementation and supervision of projects (e.g., irrigation, fisheries, public works, *etc*.).
(iv) Assistance to the Government to institutionalize and scale-up the positive lessons from successful pilot projects that aim to enhance governance (e.g., Tirana Transparency Project) into more sectors and agencies.
(v) Vigorous investigation and follow-up to any allegations of fraud and corruption in Bank projects through Department of Institutional Integrity (INT) and public disclosure of the results (e.g., debarment of individuals and companies in 2005 with regard to fraudulent practices in the Water Supply Urgent Rehabilitation Project).
(vi) Capacity and risk assessments for each project at appraisal are undertaken to determine appropriate procurement thresholds for prior review. Action plans are prepared to build capacity of the implementing agencies during project implementation and subject to improvements, prior review thresholds may be increased. Extensive post reviews are conducted by procurement staff to ensure compliance.

B. New Measures to be implemented during the CAS Period to Minimize Corruption Risks*:*

(i) Diligent and consistent application of the "Governance Filter" and its four principles in all new programs.
(ii) Consolidation of the portfolio by reducing the number of projects and increasing resources for supervision to ensure increased attention to fiduciary, procurement and financial management aspects of lending.
(iii) Close linkages between the AAA program (particularly the Programmatic PER and Poverty Assessment) and lending support to ensure adequate attention to the efficient and transparent use of public resources and monitoring and evaluation of outcomes.
(iv) Discontinue further support to sectors or agencies that do not make satisfactory progress towards necessary reforms and remedial measures.
(v) Frequent use of pre-emptive audits and joint Government-Bank portfolio reviews.
(vi) Increase the assistance to implementing agencies particularly in the case of difficult (e.g., complex technical specifications, multiple stage bidding) and significant (e.g., multiple packages, high value contracts) tenders. The evaluation committee could be assisted by international experts in the relevant field (possibly selected and/or funded by the Bank) in their review and recommendations for award.
(vii) Implementation of the revised procurement guidelines which promote greater transparency in the bidding process by application of new disclosure policy on contract awards.

50. ***The entire WBG support program will address governance weaknesses***. The use of the four principles of the 'Governance Filter' will underpin the design of the projects, the substance of AAA support, the reform agenda to be supported by the DPL, and the supervision, monitoring and implementation of projects (Box 3). In addition, new projects will build on the existing project portfolio to continue the support to the core public sector systems at the central levels. The Public Administration Reform Project (FY00) will continue to strengthen public administration, policy planning and efficient management of public resources. It will be supplemented by the Business Environment Enhancement and Institutional Reform Project (FY06), DPLs (FY07-FY09), programmatic PER (FY07-FY09), CPAR/CFAA (FY06 and FY09) and the IDF grant for the support of the decentralization process.[27] The Bank will

[27] The IDF's "Institutional Capacity Enhancement for a Reform of Intergovernmental Fiscal Relations in Albania" assists the authorities in building capacities in the following areas: (i) assessment of the notional costs of

encourage the Government to build on the positive lessons from Participatory Budgeting Pilot initiatives (FY04) to encourage active participation of citizens in the local budget process as well as in overall planning, execution and monitoring of the use of public resources. The Bank will also strengthen its partnership with other leading development partners (see Annexes 1 and 7) that are supporting key public sector reforms (e.g., public procurement, tax and custom administration, civil service reforms, rule of law and public expenditure management).[28]

51. ***To ensure the effectiveness of poverty reduction efforts, the WBG support program will continue to focus on inclusive development and reduction of regional disparities.***[29] The specific vulnerable groups (including the poorest, the Roma, youth, and vulnerable women) will receive special attention in the design and implementation of the new projects, through social analysis, inclusive operational arrangements and appropriate monitoring and evaluation. The Bank has developed some innovative approaches in supporting Community Driven Development (CDD) in many of its investment projects (e.g., microcredit, irrigation, drainage, fisheries, and small local infrastructure) that rely on establishing beneficiary associations to manage projects and resources. The use of these bottom-up approaches will be expanded to other sectors and in new projects wherever feasible.

(ii) Pillar I: Continued Economic Growth through Support to Private Sector Development

52. ***Sustained growth of the Albanian economy is predicated on maintaining macroeconomic stability, improving the investment climate, and raising exports and productivity levels***. The WBG support program, under this pillar, will aim to: (i) maintain macroeconomic stability and ensure the efficient use of resources; (ii) strengthen financial intermediation and support the privatization of strategic companies; (iii) enhance the business climate by removing administrative and regulatory barriers to investment and building an effective competition policy regime; (iv) establish a functioning land market and institutions; (v) build the infrastructure necessary for growth; (vi) improve management of the coastal zone; and (vii) raise agricultural productivity.

53. ***Maintaining macroeconomic stability.*** Future macroeconomic stability will be critically dependent on pursuing structural and institutional reforms with particular emphasis on fiscal and external sustainability. The Bank will support measures for enhancing stability and the quality of fiscal adjustment through a proposed program of DPL support through FY07-FY09 and a programmatic Public Expenditure Review (PER). On the expenditure side, reductions in both current (notably operations and maintenance) and capital spending, which have been the main lever for reducing the overall budget deficit since 1998, need to be assessed and reversed to increase productivity of capital investments. Expenditures on priority areas, as identified by the

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responsibilities attributed to local governments; (ii) estimation of the local own revenues capacity and the tax effort; (iii) regulated access of local government to borrowing for local infra-structure investment; (iv) consistent design of a transfer system which factors in national tax-sharing; and (v) drafting Local Government Finance Law.

[28] See Annex 1 for the CAS Results and partnerships towards achieving the CAS outcomes. In particular close coordination with the IMF, EU, USAID, DFID and UNDP is envisaged.

[29] The Second Community Works (FY04), the Water Resources Management (FY04) and the Natural Resources Management (FY05) projects cover or have a focus on the northern areas. The planned projects in health, education, transport and the GEF Lake Shkodra projects during FY06-FY09 will have special focus on Mountain region and other areas with high incidence of poverty.

NSSED, should also be sustained. The programmatic PER will support building robust institutional arrangements for the analysis and evaluation of public investment projects. Support to improving the business environment through the Business Environment Enhancement and Institutional Reform Project (FY06) will also contribute to increased export competitiveness and attract FDI. IFC has also identified the promotion of external competitiveness through support to local export-oriented and import-substitution companies as a high priority for its support. MIGA will be available to support investments in the agribusiness, manufacturing and tourism sectors, which are most likely to attract increasing levels of FDI inflows.

54. ***Strengthening financial intermediation and finalizing the privatization of strategic companies.*** The WBG will assist the Government in the completion of the financial sector reform agenda and support the implementation of the recommendations of the recently concluded Financial Sector Assessment Program (FSAP).[30] The Business Environment Enhancement and Institutional Reform Project (FY06) in conjunction with the DPL will support policy measures associated with financial sector development, including: (i) strengthening governance of banks and insurance companies; (ii) adoption of a legal, institutional and supervisory framework enabling sound development of the insurance sector; (iii) strengthening banking supervision and exit mechanisms for credit institutions; (iv) adoption and implementation of an EU-compatible legal and institutional framework for accounting and auditing; (v) strengthening enforcement of the collateral regime; and (vi) efficient and transparent completion of the privatization program. An Access to Credit Review (FY07) will assess progress towards those objectives and inform the design of the DPL II and DPL III (FY08 and FY09). IFC will continue its technical assistance and financial support to the financial sector particularly to financing of SMEs, introduction of new financial products (e.g., leasing, factoring, etc.), and privatization of the remaining state holdings in insurance. MIGA would also consider supporting projects in the financial sector which are expected to result in improved SMEs' access to finance.

55. ***Enhancing the business climate.*** The WBG will use a combination of instruments to support improvements in the business climate, removal of administrative and regulatory barriers to investment and building an effective competition policy regime. These include the Business Environment Enhancement and Institutional Reform Project (FY06) and the DPL program, an Accounting and Auditing ROSC (FY06), and IFC/FIAS technical assistance.[31] The interventions aim to support the: (i) design and implementation of a comprehensive approach to regulatory reforms enabling systematic improvement of quality of business sector and consultation mechanisms with the business community; (ii) strengthening the MSTQ system infrastructure; and (iii) strengthening the institutional and regulatory framework for EU-oriented competition and industrial policies. An Investment Climate Assessment (FY08) will be undertaken to assess the effectiveness of these interventions on the business climate. In close cooperation with the Bank, IFC will facilitate privatization of strategic sectors and will provide technical assistance and advisory services aimed at improving the investment climate and advising on strategic privatizations. MIGA's European Investor Outreach Program (EIOP) aims to encourage higher investment flows into Albania and other Western Balkan countries (Annex 4).

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[30] World Bank/IMF (2005) "Financial Sector Assessment Program: Republic of Albania", July 2005.

[31] FIAS is planning to update the ARCS in FY09 and FIAS/IFC will provide technical assistance support to the development of industrial parks.

TABLE 4: THE WORLD BANK PLANNED LENDING PROGRAM TO ALBANIA, FY06-FY09

FY	Operation	US$ mn		
		IDA	IBRD	Total
FY06				**41**
	Health System Modernization	15		
	Education Excellence and Equity	15		
	Business Environment Enhancement and Institutional Reforms	6	5	
FY07				**45 - 50**
	Land Management and Urban Development (*)	20	15-20	
	First Development Policy Loan (DPL I)	10		
FY08				**45 - 50**
	ECSEE Energy APL IV	10	10	
	Transport (*)		15-20	
	Second Development Policy Loan (DPL II)	10		
FY09				**45 - 55**
	Integrated Coastal Zone Management and Clean-up APL II (*)		15-20	
	To be decided in the CASPR in FY08[32] (*)		15-20	
	Third Development Policy Loan (DPL III)		15	
	Total	**86**	**90-110**	**176 - 196**

(1) This table lists the proposed lending program including the base lending envelope (US$ 176 million) and the top end of the lending range (US$ 196). The low end of the support program (US$ 75 million during FY06-FY09) is described separately in para. 68;
(2) The actual size of IBRD financed operations with (*) will be determined based on progress on key areas of reforms as described in section VI. B;
(3) IDA allocations for FY07 and FY08 are indicative and subject to change in light of country performance and availability of IDA resources; and,
(4) In addition to the above planned lending program, GEF grants of about US$ 7 million for projects are planned during FY06-FY09 (Drini River, Shkodra Lake, Butrinti National Park and Karavasta Lagoon).

56. ***Improving security of land tenure and establishing a functioning land market***. The Bank has begun to assist the Government to develop a coherent and consistent framework for addressing land management through the Integrated Coastal Zone Management (ICZM) and Clean-up APL (FY05) and a Land Policy Note (FY05). The ICZM project focuses on policy and institutional reform, and finances priority regional infrastructure and provision of public services in southern coastal villages. The second phase of this APL project (FY09) would aim to foster regulated and sustainable tourism development in hinterland areas on the Albanian coast. It will place more emphasis on infrastructure investments (e.g., solid waste, wastewater, roads, water supply, and typical tourist infrastructure) as well as on promoting protected areas management in coastline and marine ecosystems and reducing health risks associated with additional coastal polluting hot-spots. The project will also include a youth employment component particularly in the tourism sector to address the large youth unemployment rate. The second phase will be coordinated closely with the proposed Land Management and Urban Development Project (FY07). This project, which will be informed by an Urban Development Strategy (FY06), will assist in the development of an overall land administration and management strategy and an implementation plan to improve land tenure security. It will accelerate the title registration process, especially in the urban and coastal areas, and will also build on the reforms supported by the Agricultural Services Project (FY00) to reduce the costs of registering property transactions.

[32] A number of projects are identified as high priority in FY09. These include a Rural Water Supply and Sanitation; a support to Decentralization and Local Government, a Social Insurance Reform project, an Agricultural Competitiveness or a second Energy project. The CASPR FY08 will define the nature and context of this project.

The project will also directly target urban and suburban growth centers and work directly with local governments towards improving governance and service delivery in secondary cities.

57. ***Building the infrastructure necessary for growth.*** Constrained availability of financing for infrastructure (fiscal space) and modest institutional reform progress remain as bottlenecks to growth and private sector development. The WBG will support the provision and maintenance of reliable and efficient transport infrastructure through a number of interventions. An Urban Transport Study (FY07) will precede the proposed Transport project (FY08) which will aim to reduce transport costs, improve traffic flow and contribute to an improvement in road safety on the priority corridor(s) identified by the new Government, such the Durres-Kukes-Morine road. The new Government aims to improve access to the impoverished northeastern part of the country, to alleviate poverty, to integrate the region with the rest of the country and the wider region, and to facilitate trade with neighboring countries. A Rural Infrastructure Study (FY08) will inform policy and strategy development in the context of sustainable and affordable rural infrastructure services, with a primary emphasis on the local road network. In the energy sector, the current portfolio already comprises three operations that aim to improve electricity generation, transmission and distribution.[33] A second Energy Community of South Eastern Europe (ECSEE) APL project for Albania (FY08) would further support Albania's participation in ECSEE, thereby providing additional impetus to sector restructuring**.** The project will include technical assistance aimed at continuing successful efforts at capacity building to date and improving governance in the sector.[34]

58. ***IFC and MIGA will work closely with the Government and the Bank to attract private sector financing in the infrastructure sectors.*** IFC's will focus on promoting private sector investments through public-private partnership (PPP) in power, transport, and water and sanitation sectors (see Annex 3). IFC and the Bank plan a joint comprehensive approach to transparency and competition policy in infrastructure including close coordination between the regulators and the anti-monopoly authority. In cooperation with a number of donors, IFC has established the Private Enterprise Partnership Southeast Europe (PEP-SE) to help public sector entities in Western Balkans, including Albania, attract private investment, particularly in energy, transport and water and sanitation. To support regional integration, IFC will facilitate private sector involvement in port and pipeline projects. MIGA will also assist foreign investors seeking to begin or expand operations in Albania, particularly in the infrastructure sectors through the provision of sovereign and sub-sovereign political risk guarantees (Annex 4).

59. ***Raising agricultural productivity***. The existing Bank portfolio consists of several projects that aim to support rural development, expansion of agricultural value-added and natural resources management. They build on innovative bottom-up CDD approaches that have focused on establishing water users association (WUAs) and fishery management organization (FMOs). The Agricultural Services Project (FY00) supports land consolidation, seeds, extension and technological improvements, and establishment of wholesale markets. The Water Resources Management Project (FY04) aims to complete the rehabilitation of all irrigation and drainage

[33] The Power Sector Rehabilitation and Restructuring (FY02), Power Sector Generation and Restructuring (FY04), and ECSEE APL2-Albania (FY05) projects.

[34] An IBRD guarantee or IBRD loan (under established guidelines, both as part of the overall CAS envelope) for the second stage a thermal power plant will be considered in the CASPR (FY08). The guarantee operation would aim to support private investment for additional thermal units.

infrastructure in the country following the completion of two prior successful projects, and to improve institutional and regulatory reforms for water resources management. The Natural Resources Management project (FY05) aims to establish and maintain sustainable, community-based natural resource management in 218 communes in erosion-prone upland and mountainous lands. This will lead to enhanced productivity and incomes derived from sustainable resource management, reduced soil degradation, improved water management, conservation of biodiversity, and strengthened public sector management of these resources. Finally, an Agricultural Export and Competitiveness Study (FY07) is planned to inform the DPL program and ensure support to raising agricultural productivity.

TABLE 5: THE WBG AAA SUPPORT PROGRAM, FY06-FY09[35]

FY06	FY07	FY08	FY09
Core Diagnostics and Governance Filter			
• PEIR. • Programmatic Poverty Assessment. • CFAU. • Accounting & Auditing ROSC.	• Programmatic PER. • Programmatic Poverty Assessment. • Joint Country Portfolio Review.	• Programmatic PER. • Programmatic Poverty Assessment.	• Programmatic PER. • Programmatic Poverty Assessment. • CFAU .
CAS Pillar I: Continued Economic Growth through Support to Private Sector Development			
• Macroeconomic Monitoring. • Urban Development Strategy. • IFC TA Support to Regulators. • Accounting and Auditing ROSC. • Statistical Master Plan. • Framework for Public-Private Concessions in the Road Sector –PPIAF. • MIGA's TA (EIOP.)	• Macroeconomic Monitoring • Urban Transport Study. • IFC Technical Support to Regulators. • Agricultural Export and Competitiveness Study. • FIAS/IFC Study on Industrial Parks. • Access to Credit Review. • MIGA's TA (EIOP.)	• Macroeconomic Monitoring. • Investment Climate Assessment. • CEM (EU Accession Agenda). • Rural Infrastructure Study. • MIGA's TA (EIOP.)	• Macroeconomic Monitoring. • FIAS update of the ARCSs. • MIGA's TA (EIOP.)
CAS Pillar II: Improving Public Service Delivery Particularly in the Social Sector			
• Programmatic Poverty Assessment. • PRSP Support. • Framework for Public-Private Concessions in the Water Supply and Sanitation – PPIAF.	• Programmatic Poverty Assessment. • PRSP Support. • Social Insurance Finance Review. • Secondary / Tertiary Education Review.	• Programmatic Poverty Assessment. • PRSP Support. • IFC TA to Outsourcing of Social Services.	• Programmatic Poverty Assessment. • PRSP Support. • Governance and Accountability in Social Sector Service Delivery.

(iii) Pillar II: Improving Public Service Delivery, particularly in the Social Sectors

60. ***Improved service delivery is critical for fostering human capital formation, poverty reduction efforts and for Albania to meet its MDGs***. The Government of Albania has an ambitious program to improve service delivery in the social sectors through concerted reforms in the education, health and social welfare systems as well as in the provision of public utilities. Through the DPL program, social sector investment projects and AAA support (including programmatic PER and poverty assessments and an IDF grant for the support of decentralization), the Bank will support evidence-based policy making, to enhance pro-poor

[35] The World Bank Institute (WBI) will also support the WBG program in Albania during FY07-FY09 when the global and regional programs will be finalized. Albania is currently not a WBI focus country.

allocation of public resources and improve the targeting of social assistance and delivery of public education and health services, particularly at the local levels.

61. ***The Government aims to shift from a centralized and supply driven education system to a demand-based system with increased levels of accountability***. This shift will be supported by the Education Excellence and Equity Project (FY06) which aims to address equity and quality of education in Albania. Responsibility for delivery of pre-university education will gradually shift to local Governments and schools as the ultimate service delivery units. This will be facilitated by the introduction of a performance-based management system (initially in the Ministry of Education with subsequent expansion to local governments and schools), a shift from input-based to formula-based financing of pre-university education, a system of performance monitoring and benchmarking at the school, regional and national levels, continued publication of the national education system score card, establishment of school maintenance standards, and expansion of the education information system. Capacity in school management and oversight will also be strengthened through the establishment of school boards, which will work with local communities. Schools will be granted increased autonomy to adapt curricula to local needs and to choose among alternative teaching materials, as well as greater freedom to use own locally raised resources. A far reaching curriculum and textbook reform has also been initiated and a revised basic education curriculum will be completed by 2010 (and of secondary education by 2015). Efforts to improve the quality of teaching include the development of competencies for teachers, a teacher accreditation system and introduction of an in-service training program. Reforms in basic education will need also to be complemented with efforts to improve the quality and relevance of secondary and tertiary education. The education project will be supported by the DPL program and the programmatic PER and Poverty Assessments, and a Secondary/Tertiary Education Policy Note (FY07).

62. ***The Health System Modernization Project (FY06) will support strengthening of the technical competency of medical staff, sectoral financing, and performance monitoring.*** Medical skills will be enhanced through the introduction of systems for continuous medical education and re-licensing for medical personnel, development of clinical practice guidelines and substantial changes to the sectoral governance structure. Sectoral financing will shift from the current input-based system to a performance-based provider payment system, with measures to enhance lower income groups' access to health care, and will be streamlined to pass through one financing agent. Providers will gradually be granted more autonomy and enter into direct contractual relationships with the health financing agency. A system of regular sectoral performance monitoring, with public discussion of sectoral achievements will be established. The Government will also be assisted to improve its resource allocation mechanisms through the development of a health map and the adoption of a national hospital services development plan. To assess the evolution in access to care, a health sector access analysis will be carried out as part of the Programmatic Poverty Assessment (FY06-FY09). Progress in effectiveness of service delivery and governance will be assessed as part of the proposed AAA on Governance and Accountability in Social Sector Services Delivery (FY08). Policy reforms in the areas of health finance and governance will also be supported under the proposed programmatic DPL series. Additional opportunities to explore private sector participation in the health sector will also be explored. The government has also initiated a dialogue with IFC to explore such opportunities.

63. ***Reforms to the social insurance system are being designed to improve the fiscal sustainability of the system, while allowing a reduction in payroll tax contributions***. The latter will be an important element in improving the competitiveness of Albania's labor market. The Government will continue to develop the capacity of the Social Insurance Institute (SII) to model medium- and long-term impacts of policy changes on fiscal sustainability of the pension system and the larger social insurance system, and begin to implement a medium-term pension policy reform program. With regard to social assistance, the highest priority is the establishment of an improved accountability framework for the delivery of social assistance schemes by local governments. Areas which require attention include the need to: (i) establish service standards and a monitoring and evaluation system for social assistance and social care services provided by local governments; (ii) improve targeting and expand coverage of the cash social assistance system in a fiscally affordable manner; (iii) strengthen the effectiveness of the cash disability benefits system; (iv) evaluate the potential for linkages between cash social assistance and subsidies for basic services such as utilities and health care and; (v) support the decentralization and deinstitutionalization of social care services. The Bank will support the Government's efforts through a Social Insurance Finance Review (FY07) to cover unemployment, pensions, health and other parts of the social insurance system. Policy changes on the social insurance finance front will be supported through the proposed DPL program (FY07-FY09). The Bank is also supporting the Government's efforts to strengthen delivery of social care services at local levels through the ongoing Social Services Development Project (FY01) which aims to improve access and quality of social care services in a cost effective manner by local Governments.

64. ***The Bank will support improvements in the provision of water supply and sanitation services in both urban and rural areas.*** The Bank will support the implementation of the Rural Water Supply Strategy, and will also continue to support the provision of improved water supply and sanitation services in urban areas through the Municipal Water and Wastewater Project (FY03), the Integrated Water and Ecosystem Management Project (FY04), and the Community Works II Project (FY03). In addition, the new ICZM APL phases I and II (FY05 and FY08) will finance priority investments including water and sanitation infrastructure as earlier described. IFC will explore ways to approach municipal financing also through public-private partnership to attract private operators with a focus on the city of Tirana.

B. The Framework for Bank Assistance and Financing Scenarios

65. ***The CAS proposes a lending range, with actual lending to be determined by the pace of reform in key sectors.*** This design reflects the reality that discrete lending 'cases' defined by hard triggers often do not allow sufficient flexibility to accommodate different rates of progress across sectors. A lending range of US$ 75 – US$ 196 million is envisaged, with actual lending to be determined according to progress in achieving key milestones outlined in the monitoring framework (Table 6). The proposed lending program would be financed by a blend of IDA and IBRD resources, with gradual transition from IDA to IBRD beginning in FY06. Albania's exceptional and temporary eligibility for IDA resources on modified terms has been extended through FY06-FY08[36] with an indicative envelope of up to US$ 86 million.[37] IDA lending is

[36] Through IDA13 Albania had access to IDA resources despite its GNP per capita exceeding the IDA operational cut off due to its lack of creditworthiness for IBRD lending. Albania will graduate from IDA support by the end of IDA14.

[37] Annual allocations will be determined through the Performance-Based Allocation system.

planned to be front-loaded to allow a smooth transition to IBRD throughout the CAS period (on a commitment basis).[38] An assessment conducted in FY05 concluded that Albania is creditworthy for limited IBRD lending, with a first IBRD financed (or blend) operation planned for FY06. With strong performance and consistent implementation of the reform agenda, Albania is expected to benefit from up to US$ 110 million of IBRD lending, and should fully graduate to IBRD-only support in FY09.

66. ***Key milestones will be used as a core monitoring framework against which progress would be collectively assessed for base lending or moving to the higher lending range.*** The envisaged lending support assumes strong policy performance in critical areas (Table 6). Progress in undertaking the necessary reforms would be collectively assessed (as opposed to each milestone being a hard 'trigger'). Development policy support targeting private sector development, public sector and institutional reform, and improved service delivery in key social and infrastructure sectors forms the core of the program. For the DPL program to proceed as planned in FY07, remaining weaknesses in the privatization, concession, and public procurement frameworks will need to be addressed satisfactorily in FY06, *inter alia*, to ensure appropriate treatment of unsolicited proposals for private provision of infrastructure, especially those that are not consistent with the NSSED/MTBP framework. The Business Environment Enhancement and Institutional Reform project (FY06) is planned to assist in addressing these weaknesses.

67. ***Enhanced IBRD creditworthiness is required for high lending support levels.*** Although recent economic growth and inflation trends have been encouraging, incremental measures are needed to maintain fiscal and external sustainability. External indebtedness is currently moderate, but the conditions that resulted in that outcome, a combination of concessional financing and lack of access to the international financial markets, will be gradually changing in the medium term, and continuous vigilance is required, particularly since both the fiscal deficit and the current account deficit remain relatively large. In addition, the prevailing weaknesses in governance, weak revenue mobilization efforts, pervasive poverty, and the combination of heavy dependence on remittances and a narrow and undiversified export base, will continue to pose development challenges, necessitating continuous close monitoring of Albania's creditworthiness.

68. ***Lending levels in the last two years of the CAS will be assessed in the FY08 CASPR.*** The mid-term CAS Progress Report (CASPR FY08), which will assess performance against CAS results, will also review the milestones for enhanced lending and IBRD creditworthiness. The outcomes and milestones in Table 6 would be used to assess the structure of the lending program as events warrant. Higher lending levels, to be implemented by augmenting the size of planned operations within the lending envelope contemplated in Table 4,[39] would require the implementation of a clearly identified reform agenda that raises the long term growth potential of the country and markedly improved governance. GDP growth prospects will critically depend on a demonstrated increase in private sector investment accompanied by a broadening of the narrow export base. Sustained improvements in governance, public sector management, procurement and financial management would also be required. Should the pace of reform implementation

[38] Regional project funds (which are not counted against country allocations) under IDA14 will also be requested to support regional energy projects.
[39] IBRD resources will not be used to finance any IDA-programmed shortfalls.

slow, as adjudged against the milestones outlined in Table 6, the proposed DPL program and associated infrastructure investments would be delayed resulting in slippage of operations from this CAS to the next, which would imply lending towards the lower end of the support program (US$ 75 million). In the unlikely event that policy reversals result in the macroeconomic framework (as outlined in this document) going off track, the Bank would as justified move forward only with two social sector projects planned in FY06 and annual lending of about US$ 15 million in subsequent years (all IDA) for social sector and social assistance support and an updated approach would be prepared in the CASPR.

TABLE 6: ALBANIA CAS –CORE MONITORING FRAMEWORK FY06-FY09

	BENCHMARKS (*AND MILESTONES*) TO BE USED COLLECTIVELY TO ASSESS REFORM PROGRESS FOR LENDING WITHIN THE BASE LENDING ENVELOPE	MILESTONES TO EVALUATE WHETHER HIGHER LEVELS OF LENDING WITHIN THE CAS RANGE ARE JUSTIFIED
CAS Pillar 1: Continued Economic Growth through Support to Private Sector Development		
Economic management, planning and monitoring	• **Continued macroeconomic stability and improved quality of fiscal adjustment** *(inflation contained at 2-4%; annual decline in fiscal and current account deficits; meeting Government fiscal targets agreed with the IMF).* • **Strengthening of economic planning and monitoring** (*an action plan to implement the IPS and increasing alignment of annual budget with the MTBP).* • **Improved debt management** (*progress in clearance of inoperative external debt arrears and implementation of the debt management strategy*). • **Implementation of a robust and efficient framework for handling unsolicited bids for private provision of infrastructure and services.**	• *Real GDP growth exceeding the targets of the macroeconomic program of the Government (as contained in the CAS and agreed-upon with the IMF)* • *Annual increase in exports to GDP ratio and increased export diversification.* • *Launching of an integrated medium-term development plan in 2007.* • *Annual decline in Debt/GDP ratios.* • *Clearance of all external debt arrears.*
Business Environment	• **Effective supervision for financial institutions** (*adoption of advanced supervision development plans for the BoA and the Insurance Supervisory Authority by FY07*). • **Approval of an integrated strategy for the development of the national MSTQ system.**	• *Annual increase in private investment/GDP ratio.* • *Reduction in time and cost for compliance with entry and operation regulations.*
Governance and Civil Service Reforms	• **Improvements in government effectiveness and control of corruption** (*to be demonstrated by BEEPS Surveys, ICA, ARCS and WBI indices).* • **Competitive and transparent procurement and private provision of infrastructure and services** (*amendment of privatization, concession and public procurement laws*). • **Expansion of the coverage of the civil service law** *(within agreed-upon fiscal targets*).	• *Strict application and expansion of the coverage of the civil service law.* • *Establishment of a fiscally affordable, more transparent and competitive wage setting mechanism.* • *Full compliance with the annual Asset declarations.* • *Parameters established in Annex 1.*
Infrastructure, Land Markets, and Natural Resources	• **Implementation of the updated Electricity Action Plan.** • **Adoption of the Southern Coast Development Plan.** • **Restructuring of GRD into an autonomous executive agency** *(by FY08*). • **Annual increase in land registration**.	• *Reduction in the time and cost of land transactions*.
CAS Pillar 2: Improved Public Delivery of Services particularly in the Social Sectors		
Education	• **Full agreement on implementation time table and modalities for decentralization of education functions,** • **Progress towards meeting education MDGs** (*primary enrollment and gender balance*).	• *Maintain education spending levels as planned in the NSSED and MTBP.* • *Increase in the enrollment rates at secondary schools.*
Health	• **Legislative framework for revised health financing system** (*to be adopted by end 2007*). • **Enactment of a legislative and regulatory framework for provider and physician licensing enacted.**	
Social Insurance	• **Fiscally sustainable pension system** (*Updated pension model*).	• *Adoption of effective monitoring and evaluation system for social assistance and care services*.

* Key benchmarks are indicated in bold font while milestones are indicated in (*italics)*.

C. The Development Policy Lending Program

Box 4: Some Lessons from the Poverty Reduction Support Credits, FY02-FY04

The ongoing work on the Implementation Completion Report for the PRSCs (expected to be completed in 2006) draws several lessons from their experience. First, although the PRSCs resulted in significant achievements on several fronts, more focused policy-based operations may be more appropriate in the future, to help focus and prioritization. Second, the twinning of policy-based operations with investment operations worked particularly well and should be continued. Third, performance monitoring indicators should be limited to a core set of indicators that reflect the key objectives of the program and then be tracked and monitored closely. Fourth, future operations should have a stronger link with analytical work.

69. ***A program of three Development Policy Loans (DPLs) will complement planned investment operations and AAA support program***. The DPL program (FY07-FY09), building on the achievements of the PRSC series of the previous CAS (Box 4), will be a microcosm of the whole CAS supporting most of its major policy goals and results. It will assist the implementation of a clearly identified reform agenda that raises the long term growth and job creation potentials of Albania through private sector investment, broadening of the export base, fostering human capital formation and strengthening governance structures. The program will be informed by recent and ongoing analytical work, especially the Public Expenditure and Institutional Review (FY06-FY09), the Social Assistance Finance Review (FY06), the Private Sector Development Policy Note (FY05), the Financial Sector Assessment Program (FY05), the Land Policy Note (FY05), and the Health Sector Note (FY05). It is anticipated that each DPL would focus on the core principal themes of the CAS to provide continuity of reform actions across the program.

70. ***The First DPL.*** DPL I (FY07) is intended to dovetail with FY06 investment projects and the existing portfolio and target further progress in governance and public sector reforms. It will support reforms to improve the overall efficiency of public sector expenditures, make public administration more effective, and further advance the decentralization agenda. It will assist the Government in revising the public procurement framework to plug the loopholes that allow unsolicited and non-transparent bids. It will help to improve capacity to prioritize public investment projects, including through development of an action plan to implement the IPS that aligns different policy frameworks. It will address the issue of professionalism of public administration by seeking an expansion of coverage of the Civil Service Law and begin implementation of pay reform. DPL I will also maintain the PRSCs' momentum on decentralization, including developing capacity and mechanisms of accountability at the local level.

71. ***The Second DPL.*** DPL II (FY08) is intended to continue the support for improvements in governance, public sector performance, public expenditure management and decentralization. In addition to these core reforms, DPL II will support government efforts that would improve social service delivery. In education, the focus would be on implementation of the education sector decentralization strategy. In health, the DPL would support implementation of a new system of financing, managing and governing health care delivery. In social protection, reforms would aim at further improving the fiscal sustainability of the social insurance system and ensuring adequate targeting of social assistance benefits.

72. ***The Third DPL.*** DPL III (FY09) would also assist the Government to implement reforms to enhance governance, public sector reforms and improvements in service delivery. It will focus on the attractiveness of Albania as a destination for domestic and foreign investment through the strengthening of administrative capacity to improve the quality of the regulatory framework for business entry and operations, continued development of the land market, and improving the regulatory and institutional frameworks for the implementation of an effective competition policy regime. DPL III, which will be informed by an Access to Credit Review (FY07) and an Investment Climate Assessment (FY08), will consolidate progress made in reforming the financial sector by further strengthening the legal and supervisory frameworks and strengthening the corporate governance of financial sector institutions. Further, it will support implementation of the financial reporting according to the new accounting law as well as the implementation of International Standards on Auditing (ISA) for the financial and non-financial sectors. A decision to proceed with DPL III would be made in the CASPR (FY08). Key benchmarks underpinning this decision will be the satisfactory implementation of public procurement, concessions and privatization legislation to be undertaken in FY06 and the satisfactory implementation of governance reforms (see Table 6 and Annex 1). DPL III is expected to be on IBRD terms.

D. Regional Dimensions of the Support Strategy

73. ***The CAS aims to strengthen Albania's prospects for EU Accession by supporting key aspects of the SAp, the NSSED and the IPS***. Albania is committed to advance its integration in the SEE region and in the EU, and has signed FTAs with all its neighboring countries. It has also been actively engaged in a number of regional initiatives and programs (e.g., the Stability Pact, the Infrastructure Steering Committee in SEE (ISG), and the ECSEE). The support program of the CAS aims to further Albania's integration in regional trade and investment as key dimensions for enhancing private sector and economic growth. A number of programs and projects have a regional perspective, particularly in energy, transport, water resources management and environment. The current portfolio has an energy regional project (ECSEE- Albania APL2) and a new regional energy project is planned in FY08. The transport project (FY08) will also aim mainly to link the northeastern region of Albania with neighboring countries, building on the successful implementation of the regional Trade and Transport Facilitation in Southeastern Europe Project (TTFSE). The planned AAA program also supports regional integration and dimensions. For example, the Country Economic Memorandum in FY08 will review Albania's EU accession agenda, and a regional Growth and Competitiveness study is planned to support prospects for increasing trade and investment flows towards and within the region.

E. Partnerships and Participation

74. ***Extensive consultations underpinned the preparation of the CAS*** (Annex 5). The country office has embarked on consultations with all stakeholders since late 2004. A CAS government counterpart team was formed to guide the preparation of the strategy. The Government consultations concluded in a joint retreat with the new Government on 12 September 2005. Consultations with parliamentary commissions and groups enabled the team to assess the national priorities as presented by representatives of all political parties. Two workshops were organized in north Albania (Kukes) and south Albania (Fier) for representatives of local governments and civil society organizations in the respective regions. An advisory committee from civil society organizations has advised the Bank's team throughout the

preparation process. Two rounds of consultations with private sector representatives were also organized, and an Open House for Youth in March 2005 was held to examine youth priorities and their expectations for the new CAS. Two rounds of consultations were organized for donors focusing on the CAS priorities and donor coordination. A Client Assessment Survey was undertaken in December 2004 (see CASCR) and a special CAS Electronic Discussion Forum has been established to ensure wider participation of all stakeholders in the CAS preparation.

75. ***The Country Office will continue to expand its outreach to strengthen partnerships in the implementation of the new CAS.*** A communication strategy for the Country Office has been formulated to expand and enhance the Bank's outreach activities. A partnership agreement between the Bank and the Faculty of Economics (University of Tirana) resulted in the transfer of the Public Information Center (PIC) to the Faculty's library in March 2005. In its new location, the PIC will be the venue for launching most of the Bank AAA dissemination and other related activities. A quarterly newsletter is now published and disseminated by the Country office and efforts are underway to strengthen links with the Global Distance Learning Network (GDLN). Furthermore, the Bank will continue to support civil society organizations through the Small Grants Program.

76. ***Emphasis on selectivity in the CAS support program relies on strong partnerships with other development partners.*** First, a satisfactory macroeconomic framework underpins the Bank's program. The Bank and the IMF cooperate closely in these areas.[40] Second, close coordination with the European Commission (EC), UNDP, and OSCE (which together with the Bank have shared responsibility with regard to donor coordination) will be enhanced to support the Government's implementation of the IPS. Third, the Bank also intends to increase its coordination with the EC to facilitate European integration which is the overarching long-term vision in Albania. To this end, the Bank program is synchronized with the EC CARDS program which will lead donor efforts in a number of important areas such as judicial reforms, fight against organized crime, trade, customs and taxation (Annex 9). Fourth, the Bank will also continue to work closely with EBRD, EIB, IsDB, OPEC Fund, and Kuwait Fund in co-financing projects and programs (particularly in infrastructure and private sector development). Finally, the Bank also intends to reinforce and strengthen its partnerships and coordination with bilateral donor, including, among others, the Italian Cooperation, The Netherlands, USAID, GTZ, DFID, SNV, SIDA, Swiss Cooperation, and Austrian Cooperation. Under the newly implemented donor architecture the Bank will continue to provide support to 9 thematic groups in the areas of social and economic development.

77. ***Joint Analytical and Advisory Services.*** The Bank will continue to prepare its economic sector work (ESW) in partnership with the concerned government agencies. In FY05, the Bank has started the preparation of AAA activities (e.g., the Public Expenditure and Institutional Review) in partnership with other development partners. Efforts will be made to foster this joint approach in the provision of technical assistance and policy advice to the Government to ensure better harmonization among donor approaches and sustained capacity building in concerned government agencies.

[40] Agreement on a new three-year IMF PRGF-EFF program has been reached between the Government of Albania and the IMF on November 21, 2005. IMF Board discussion of the new program is scheduled for early 2006.

VII. RESULTS-BASED MONITORING AND EVALUATION

78. ***The measurement of results is an essential component of improving accountability***. Box 5 aggregates the major results and outcomes to be influenced by the Bank and achieved by the Government during the CAS period, and Annex 1 provides the details of the results and outcomes expected from the various interventions. The Bank will primarily depend on government systems and agencies for the compilation and verification of results and milestones. A Statistical Master Plan (SMP) will be developed in an effort to raise statistical capacity building, in collaboration with other donors to assist the authorities in this regard given the lack of consistent Household budget and labor force surveys and reliable national accounts. In addition, the Bank will undertake a strategic AAA program to ensure good tracking of results, including: (i) macroeconomic monitoring; (ii) programmatic poverty assessment (FY06-FY09); (iii) programmatic PER (FY07 -09); (iv) An Access to Credit Review (FY07) and an Investment Climate Assessment (FY08).

BOX 5: ANTICIPATED RESULTS AND OUTCOMES WHICH THE CAS IS DESIGNED TO INFLUENCE DURING FY06-FY09

- Macroeconomic stability (fiscal and external sustainability) and sustained economic growth.
- Good progress in the implementation of the IPS.
- Improved governance structures and efficient and transparent public expenditure management.
- Good progress towards European integration through facilitation of the SAp/SAA.
- A conducive business environment for private investment.
- Efficient, reliable and affordable infrastructure and utilities.
- Establishment of efficient land markets and secure land and property rights.
- Sustained agriculture growth, rural development and job creation in rural areas.
- Improved service delivery at national and local levels and sustained support to the decentralization process.
- Improved quality and equity of education services and raising education attainment and enrollment rates.
- Improved quality and accessibility of health services.
- Improve provision of fiscally-sustainable social security and assistance services.
- Raising the share of population with access to safe drinking water and improved sanitation.

VII. RISKS AND MITIGATION REMEDIES

79. ***Regional Stability.*** While Albania is striving to foster its integration in the SEE region and in the EU, the external environment poses some risks for sustained economic development. Political instability and uncertainty in the region affects the investment climate in Albania and adverse developments in the region could spill over to Albania, as was the case with the Kosovo crisis in 1999. The political consensus in the country on fostering peaceful cooperation and non-interference in political developments of neighboring countries demonstrated by Albania in the last decade and a half indicates that such risks are manageable. Strong political commitment across the region to EU integration will further serve to mitigate political risks. The Bank will monitor regional developments closely and make necessary adjustments to the support strategy if warranted.

80. ***Exogenous Shocks***. Economic prospects in Europe and hydrological variations pose the two most important exogenous risks. Economic prospects in Europe (and Italy and Greece in particular) will impact directly on Albania's economic prospects due to its high reliance on remittances. Government efforts to diversify its sources of foreign exchanges both in terms of diversification and promotion of its merchandise exports and labor markets, as well as the Bank support program, will mitigate this risk. The high vulnerability of the country to variations in hydrology due to Albania's existing over-dependence on hydropower poses a significant risk to economic activity and macroeconomic stability. As a result of concerted action by the Government and KESH, aided by favorable hydrology over the last two years, Albania is slowly emerging from a major electricity crisis, caused by shortage of electricity supply, which adversely affected both its macroeconomic performance and the quality of life of its inhabitants. During a dry cycle, Albania will again have to rely heavily on imports, and regional shortages may emerge causing a rise in the prices of electricity imports. This risk will be mitigated by consistent implementation of the energy strategy (reduction in technical losses, *etc*.) and the diversification of domestic generation capacities (e.g., thermal power plants).

81. ***Political Risks.*** There are also potential risks to the implementation of the reform program stemming from domestic political developments. First, political polarization between the two largest parties represents a potential source of instability and may result in delays in reaching national consensus around critical reforms necessary for EU integration. Second, the new Government is composed of coalition with a number of smaller parties which may results in delays in reaching agreements and thus limiting the government's ability to pursue necessary far-reaching governance reforms. Flexibility in the CAS program will enable the Bank to adjust its support strategy should the political conditions warrant.

IX. Concluding Remarks

82. Albania is well poised to continue its strong economic performance and make significant strides towards its goal of full European integration in the next four years. However, the government must make inroads against the governance problems that remain pervasive, and also attract investment and develop its human capital. A key challenge will also be to ensure that the benefits of continued economic prosperity accrue equitably across Albanian society, with particular attention to the poorest. The Bank will continue to be a strong partner with Albania as it faces these challenges in the coming four years and is committed to helping the government to achieve the results described in this CAS. A mid-term review of the CAS (CASPR in FY08) would take stock of progress towards achieving the CAS outcomes and results and propose appropriate adjustments to the support strategy for FY08-FY09.

ANNEX 1: ALBANIA'S CAS RESULTS MATRIX - FY06-FY09

PILLAR 1: CONTINUED ECONOMIC GROWTH THROUGH SUPPORT TO PRIVATE SECTOR DEVELOPMENT

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
1. CONTINUED ECONOMIC GROWTH THROUGH EFFECTIVE ECONOMIC MANAGEMENT AND PLANNING: • A stable macroeconomic environment, conducive to private sector growth (average annual growth rate of 6%, inflation at 2-4%, and reduced current account and fiscal deficits during NSSED period); • Efficient public expenditure management.	• Multiplicity of policy frameworks; • Inefficient use of public resources at all government levels; • Major weaknesses, and lack of transparency, in the planning and execution of public contracts; • Insufficient integration between recurrent and capital budget, and between domestically and externally financed investments; • Budget formulation process not fully aligned with the MTEF and NSSED priorities; • High levels of public debt and weak capacities to manage it; • Policy formulation system restrained by: weak capacity at the central level to undertake contestable policy formulation process.	**IMPROVING STRATEGIC PLANNING, RESOURCE ALLOCATION AND PRIORITIZATION OF PUBLIC SPENDING** • Integration of various policy frameworks into a single medium-term development plan by the end of 2006; • Public investments are prioritized in line with a contestable investment planning and management process; and selection based on solid analysis. • Quality of Statistics improved. **INCREASED TRANSPARENCY AND EFFICIENCY IN THE MANAGEMENT OF PUBLIC SPENDING AND PUBLIC DEBT AS DEMONSTRATED BY:** • Improved quality of fiscal adjustment during FY06-FY09; • Under-funding of operations and maintenance addressed through improved alignment of recurrent and capital spending; • All new privatizations and concessions are implemented according to transparent and efficient legal framework; • Debt Management strategy clearly articulated and implemented.	***FY06-FY09 Milestones:*** • Meeting all fiscal criteria of the new IMF program. ***FY06 Milestones:*** • Amendments to concessions and privatization laws to end unsolicited and non-transparent bids; • Complete the action plan to implement the Integrated Planning System (IPS). ***FY07 Milestones:*** • Start the implementation of the IPS; • Alignment of the annual budget, and the Medium-Term Budget Plan (MTBP), and NSSED; • Implementation of an effective Debt Management Strategy; • Clearance of all arrears on inoperative external debt; • Organizational structure of the debt management department at MoF revised and appropriately staffed.	**Ongoing AAA:** Public Expenditure and Institutional Review (FY06). **Planned AAA:** CEM (FY08); Programmatic PER (FY07-FY09); CFAU (FY06 and FY09); Statistical Master Plan (FY06). **Planned Lending:** DPLs (FY07-FY09); and Business Environment Enhancement and Institutional Reforms Project (FY06). **Partners:** IMF, EU, DFID, USAID, EBRD, the Netherlands, and GTZ. Italy, UNDP and Norway (statistics and capacity building).

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
2. ENHANCE EFFECTIVENESS OF PUBLIC SECTOR AND GOVERNANCE STRUCTURES TO SUPPORT PRIVATE SECTOR DEVELOPMENT: • Effective and efficient public administration (WB's WBI index of government effectiveness increase from 41 in 2004 to 58 in 2010 and 76 in 2015 according to the NSSED which adopts these indices to gauge performance); • Strengthened rule of law (WB's WBI index on rule of law increase from 25.1 in 2004 to 57 in 2010 and 74 in 2015 according to the NSSED).	PEM weakened by lack of a modernized Treasury System and appropriate controls on the wage bill execution and lack of transparency, in the planning and execution of public contracts. Public administration and civil service performance diminished by: • Overlapping public sector institutional structures; • Undue political influence; • Weak accountability and professionalism and insufficient transparency in public sector activities; • Limited career prospects; • Weak management of salary system • Lack of strong advocacy machinery for good governance. Policy formulation system restrained by weak capacity at the central level to undertake contestable policy	**INCREASED EFFICIENCY AND ACCOUNTABILITY IN THE EXECUTION OF PUBLIC SPENDING** • Computerized treasury system is fully operational and begins to expand to select spending ministries; • Chart of Accounts (COA) and budget classification are harmonized across all ministries; • Public procurement is conducted in full accordance to a law meeting European standards; • External audit improves its quality and proper actions taken to correct findings. **PUBLIC INSTITUTIONS AND CIVIL SERVICE ARE MORE EFFICIENT, TRANSPARENT, AND LESS AFFECTED BY UNDUE POLITICAL INFLUENCE IN DELIVERING PUBLIC SERVICES, AS DEMONSTRATED BY:** • Configuration of public sector institutions and size of government fully reflects its mandates and functions; • Consistent implementation of the civil service law; • Public pay system is fiscally sustainable and performance-oriented. **CITIZENS HAVE IMPROVED ACCESS TO A CIVIL LEGAL SYSTEM WHICH PROCESSES CASES ACCORDING TO APPROPRIATE JUDICIAL PROCEDURES IN A TIMELY FASHION,**	***FY06 Milestones:*** • A modernized treasury system operational in core sites; • MoF and spending ministries adopt same COA and budget classification; • Share of competitive bidding increased and unsolicited bids are strictly regulated; • New career development system for judges in place; • ADR Center start arbitration; • Court Management Case is rolled out in Supreme Court and other district courts; • Online publication of the decisions of the Supreme and 4 district courts; • Online publication of Parliament laws, cabinet decrees and normative acts; • Implementation of the new training program for judges and court administrators (Magistrate School) and the performance evaluation system for judges; • Functional review of public institutions is completed with an implementation plan. ***FY07 Milestones:*** • Expand coverage of the CSL; • Complete functional reviews of line ministries and sub-ordinate agencies; • Link DoPA Personnel Database to Treasury system; • Operational Treasury system in MoF and pilot tested 10	**Ongoing AAA:** PEIR (FY06). **Planned AAA:** CEM (FY08); CFAU (FY06 and FY09); Programmatic PER (FY07-FY09); and Road to Europe – Program of Accounting Reform and Institutional Strengthening (FY06). **Ongoing Lending:** Public Administrative Reform (FY00). **Planned Lending:** DPLs (FY07-FY09); Business Environment Enhancement and Institutional Reforms Project (FY06). **Partners**: EU, UNDP, Italy, EBRD, and EIB. DFID, Netherlands, SIDA (PEIR); UNDP/ Italy (e-Accounting); UNFPA, ILO, UNICEF, Italy, UNDP (human rights); EU, OSCE, Norway (land); USAID, OSCE, Sweden, Norway, IOM, ILO,

Country Development Goals	**Issues and Obstacles**	**CAS Outcomes**	**Milestones**	**Bank Program (and Partners)**
	formulation process. Weaknesses in the legal and judicial systems manifested by: • Inadequate application of legal procedures; • Lack of transparency and limited dissemination of legal acts and decisions; • Limited access of users to legal norms; • Weak human and institutional capacity to implement reforms.	**As demonstrated by:** • Consistent application of judicial procedures; • Improved quality of legal acts and court decisions; • Full access of citizens and other users to legal norms by FY06. **Increased Transparency and Advocacy for Good Governance:** • Broad stakeholders, including NGOs and private sectors, are consulted for major policy formulation; • Public have easy access to information on government activities.	ministries/local governments. ***FY06-FY09 Milestones:*** • Improved annual performance ratings and citizen perceptions (BEEPS surveys); • Expansion of the treasury system to spending ministries; • Implementation of pay system reform within agreed fiscal parameters; • Institutional mechanism set up for broad stakeholder; consultation for policy decision • Major laws, regulations, and policy decision are available for general public (evidenced by public perception survey).	KfW (judicial reforms).
3. Conducive Business Environment to attract Higher Levels of both Domestic and Foreign Investments: • Increased efficiency and transparency of the financial sector; • Reduced compliance costs for businesses; • Strengthened capacity to implement effective competition and industrial policies;	Financial intermediation is low due to: • Weak governance in the banking and insurance sectors; • Low operational efficiency of financial institutions; • Underdeveloped non-bank financial products (leasing, factoring, etc); • Weak implementation of anti-money laundering regime. The Business climate is characterized by: • Poor private-public dialogue on business	**Increased Access to Credit and raising operational efficiency of banks and insurance companies, as demonstrated by:** • Improved regulation and supervision of insurance and credit institutions. **Improved corporate governance demonstrated by:** • Improved accounting and auditing standards and disclosure of corporate information in line with EU requirements by FY09; • Increased number of firms complying with financial reporting obligations and IFRS. **Improved business climate through better quality of business regulations and better public-private sector dialogue,**	***FY07 Milestones:*** • Implementation of FSAP short-term recommendations; • Approval of amendments to strengthen the legal framework for exit of licensed financial institutions; • Fit and proper test criteria are in compliance with AML/CFT criteria; • Complete a study on potentials for integration of non-bank supervisory entities into a single entity; • Set competitive processes for the privatization of remaining strategic enterprises; • Approval of clear coordination	**Ongoing AAA:** PEIR (FY06). **Planned AAA:** Accounting & Auditing ROSC (FY06); Access to Credit Review (FY07); Investment Climate Assessment (ICA) (FY08); IFC Technical Assistance support for the financial sector and for privatization of strategic enterprises (FY06-FY09); FIAS/IFC Study on the Development of Industrial Parks (FY06); Agricultural Exports and

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
• Increased transparency and information disclosure of the business sector; • Improved quality of the regulatory environment for the business sector (WB's WBI index of regulatory quality increase from 48.3 in 2004 to 63.2 in 2010 and 83 in 2015 according to the NSSED Annual Progress Report, 2005).	environment issues; • Weak capacity to develop sustainable industrial policies; • Poor accounting, auditing practices and information disclosure; • Complex regulations for business entry and operations; • Weak implementation and enforcement of regulations; • Poor quality of imported, locally produced and exported goods due to outdated MSTQ system and testing laboratories; • Weak public sector capacity to address market competition distortions and consumers' complaints; • Lack of coordination between ex-ante regulators and competition authority; • Ineffective dispute settlement mechanisms within both public administration and the court system.	**AS MEASURED BY**: • ARCS, ICA and BEEPS3 demonstrate improved investor perceptions and reductions in time and costs for compliance with entry and operation regulations; • Annual updates for requirements to start and operate a business provided during FY06-FY09; • Infrastructure and utilities are provided by the private sector (e.g. telecom, energy) and are well regulated by independent and autonomous regulators by FY08. **ALBANIAN PRODUCTS FOR EXPORT AND LOCAL CONSUMPTION ARE LARGELY CONSISTENT WITH EU REQUIREMENTS, AS MEASURED BY:** • Number of EU-compatible standards adopted [Baseline: 200 in 2005; Target 2,000 by FY09]; • Number of laboratories accredited [Baseline: 0; Target 2 by FY09]. **INCREASED CAPACITY OF THE COMPETITION AUTHORITY AND EX-ANTE REGULATORS TO IMPLEMENT AN EU-COMPLIANT COMPETITION POLICY REGIME, AS MEASURED BY:** • Completed ex-officio investigations by the Commission for the Protection of Competition; • Number of opinions issued by Commission on draft laws/regulations with potential market distortions.	mechanisms between the ex-ante regulators for utilities sectors and the Commission for the Protection of Competition; • Mandatory consultations with the business community to improve public-private sector dialogue institutionalized; • Increase in the number of services and products offered by financial institutions with the support of IFC(PEP-SE); • Translation of the IFRS into Albanian. ***FY08 Milestones:*** • Approval of an integrated strategy for the development of the national MSTQ system including consolidation / privatization of testing laboratories. ***FY09 Milestones:*** • 5% annual increase in the number of firms using MSTQ services (FY07-FY09); • State-aid authority is regularly consulted on proposed industrial policy measures; • Establishment of integrated-business information centers in main cities by FY09.	Competitiveness Study (FY07); FIAS update of the ARCSs (FY09); CFAU (FY06 and FY09); Programmatic PER (FY07-FY09); TA supported by FIRST trust fund. **Planned Lending:** DPLs (FY07-FY09); Business Environment Enhancement and Institutional Reform Project (FY06). **Partners:** EU, IMF, EBRD, USAID and the Netherlands; DFID and EU (tax administration); OPEC Fund, Switzerland, Italy, Sweden, OSCE, KfW, USAID and EU (private sector development); Switzerland (investment promotion); USAID (SMEs and banking).

Country Development Goals	Issues and Obstacles	CAS Outcomes	Milestones	Bank Program (and Partners)
4. Enhance national infrastructure necessary for Economic growth and private sector development: • Efficient, reliable and affordable infrastructure and utilities; • Fast, safe and affordable transport services; • More efficient operations and management, and improved strategic planning, of transport infrastructure; • Provision of adequate, reliable and affordable electricity supply (electricity supply requirements are forecast to increase from 5,971 GWh in 2004 to 9,342 GWh in 2015 according to the NSSED Annual Report 2005); • Effective participation of	Poor infrastructure lowers the marginal productivity of private capital. In the transport sector, the quality of infrastructure is poor and time and cost of transportation are high due to: • Poor quality of the road networks; • Limited capacity and confused accountability in transport-related institutions; • Sub-optimal institutional framework for private participation in transport activities; • Insufficient emphasis on maintaining existing transport networks; • Low effectiveness and inadequate public spending on the maintenance of transport infrastructure. In the energy sector, inadequate and unreliable electricity supply due to: • Poor stock of electricity infrastructure (generation, transmission and	**Transport costs are reduced and safety improved, as demonstrated by :** • Better road maintenance [Baseline: roughness of 1,000 km of main and rural roads 7.26 in 2002; Target: 5 by end 2007]; • Improved road safety through compliance with agreed design for accident black spots [Baseline: 0 in 2002; Target: 30 by end of 2007]. • Annual increase in private sector maintenance of roads. **More effective central and local institutions for planning, tendering and provision of transport infrastructure and services, as demonstrated by:** • Restructuring of GRD into an autonomous agency by FY08; • Clarification of the responsibilities and sources of financing for GRD, MoPWTT and MoI by FY07. **More reliable electric power and reduced vulnerability and fiscal risks imposed by the sector, as measured by:** • Increased domestic generation [Target: 15% in GWh terms with normal hydrology by 2008]; • Reduced load shedding [Baseline: 560 GWh in 2004; Target: 0 in 2009]; • Reduced transmission/distribution	***FY06 Milestones:*** • Improve at least 20 accident black spots; • Upgrade electricity distribution systems in 3 regions. ***FY07 Milestones:*** • Improved framework for private participation in the provision and operation of infrastructure; • Routine and periodic maintenance on 500 km of rural roads and 500 km of national roads; • Partial restructuring of GRD and introducing Operational Asset Management System and multi-agency road safety program. ***FY08 Milestones:*** • Introduction/compliance of national roads standards with principles of Safe Roads Design; • Continued reform of the Ports towards the Landlord model; • Commission Vlora thermal power station (100 MW). ***FY09 Milestones:*** • Rehabilitate 8 transmission substations; • Implement the Electricity Transitional Market Model and continue power sector reform in line with commitments under the Energy Community of South	**Ongoing AAA:** PEIR (FY06); Framework for Public-Private Concessions in the Road Sector -PPIAF (FY06). **Planned AAA:** Urban Transport Study (FY07); IFC TA (FY06-FY09); Programmatic PER (FY07-FY09); CFAU (FY06 and FY09); Rural infrastructure Study (FY08). **Ongoing Lending:** Road Maintenance (FY02); Power Sector Rehab. and Restruct. (FY02); Power Sector Gen. and Rest. (FY04); and ECSEE APL2-Albania (FY05) projects. **Planned Lending:** Land Management/Urban Development (FY07), Transport (FY08); and ECSEE APL4-Albania (FY08) projects. **Partners**: Transport [EU, Italy, EBRD, EIB, KfW, IsDB, Kuwait]; Electricity [EBRD & EIB (Cofinancing); EU,

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
Albania in the establishment of a regional electricity market in South East Europe.	distribution); • Over-reliance on hydropower; • Poor cost recovery for electricity supply.	losses [Baseline: 36.6% in 2004; Target: 28% in 2007]; • Improved bill collection [Baseline: 89.8% in 2004; Target: 94% in 2007].	East Europe; • Implement agreed restructuring and privatization measures for the power sector as in the annual Action Plan.	Austria, CIDA, Italy, Japan, KfW, Norway, South Korea, USAID, USTDA & Switzerland.
5. ESTABLISH EFFICIENT LAND MARKETS AND SECURE LAND AND PROPERTY RIGHTS TO SUPPORT BOTH RURAL AND URBAN DEVELOPMENT: • Enhancing the efficiency of the land and property markets; • Improving security of tenure through completing registration of all urban and rural properties; • Improving land use planning and development control capacity and establishing sound planning framework for land use and development particularly in the coastal areas and peri-urban areas; • Raising urban	Private investment deterred by lack of secure land titles, absence of an urban development strategy and poor urban infrastructure. Land tenure security not achieved due to: • Majority of urban lands are not titled; • Conflicts continuing over compensation of former owners; • Large areas of informal settlements; • Registration of private and public properties is incomplete; • Many land transactions are conducted outside the Registration Offices. Construction activities suffer from: • Delays, unpredictability and high cost of building permits (including unofficial payments); • Illegal construction and	**THE FUNCTIONING OF THE LAND MARKET IS IMPROVED ALLOWING RAPID, SECURE AND TRANSPARENT PROPERTY TRANSACTIONS WITH MINIMAL COST, AS MEASURED BY:** • Land registration [Rural land Baseline: 15% in 2005; Target: 75% in FY09 – Urban land Baseline: 90% in 2005: target: 100% by end of FY09]; • Reduce by half the time and cost of registration by FY09; • Annual increase in mortgages using land titles as collateral; • Annual reduction in time to hook-up new buildings to infrastructure services throughout FY07-FY09; • Increase in the number of ownership certificates [Baseline: 4% in 2005; Target X% (TBD in FY07) by FY09]; **INCREASED ACCESS TO ESSENTIAL URBAN INFRASTRUCTURE THROUGH:** • Good progress in provision of urban infrastructure to more than 200,000 people by 2012; • Developing urban regulatory plans for key secondary cities by FY09; • Progress towards providing selected key secondary cities with environmental infrastructure targeted	***FY06 Milestones:*** • The National Council for Territorial Adjustment adopts the Southern coastal development plan. ***FY07 Milestones:*** • Interim coastal regulations are operational and appropriate structures for ICZM are functioning ; • 150 km of coastal zone with orderly land-use plan. ***FY08 Milestones:*** • Implementation of an annual property tax system in two cities; • Detailed regulatory plans adopted by 3 coastal municipalities / communes and local strategic plans adopted by at least 5 coastal communes; • Urban Regulatory Plan for all key secondary cities by FY08. ***FY09 Milestones:*** • Good progress toward the fill registration of all land; • Improve the service delivery of the IPRS and reduce by half the time to register transactions; • Develop standards for improved market-based valuation system	**Ongoing AAA:** PEIR (FY06). **Planned AAA:** Urban Development Strategy (FY07). **Ongoing Lending:** ICZMCP (FY05) **Planned Lending:** Land Management and Urban Development project (FY07). **Partners:** In coastal development, cofinancing from EU, The Netherlands, Austria, Japan and GEF. In land management and urban development: OSCE, Norway, EU and USAID (Land registration) and cofinancing from other IFIs.

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
productivity and improving the provision of public utilities; • Building local government capacity to provide sustainable financing for improving urban infrastructure.	unregulated development in peri-urban centers; • Absence of wastewater treatment and solid waste disposal infrastructure. The Coast affected by: • Ineffective management of coastal resources. • Unregulated, unplanned and illegal occupations; • Lack of basic environ-mental infrastructure.	at 2012. **SUSTAINABLE USE OF ALBANIAN COASTAL RESOURCES, DEMONSTRATED BY:** • Implementation of the local and national plans in line with the southern coastal development plan by FY09; • Improved municipal and regional infrastructure in targeted communities in the southern coastal zone (Orikum to the Greek boarder) to ensure environmentally sustainable tourism.	of land and property; • 50% increase in the number of mortgages using land titles as collateral; • Improved accessibility, reliability and efficiency of public infrastructure to 70,000 inhabitants in the southern coast; • Implement Urban Regulatory Plan for 8 key municipalities; • Procedures for participatory budget planning and monitoring are implemented.	
6. SUPPORT SUSTAINABLE RURAL DEVELOPMENT TO ENSURE CONTINUED ECONOMIC GROWTH AND POVERTY REDUCTION: • Sustained agriculture growth and job creation in rural areas; • Developing adequate infrastructure for the fishery sector; • Developing institutional framework for sustainable marine	Commercial and reliable agricultural activities are hampered by: • Farm fragmentation and high cost of legal land transactions; • Limited irrigation services; • Weak institutions managing water resources and lack of sustainability for operation and maintenance of irrigation facilities; • Ineffective and inefficient use of public funds due to inadequate participation of stakeholders; • Poor quality of seeds and overly restrictive seed regulatory framework;	**INCREASED AGRICULTURE PRODUCTION AND RURAL INCOMES AS MEASURED BY:** • Increased income levels [Indicator Target: US$ 600 annually for 40,000 families in WRM project area over income levels in 2004 by end of 2009]; • Increased financial sustainability of irrigation schemes [Target Indicators by 2007: (i) operation and maintenance fully paid by farmers; and (ii) satisfactory procurement and financial management of 17 drainage boards through stakeholders participation]; • Increased and improved seed supplies, planting materials; and production of breeder seeds and 25% rise in multiplication of basic seeds by research stations by FY09; • More agricultural innovation through the organization of community	***FY06 Milestones:*** • Membership of UPOV and OECD Seeds Schemes; • Establish 17 drainage boards; • Reconfiguration of 5 River Basin Committees; • All 6 key fishing ports rehabilitated and management plan adopted by the communities; • Release 1 million Ohrid Trout fingerings in Lake Ohrid; • Successful completion of the sub-projects program of Community Works II. ***FY07 Milestones:*** • Adoption of Fishery Management Plan; • Establishment of the Fishery Monitoring, Control and Surveillance System; • 100 fishermen and 50 WUAs engaged in aquaculture	**Planned AAA:** PEIR (FY06); CFAU (FY06 and FY09); Programmatic PER (FY07-FY09). **Ongoing Lending:** Water Resources Management -WRM (FY04); Agricultural Services (FY01); and Fishery Development (FY02); Community Works II (FY03), and Natural Resources Development (FY05) projects. **Partners**: Parallel activities on land registration financed by USAID and OSCE.

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
resource management; • Improving efficiency and coverage of irrigation; • Raising participation of stakeholder in the management of irrigation, water resources, fisheries and forests.	• Poor market infrastructure and weak market institutions; • Farmers lack information about improved techniques, varieties, practices, and opportunities. In the fisheries sector, the aquaculture potential is not fully utilized and fishery resources have been rapidly depleting due to: • Dilapidated fishery infrastructure; • Lack of institutional framework for management of fishery resources; • Environmentally unsustainable fishery practices due to the lack of clear regulations and participation of beneficiaries.	groups to promote agricultural innovation [Indicator Target: implementation of more than 100 Community Grant proposals to benefit at least 2,000 farmers by 2009]. **RURAL POPULATION BENEFITING FROM IMPROVED ACCESS TO MARKET FACILITIES:** • [Indicator Target: Annual increases in volume, and diversity, of goods traded in rehabilitated markets by around 20% until 2009). **INCREASED PRODUCTIVITY AND INCOMES FOR FAMILIES RELYING ON FISHING AND AQUATIC RESOURCES:** • [Indicator Targets by 2007: (i) satisfactory rehabilitation and management of 6 fishery ports; (ii) co-management of the Government and Communities of marine resources; and (iii) 200 fishermen and 100 water user associations demonstrating annual income increase by at least US$ 600].	activities; • Full payment of operation cost of 80% of irrigation areas under WRM project; • Maintenance of 90% of rehabilitated main and secondary canals; • Crop-wise yield increase (40%, 70%, 40% for maize, alfalfa, and vegetable respectively) within rehabilitated area; ***FY08 Millstones:*** • Effective institutional framework for Water Resource Management; • Operation of 4 fruit and vegetable wholesale markets; • Increased supply of improved seeds, planting materials and production of breeder seeds; • National Plan for Market Infrastructure Development adopted; • Over 100 farmer groups witness productivity gains by use of new technology, diversification or access to new markets. ***FY09 Millstones:*** • IPRS is modernized (with improved customer services) by end of 2008; 25% rise in multiplication of basic seeds by research stations.	Collaboration with IFAD on competitive grants component. Close coordination with FAO on marketing components. In fisheries, parallel projects financed by the EU and potential financing of the IsDB to the development of the Durres Fishery port. In water resources and irrigation, co-financing from OPEC Fund and Kuwait Fund and parallel funding from IsDB.

PILLAR 2: IMPROVED SERVICE DELIVERY, PARTICULARLY IN THE SOCIAL SECTORS

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
1. IMPROVED QUALITY OF, AND EQUITY IN ACCESS TO, EDUCATION SERVICES: • Raise enrollment rates (net primary enrollment rate increase from 97.0% in 2004 to 100% in 2015: Net secondary enrollment rate increase from 55% in 2004 to 90% on 2015); • Improve the educational attainment and learning outcomes.	• Poor quality of education outcomes; • Low completion and attainment; • Poor efficiency and targeting of public education spending; • Disparities in the educational input and output by locality; • Lack of autonomy, especially for spending resources at school level. Decentralization with clarification on roles and responsibilities of different government levels and service providers and establishment of accountability mechanisms has only just begun and its implementation remains a challenge.	**IMPROVED EDUCATIONAL ATTAINMENT AND QUALITY OF BASIC EDUCATION, AS MEASURED BY:** • All general education schools are implementing the new curriculum, with the relevant textbooks by 2009; • No more than X% of educational jurisdictions will have year 9 completion rates of less than X% of the median [Target will be set by the Education project (FY06)]; • Increased net enrollment rate for secondary education [Baseline: 55% in 2005 to X% in 2009 (to be set by the Education Project (FY06)]. **ENHANCED EFFICIENCY OF PUBLIC SECTOR SPENDING ON EDUCATION THROUGH:** • Consistent implementation of education sector decentralization strategy; • Clear definition of roles, responsibility and composition of school boards and at least X% schools have an adequately functioning school board by 2009; • Implementation of a financing formula and clarifying funding responsibilities of all government levels by 2009.	***FY07 Milestones:*** • Adoption of clear time table for decentralization of various sectoral functions agreed upon by key stakeholders (MoEd, MoI, MoF, Association of Mayors); • New curricula completed and supporting teaching materials acquired for Grades 2, 3, 6 &7. ***FY08 Milestones:*** • New curricula completed with materials for Grades 4 & 8. ***FY09 Milestones (exact targets set in the Education Project (FY06):*** • Mandatory basic education is extended to 9 years; • Albania has signed agreement to participate in 2009 PISA; • X teachers trained in teaching new curriculum; and X% of relevant teachers demonstrate the ability to teach the new curriculum and use new textbooks and curriculum; • New curricula completed for Grades 5 & 9; • X% of school developed through school improvement plans.	**Ongoing AAA**: PEIR (FY06). **Planned AAA**: CEM (FY08); Secondary/ Tertiary Education Note (FY07); Programmatic Poverty Assessment and PER (FY06-FY09); Governance & Account-ability in Social Sector Service Delivery (FY09); CFAU (FY06 and FY09). **Ongoing Lending:** Community Works II (FY03), Social Services Dev. (FY00) projects. **Planned Lending:** Education Reform Project (FY06); DPLs (FY07-FY09). **Partners**: EU, UNICEF, Italy, IOM, ILO, GTZ, OSCE, GTZ and SOROS.
2. IMPROVED QUALITY AND ACCESSIBILITY OF HEALTH SERVICES:	Poor quality of, and access to, health services due to: • Seriously dilapidated health infrastructure;	**IMPROVED EFFICIENCY AND EQUITY OF HEALTH FINANCING AS MEASURED BY:** • Pooling of public funding for health care through a single payer [Baseline: 0 region in 2005; Target: 5 by 2009];	***FY07 Milestones:*** • Adoption of Legislative framework for revised health financing system; • Finalize institutional set up for quality improvement training of	**Ongoing AAA:** PEIR (FY06), Programmatic Poverty Assessment (FY06-FY09).

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
• Improved quality and equity in access to essential health care services; • Strengthen sectoral stewardship and measures to ensure fiscal sustainability of the sector; • Reduce infant mortality per 1,000 live births from 15.1 in 2004 to 10 in 2015; • Reduced maternal mortality rate per 100,000 live births from 12 in 2004 to 16 in 2015).	• Low and highly fragmented public spending in the health sector; • Weak stewardship and governance capacity as well as lack of broad based agreement on directions for health reform; • Lack of a strategic and legal framework to guide health sector reform, resource allocation and investment decisions; • Physical and financial access barriers to health care; • Lack of regulatory framework to control private health care services.	• Allocation of public health care funding based on health needs and primary care providers [Baseline 0 region in 2005; Target: 5 regions and 5 hospitals with performance based contracts by 2009]; • 10% reduction of health shock induced poverty in target regions compared to other regions by 2009; • 20% reduction in reported informal payments in target regions by 2009. **IMPROVED QUALITY OF HEALTH CARE AS MEASURED BY:** • 20% reduction of self-referral rate to specialist and hospital care in target regions by 2009; • 1/3 of doctors trained in target regions comply with the developed evidence based clinical practice guidelines (CPG's) for the 5 main medical conditions by 2009; • 30% increase in patient and PHC physician satisfaction by 2009; • Improved management and governance of health care facilities.	primary care providers; • Establish clear co-payment system; • Institution established for developing CPG's. ***FY08 Milestones:*** • Legislative framework for provider and physician licensing enacted; • Enactment of Regulatory framework for private sector health care provision. ***FY09 Milestones:*** • Establish licensing system with basic requirements for all health care institutions and professionals; • Implement new organization and governance structures for primary health care in 50% of regions and in 5 hospitals. ***FY06-FY09 Milestones:*** • X primary care physicians and X primary care nurses trained by 2009 [Targets to be established by the health project (FY06)]; • X CPGs disseminated and implemented by 2009 [% to be set in the Health Project (FY06)].	**Planned AAA:** CFAU (F06 and FY09); Programmatic PER and Poverty Assessment (FY6-FY09); IFC TA (FY06-09); Governance and Accountability in Social Sector Service Delivery (FY08). **Ongoing Lending:** PAR (FY00), Community Works II (FY03); Social Services Dev. (FY00) projects. **Planned Lending:** Health System Modern. Project (FY06); DPLs (FY07-09). **Partners**: UNICEF, WHO, USAID, DFID, UNFPA, Switzerland, IsDB, IOM, ILO, KFW, Italy, Sweden, OPEC Fund, Norway, IsDB.
3. IMPROVE PROVISION OF SOCIAL SECURITY AND ASSISTANCE SERVICES AND THEIR	Decentralization of social services delivery has only just begun, with key aspects, such as financing responsibilities, remaining unresolved.	**INCREASED ACCESS TO WELL-TARGETED, SUSTAINABLE, AND EFFECTIVE SOCIAL SECURITY/ASSISTANCE:** • Fiscal sustainability of pensions through adoption of a policy and administration reform program by end of FY07;	***FY06 Milestones:*** • Completion of the LSMS Survey. ***FY07 Milestones:*** • Updated pension model and SII capacity to utilize it as a tool to inform policy options and monitor impact of policy decisions;	**Planned AAA:** Social Assistance Finance Review (FY06); Programmatic Poverty Assessment and PER (FY06-FY09); CFAU (FY06 and FY09);

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
SUSTAINABILITY: • Improved fiscal sustainability of the social insurance; • Improved effectiveness of the cash social assistance system; • Effective decentralization of social service delivery to better meet local demands and needs.	Targeting of the social welfare transfers need improvements. The pension system suffers from: • Continued fiscal drainage; • Lack of capacity to forecast fiscal evolution of pension system or impact of policy changes.	• Effective and better targeted cash social assistance transfers; • Implementation of the social assistance and social services strategy by 2007; • Adoption of national service standards for social services and cash transfers with monitoring system by 2008; • Meeting performance targets of social care services in target regions by 2008; • Raised dependency ratio for social insurance [Baseline: 1.06 in 2005; Target: 1.2 in 2009]; • Improved government capacity to plan, manage, and deliver social care services and to develop, monitor and evaluate more effective social policy using LSMS and household budget surveys.	• Completion of the evaluation of the effectiveness and targeting of the cash social assistance system and initiated corrective measures; • Completion of HBS Survey. ***FY08 Milestones:*** • 50% increase in access of vulnerable groups to effective social care services in at least 8 regions; • 70% of social care services in selected regions meet their performance targets. ***FY09 Milestones:*** • At least 30% of poor households receive cash social assistance and that 90% of social assistance go to poor households.	Governance & Account. in Social Sec. Serv. Delivery (FY09). **Ongoing Lending:** PAR (FY00); Social Services Dev. (FY01), Community Works II (FY03) projects. **Planned Lending:** DPLs (FY07-09). **Partners:** EU, USAID, DfID, UNHCR, Austria, Norway, IOM, Sweden, UNICEF, WFP, IsDB**.**
4. POVERTY REDUCTION THROUGH INCOME INCREASES AND IMPROVED SERVICE DELIVERY IN BOTH URBAN AND RURAL AREAS: • Reduce absolute poverty headcount from 25.4% in 2002	Limited progress in reducing rural poverty mainly due to: • Relative isolation due to a lack of physical rural infrastructure and poor local capacity for maintenance; • Lack of access to essential social services • Poor coordination between ministries in charge of rural infrastructure;	**IMPROVEMENTS IN NATURAL RESOURCE MANAGEMENT AND IN PROVISION AND OPERATION OF RURAL INFRASTRUCTURE THROUGH:** • Management of local communities of 660,000 ha of upland erosion-prone commune land in accordance with sustainable natural resource management plans by FY08; • At least 10% increase in economic benefits at the commune or village level derived from sustainable use of natural resources; • Ususfruct rights defined, documented, mapped, and demarcated in 218 communes;	***FY06 Milestones:*** • Strengthened benchmarking and monitoring of Directorates of Water and Sanitation for performance-based subsidy allocation; • One Management Contract for water with an International Private Operator in place for four cities throughout FY06-FY09. ***FY07 Milestones:*** • Clarification of responsibilities across agencies and communities for provision/ maintenance of rural infrastructure. ***FY08 Milestones:*** • Private operation of water and	**Ongoing AAA:** PPIAF Water Supply & Sanitation (FY06). **Planned AAA:** IFC TA (FY06-FY09); Programmatic PER (FY07-FY09); Programmatic Poverty Assessment (FY06-FY09); CFAU (FY06 and FY09); Rural Infrastructure Study (FY07). **Ongoing Lending:**

COUNTRY DEVELOPMENT GOALS	ISSUES AND OBSTACLES	CAS OUTCOMES	MILESTONES	BANK PROGRAM (AND PARTNERS)
to 20% in 2006 and 10% in 2015; Reduce extreme poverty head count from 4.5% in 2002 to 3% in 2006 and 0% in 2015); • Population with access to safe drinking water increase from 75.4% in 2003 to 98% in 2015; • Population with access to improved sanitation increase from 68% in 2003 to 95% in 2015); • Improved rural and peri-urban infrastructure; • Raise non-farm incomes; • Promote Rural Human Development.	• Lack of recurrent and capital resources for local governments; • Environmental degradation; • Weak governance and capacity of forest and watershed, management institutions. Quality and regular supply of urban water is poor due to: • Slow transfer of assets of water utilities to local governments; • Poor cost recovery and over-reliance on subsides in the absence of performance based criteria for allocation of subsidies and investments; • Access to water supply and sanitation in rural areas remains very limited.	• Developing a 'decision –tool' to facilitate optimal selection of projects for economic development and poverty alleviation in defined areas. **IMPROVED ACCESS TO URBAN INFRASTRUCTURE AND SERVICES AS DEMONSTRATED BY:** • Improved access to urban water supply for 300,000 people by 2009; • Improved access to urban sanitation for 265,000 people by 2009; • Adopt a system for subsidy allocation that is performance based by 2007 (when regular and reliable performance data on water utilities is available). **IMPROVED ACCESS TO SAFE RURAL WATER SUPPLY AND SANITATION BY:** • Implementation of Rural Water Supply and Sanitation Strategy ; • Rural Water Supply and Sanitation Agency fully operational; • Identification of appropriate community based approaches to maintain rural infrastructure and community preferences for infrastructure types; • Identification of rural and peri-urban household WTP for different infrastructure types.	sanitation services in more cities. ***FY09 Milestones:*** • Establishment of 80 new forest and pasture user associations; • National extension training to 15 new national/regional and 120 new district/commune advisors; • Training of 60 agricultural and drainage board staff on integrated resource management planning; • Improved service delivery of building permits in selected municipalities/communes. • Increase of hours of water supply from 2 to 6 hours in Durres and to 12 in Saranda; and in Fier from 6 to 13, and in Lezhe from 20 to 24; • Increase of population served receiving at least 2 hours of water supply per day in Durres from 38% to 76%, in Fier from 88% to 98%, in Saranda from 46% to 93%, and in Lezhe from 93% to 95%; • Increase in water analysis complying with faecal coliform standard in Durres from 96% to 98.5%, in Fier from 98% to 98.5%, in Saranda from 88% to 98.5%, and in Lezhe from 55% to 98.5%; • Wastewater treatment plants operating in Durres, Fier and Lezhe.	Municipal Water and Wastewater Project (FY03); Integrated Water and Ecosystem Management Project (FY04); Natural Resources Development Project (FY05); Community Works II (FY03). **Planned Lending** Land Management and Urban Development project (FY08). **Partners:** Cofinancing by EIB and GEF (Integrated Water and Ecosystem Management Project); EU, Austria, KfW, Norway, Kuwait Fund, IsDB, IFAD, FAO, The Netherlands, Italy, Switzerland, SIDA, USAID, EU, OPEC, Fund, and GTZ.

ANNEX 2: ALBANIA'S CAS COMPLETION REPORT, FY02-FY05

Date of the CAS: 28 May 2002
Date of the Completion Report: June 2005
Period Covered by the CAS: June 2003-June 2005
Prepared by: Nadir Mohammed, Country Manager and Tim Gilbo, Country Officer

A. INTRODUCTION

1. This CAS Completion Report evaluates the impact and effectiveness of the Bank's assistance, and the outcomes achieved, through the implementation of the World Bank's Country Assistance Strategy (CAS) for Albania during FY02-FY05 (hereafter referred to as CAS02). While CAS02 was not prepared using a Results-Based methodology, this report attempts to retrofit a results-based framework to it as a basis for a new CAS covering FY06-09 (hereafter CAS06). The retrofitted CAS02 Results Matrix has been prepared as if it had been done when the CAS was originally prepared in FY02.

2. A number of diagnostic studies, assessments and reports have informed the preparation of this report: (i) Quality Assurance Group (QAG) "Albania: Country Lending Assessment" (April 2004); (ii) QAG review of the AAA program (2004); (iii) two Joint Staff Assessments of the National Strategy for Socio-Economic Development [NSSED – Albania's PRSP (2003 and 2004)]; (vi) Country Economic Memorandum (2004); (v) the Clients Assessment Survey in December 2004; and (vi) OED's Country Assistance Evaluation (2005).[12] Annex A compares actual and planned CAS lending. Annex B reviews the implementation of the non-lending support envisaged by the CAS02. Annex C presents a retrofitted Results Matrix for CAS02, which has been used to assess progress in achieving outcomes over the period FY02-FY05.

3. The CAS02 Completion Report concludes that the Bank's assistance to the implementation of Albania's NSSED program through FY02-FY05 was ***Satisfactory***.[3] The NSSED process did create an improved framework for poverty reduction and policy reform by strengthening country ownership of the reform program, reinforcing a long-term vision, engaging in partnerships, and focusing on results. Positive outcomes have been recorded towards poverty reduction, institution building, improving public administration, upgrading infrastructure, supporting agriculture, advancing financial sector reforms, and preserving macro-economic stability. Outcomes were relatively less positive in strengthening the governance environment, advancing the efficient delivery of social services and environmental sustainability. While most programs and projects contributed to satisfactory outcomes, impacts on sustainability and institutional development are rated by this report as relatively modest.

4. Overall, the Bank's performance in the delivery of the assistance to Albania through CAS02 is also rated as ***Satisfactory***. The Bank's CAS02 support was relevant to the country's priorities and built on successful interventions that had either been completed or were ongoing at end FY02. In addition to financing numerous priority programs and projects, strong policy dialogue and analytical work helped to

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[1] World Bank (2005) "Albania: Country Assistance Evaluation". World Bank's Country Evaluation and Regional Relations Group, Operation and Evaluation Department; Washington DC, 30 March 2005.

[2] World Bank (2004) "Albania: Sustaining Growth Beyond the Transition". A World Bank Country Economic Memorandum; Report No. 29257-AL; Washington DC, 21 December 2004.

[3] The ratings and assessments of the Bank's assistance to Albania in this CASCR are overall in conformity with those of the OED's CAE as well as the lessons drawn from previous programs. There are, however, differences in some ratings due to two considerations: (i) the CAE covers FY98-FY04, while this CASCR covers FY02-FY05 (including 4 project approved in FY05); and (ii) the CASCR makes use of recent data on governance that became available in May 2005 (e.g., WBI governance indicators).

improve the focus on poverty reduction, building of institutions and maintaining macroeconomic stability. Successful experience with community-driven development (CDD) approaches from previous interventions was replicated and extended to new sectors and operations.

Box 1: OED's Country Assistance Evaluation

A 2005 Country Assistance Evaluation (CAE) by OED assessed IDA's assistance to Albania during FY98-FY04. The CAE concluded that the overall development impact of IDA's assistance is rated "moderately satisfactory". OED ratings of projects completed during the period indicate that Albania ranks higher than the Bank and ECA region in terms of satisfactory outcomes but lower in terms of institutional development impact and sustainability. The CAE indicates that the Bank's assistance was effective when the government adopted, and donors supported a sector strategy that laid out a reform agenda (e.g., energy sector). It also underscored the importance of developing the analytical underpinning and strategy, the long-term objectives of institutional development and project sustainability and sustained efforts for donor coordination.

The CAE suggests that the new CAS06 should move the strategy and projects towards an outcome oriented approach and be more selective. It also suggests filling knowledge gaps in health, infrastructure and urban development and the importance of working with the present administrative structure of government and gradually phase out the project implementation units.

B. CONTEXT OF THE CAS02

I. Albania's Medium-Term Strategies and Long-Term Vision

5. The Growth and Poverty Reduction Strategy (GPRS), completed by the Government of Albania (GoA) in 2001, expressed Albania's long-term vision of European integration and was intended to complement the Stabilization and Association process (SAp). The GPRS, which was subsequently renamed the National Strategy for Social and Economic Development (NSSED), demonstrates the country's serious effort to use a comprehensive national medium-term development strategy to move from managing short-term crises to creating the conditions that promote long-term growth and poverty reduction. The NSSED has strong government ownership and was prepared through a participatory process of unprecedented scope. It also contains improved poverty diagnostics and an ambitious plan for monitoring and evaluation.

II. Economic Developments, Growth and Poverty Trends Until 2002

6. Albania's record of economic and social development in the first 12 years of economic transition was impressive. From 1990 to 2002, Albania realized the highest rates of economic growth among all transition economies, averaging 6 percent per annum. As a result real GDP per capita reached US$ 1,380 in 2002, up from US$ 640 in 1990. Initially, real GDP contracted sharply by a cumulative 39 percent between 1990 and 1992, however recovery began in earnest in 1993 with the successful institution of a macroeconomic stabilization program, price and trade liberalization, and privatization of agricultural land. Between 1993 and 1996, the economy grew at a rapid annual rate of 9.3 percent. In 1997, the collapse of the pyramid schemes resulted in a sharp contraction in real output. Albania was, nonetheless, able to recover swiftly from this crisis, and between 1998 and 2001, the economy grew at an average annual rate of 7.4 percent. In 2002, an energy crisis and poor weather lowered GDP growth to 4.7 percent.

7. Despite the rapid rates of economic growth, poverty in Albania remains widespread. A World Bank's Poverty Assessment completed in 2002 based on real Living Standards Measurement Survey (LSMS) data estimated that one-quarter of the population, or close to 780,000 individuals, was below the poverty line in that year. Extreme poverty affected about 150,000 persons, or about 5 percent of the population, who were unable to meet even the basic food requirements. A large number of individuals

were clustered around the poverty lines, suggesting that even modest shocks could lead to a substantial increase in poverty. However, inequality has been moderate with a consumption-based Gini index of 0.28.

BOX 2: THE VIEWS OF STAKEHOLDERS ON THE BANK'S EFFECTIVENESS

The World Bank Office in Tirana undertook a Clients Assessment Survey in December 2004 to inform the design of the new CAS. Survey Questionnaires were distributed to 350 stakeholders. Some 137 respondents (39% response rate) from the Presidency, Cabinet as well as Parliamentarians (7.7% of respondents); civil servants and public sector employees including implementation units (31.2%); local governments (14.9%); bilateral and multilateral donors agencies (10.0%); private sector (9.0%); civil society organizations (11.0%); media (9.0%); academic and research institutions (3.7%) and other stakeholders (2.5%) responded to the survey. The results were compared with a similar survey that was undertaken in 2001 for the CAS02 formulation.

Overall, clients' perceptions about the importance of the issues addressed by the Bank and its effectiveness in addressing them are high and showing marked increases since 2001. In particular, the Bank's effectiveness in poverty reduction, public sector reforms, adoption of sound macroeconomic and trade policies and assistance in EU integration were the most important aspects of the Bank work in Albania and the Bank has been very effective in addressing them. The Bank's effectiveness in promoting economic growth, improving governance and private sector environment, promotion of investment and social inclusion were also considered important aspects of the Bank's support but the Bank's effectiveness in addressing them has not been as high as the first category of support areas. Finally, Bank's support to Albania has been rated as very effective in concentrating on Albania's realties and priorities. The Bank has been characterized as being flexible to adjust to changing country conditions and for giving realism to Albania's situation and constraints.

A. WORLD BANK'S OVERALL CONTRIBUTION [Scores range from 1 (very ineffective/very unimportant) to 5 (very effective/very important)]	**BANK'S EFFECTIVENESS, MEAN SCORE, 2004**	**BANK'S EFFECTIVENESS, MEAN SCORE, 2001**
1. Most Important Areas (Mean Score of at least 4) in which Bank Effectiveness has been relatively High (Mean Score of at least 4)		
i. Helping to reduce poverty	**4.3**	**3.2**
ii. Helping to strengthen and maintain sound macroeconomic and trade policies	**4.2**	**3.6**
iii. Supporting EU integration	**4.0**	**--**
iv. Helping to strengthen public sector	**4.0**	**3.3**
2. Most Important Areas (Mean Score of at least 4) in which Bank Effectiveness has been relatively Low (Mean Score of less than 4)		
i. Helping to bring about economic growth	**3.8**	**3.4**
ii. Helping to improve governance	**3.9**	**3.2**
iii. Helping to strengthen private sector	**3.9**	**3.0**
iv. Supporting programs that include all social groups in development	**3.9**	**3.5**
3. Relatively Less Important Areas (Mean Score of less than 4) in which Bank Effectiveness has been relatively High (Mean Score of more than 4)		
i. Ensuing that investments in development bring results that last	**4.4**	**3.5**
ii. Bring relevant knowledge of development practices from other countries	**4.1**	**3.6**
iii. Strengthen the framework of market economy	**4.1**	**3.7**
4. WORLD BANK'S OVERALL SUPPORT		
i. Accuracy in concentrating on Albania' key priorities	**4.2**	**3.7**
ii. Flexibility in adjusting to changing country circumstances	**4.2**	**3.6**
iii. Realism given to Albania's situation and constraints	**4.1**	**3.5**
iv. Reflection of different view points across population	**4.1**	**3.2**
v. Giving appropriate priority to Poverty reduction	**4.0**	**3.4**

C. RETROFITTING THE RESULTS FRAMEWORK

8. CAS02, which was presented to the Board in May 2002, supported the three NSSED pillars of improving governance, promoting private sector development and fostering human resource development, with institution building as a crosscutting theme to be imbedded in all interventions. CAS02 also

emphasized the importance of selectivity within sectors, and made comprehensive assessments of challenges, opportunities and constraints in each sector. CAS02 made a convincing case for the selection of specific Bank operations and activities, which aimed to address root development problems, especially weak governance and institutions, tenuous rule of law and enormous infrastructure deficiencies, especially in the power sector. CAS02 also aimed to support the prospects of closer ties to European structures in the context of impending negotiations of a Stabilization and Association Agreement (SAA) with the EU.[4]

9. ***Objectives of CAS02, and the retrofitted Results Matrix.*** CAS02 outlined a three pronged strategy based on: (i) Improving the governance and strengthening the institutions; (ii) Promoting sustainable private sector activity; and (iii) Fostering human development. While CAS02 did not outline the expected *outcomes* from the Bank's past and proposed interventions,[5] it did seek to systematically track specific indicators that could be used to assess progress towards key objectives. In the interests of establishing a robust results framework as a basis for the next CAS, a Retrofitted Results Matrix has been developed for CAS02, based on the original articulated CAS indicators as well as conditionality and monitoring indicators that were subsequently developed in the context of individual CAS02 operations (Annex C). The text below describes progress in achieving these retrofitted outcomes, with Columns III and IV of the retrofitted results matrix reproduced in the text to facilitate discussion.

Objective I: Improving Governance and Strengthening Institutions

10. CAS02 recognized that Albania's public institutions had been unable to keep pace with the country's economic transformation. It considered weak governance and institutions and tenuous rule of law as a core constraint to development. Thus, improved governance was highlighted as one of three inter-related objectives of CAS02, as was the case for the NSSED, while institution building was a crosscutting theme. In addressing this objective, CAS02 specifically sought to: (a) strengthen public administration and civil service; (b) strengthen the judiciary and reduce corruption; and (c) strengthen local government and build social consensus. Numerous programs and projects in the portfolio in 2002, as well as interventions in CAS02, supported government efforts to achieve this objective: Public Administration Reform Project, Tirana Transparency Project, the PRSC program, as well as the Legal and Judicial Reform Project (Annex C).

11. ***Program Assessment:*** Outcomes with regard to the overall governance/institution building agenda are assessed as ***partially achieved***. Overall outcomes have varied substantially across various aspects of the governance and institution building agenda.

12. **Outcome 1: Reforming the Public Administration and reducing corruption in Government.** Civil service and public administration reform outcomes have been particularly satisfactory, with successful establishment of a legal framework for the civil service and substantial progress made in the implementation of the Civil Service Law (CSL). The Civil Service Commission has become an increasingly effective mechanism for protecting the due process requirements of the CSL. A professional and increasingly merit-based civil service has become a new domestic constituency promoting effective implementation of the law, as they derive benefits and increased job security from it. However, anti-corruption efforts have, with some exceptions, yielded fewer results. Good governance initiatives such as strengthening policy monitoring and evaluation and increasing transparency and accountability in the management of public resources, supported by the PRSC program, are still in their inception phase. The

[4] World Bank (2002) "Country Assistance Strategy of the World Bank Group to Albania", Memorandum of the President of the International Development Association to the Executive Directors, Report No. 24189-ALB; Washington DC; 28 May 2002.

[5] CAS02 preceded the Results-Based methodology.

enactment of internal audit and procurement laws allowed for establishing a basic financial accountability system, and the state budget became increasingly comprehensive and transparent, with marked improvements in its preparation, implementation and monitoring. The opportunities for corruption in public administration have been reduced with the enactment and implementation of the law on ethics and public administration, and by a reduction in the size of government through privatization. The Tirana Transparency Project (FY01-FY04) provided further support to efforts to increase transparency in public administration. These interventions and non-lending activities (e.g. anti-corruption technical assistance) contributed to advancing and updating the Government's anti-corruption strategy. Recent government surveys point to a mixed picture of governance and corruption indicators (either deterioration or modest improvements)[6] (Table 1.1).

TABLE 1.1: CAS02 OUTCOMES IN STRENGTHENING GOVERNANCE AND BUILDING INSTITUTIONS (Public Administration and Corruption)

CAS02 OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
CORRUPTION IN GOVERNMENT IS REDUCED THROUGH: • Reduced political interference in hiring and firing of civil servants; • Strengthened systems for public accountability; • Reduced opportunities for corruption in public administration; • Increased public interest and participation in local government.	• All Civil Service positions are advertised (and regularly tracked); • Increased competitive filling of civil service positions (Baseline: 52% in 2001; Target: 75% in 2004); • Reduced contractual services in the civil service (Baseline: 16% in 2001; Target: 1% in 2004); • Increased coverage of Civil Service performance evaluations (Baseline: 0% in 2001; Target: 75% in 2003); • Application of the Civil Service Law (CSL) extended to cover tax and custom administration; • Enforced code of ethics and income/asset declarations; • Adoption of new laws on internal audit and procurement, and evaluation criteria for public procurement and outcomes are established and published.	Political interference in the hiring and firing of civil servants has been reduced. At the end of FY05, all positions are being advertised (and regularly tracked). Competitive filling of positions has increased from 52% in 2001 to 80% in 2004. Contractual services to the Government – which have been used as a mechanism to bypass new CS laws - were reduced from 16% of total CS recruitment in 2001 to 0.9% in 2004. Performance evaluations covered 76% of employees in 2003. The application of the CSL was extended to cover tax and custom administration by 2004. Improvements in the wage system – as assessed by a further five criteria (salary grade compression, competitiveness etc.) have also been made. A code of ethics and mandatory income/asset declarations has been legislated and are being enforced. The Law on Organization and Functioning of the Council of Ministers (Law No. 9000) and the Law on Ethics in Public Administration (Law No. 9131) were enacted in January and September 2003, respectively. Basic financial accountability system is in place with the adoption of laws on internal audit and procurement. Evaluation criteria for public procurement and outcomes have been established, with publication of the final results. Internal audit units have been established and the computerization of the Treasury in Tirana has been largely completed.

13. **Outcome 2: Strengthening management of public expenditure.** Good progress has been made with the implementation of the NSSED and the integration of the planning and budgeting systems.[7] Implementation of the NSSED gained momentum after a slow start in 2002 due to political instability

[6] The most recent WBI governance indicators (May 2005) show overall improvements in governance indicators in Albania in 2004 in comparison with 2002 (5 out of 6 governance indicators have improved though still problematic in comparison with other countries). The second Business Environment and Enterprise Performance Survey (BEEPS) pointed to concerns about weak governance structures and poor business environment in Albania during 1999-2002. It indicated perceptions of increased corruption and state capture in comparison with the first BEEPS that covered the period 1996-1999.

[7] Largely due to these reforms, the International Country Risk Group (ICRG) index for bureaucratic quality show an increase from 1 to 2 between 1997 and 2004 (see World Bank, OED Report 2005).

resulting from three government changes. In 2003 implementation improved and the GoA prepared its first annual progress report. This coincided with the availability of data from the first representative Living Standards Measurement Survey (LSMS), which further strengthened poverty diagnostics. While efforts to more closely link the NSSED and the medium-term expenditure framework (MTEF) have been consistent, real progress has been slow, as noted by Bank and IMF Joint Staff Assessments of the NSSED Annual Progress Reports. Progress was more evident towards establishing capacities for monitoring and evaluation in line ministries and the creation of the Department for the NSSED within the Ministry of Finance. Additionally, there has been some progress in linking the implementation of the strategy with the Millennium Development Goals (MDGs), the SAp as well as other policy frameworks,[8] and in strengthening coordination through active engagement with the donor community. The Public Administration Reform Project from the pre-CAS02 portfolio (FY00) and the PRSC program in CAS02 addressed priority issues in public expenditure management, human resource management, and policy formulation (Table 1.2).

TABLE 1.2: CAS02 OUTCOMES IN STRENGTHENING GOVERNANCE AND BUILDING INSTITUTIONS (NSSED and Public Expenditure Management)

CAS02 OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
MANAGEMENT OF PUBLIC EXPENDITURE IS STRENGTHENED THROUGH: • Improved policy formulation capacity; • Use of the MTEF to allocate the budget and widening its coverage; • Use of the GPRS as a basis for developing the MTEF; • Improved capacity of MoF to assess fiscal impact of new projects and laws; • Increased understanding of responsibilities between central and local governments.	• Law on Organization and Functioning of the Council of Ministers enacted; • Law on Ethics in Public Administration enacted. • MTEF is developed based on the GPRS priorities and used as primary source for annual budgets; • Approval of National Training Strategy for Local Government and establishment of a Training Agency; • Identification of revenue sources for local govern-ments and clear responsibilities for common and shared functions; • Regulations established for fiscal autonomy of local governments; • Revised 2002 provisional formula for allocation of unconditional transfers to the local governments.	While the MTEF is now the primary budgetary tool, it is not satisfactorily linked with longer-term objectives outlined in the NSSED or driven by policy. The conformity between annual budgets and the MTEF has been improving, but needs to be strengthened further. A new tax reform law was made effective in 2003. The capacity of the MoF to provide input into the fiscal impact of policies has been increased, however such advice is not routinely provided during the policy planning stages. A National Training Strategy for Local Government was approved and a Training Agency established. Progress has been made with fiscal decentralization, supported by Bank ESW and the PRSC program. The Land Tax was reinstated as a local tax; the former Small Business Tax was split into the Local Small Business Tax and the Simplified Profit Tax, and both became local own taxes; the law on local taxes and fees was reviewed and other taxes transformed in "own tax" act. The 2002 provisional formula for the distribution of State unconditional transfers to the local self-governments was revised in 2003. Progress was also made in finalizing the education and health sector strategies and accompanying implementation action plans that delineate service provision responsibilities between the local and central governments. Progress in delineation of functions between central and local governments has been slow and remains contingent upon a new law on financing of local governments which is in preparatory stage. The Bank is currently supporting this work through an IDF grant.

[8] World Bank/IMF (2004) "Albania: Joint Staff Assessment of the Poverty Reduction Strategy Paper Annual Progress Report"; Washington DC; 18 June 2004.

14. Although the legal framework for decentralization is in place, there was limited progress towards effective decentralization during the CAS02. Local self-government was founded on the principle of decentralization defined in the new Constitution of 1998, and a corresponding Strategy of Decentralization and Local Autonomy was completed in 1999. To support implementation of the decentralization strategy a National Committee for Decentralization, advised by a technical secretariat called the Group of Experts on Decentralization (GED), was also established. Despite these initial regulatory and institutional achievements, further implementation of the Government's decentralization strategy has not proceeded rapidly due to: (i) the fragmented structure of local administrative units; (ii) weak administrative capacity (both at local and central levels); (iii) remaining uncertainties in the assignment of responsibilities and competences to the local authorities; (iv) the absence of clear standards of services and measurement criteria of performance in service delivery; and (v) an inadequate degree of revenue autonomy and predictability. While the Bank was able to provide timely advice through ESW,[9] significant outcomes were not achieved in the CAS02 period due to a lack of synergy and fragmentation in the support provided by various projects.[10]

TABLE 1.3: CAS02 OUTCOMES IN STRENGTHENING GOVERNANCE AND BUILDING INSTITUTIONS (Legal and Judicial Reforms)

CAS02 OUTCOMES THE BANK IS EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
EFFECTIVENESS OF THE JUDICAL SYTEM IS INCREASED THROUGH: • Improved enforcement of judicial decisions in civil cases; • Greater transparency in the legal and judicial system; • Improved capacity and knowledge of judges and prosecutors; • Stronger role of the Ministry of Justice (MoJ) in policymaking and legal drafting; • Improved effectiveness of court administrators; • Improved learning outcomes of students of the Faculty of Law (FoL).	• Training provided to bailiff officers; • 60% enforcement rate of judicial decisions in civil cases by 2004; • A fully operational State Publication Center and an Internet accessible electronic database; • A comprehensive training program for judges and prosecutors completed; • Permanent training program for court administrators established with a MoU signed between Magistrates' School and MoJ; • Judicial Inspection Office established and fully operational; • A transparent court and case administration system is implemented in at least 4 courts; • Law Reform Commission is established at the MoJ; • Blind admission testing established in Faculty of Law.	The capacity of bailiffs to enforce civil cases has been improved, due to training provided to bailiff officers. The enforcement rate of judicial decisions in civil cases reached 60% in 2004. A State Publication Center is now fully operational and an electronic database has been accessible on the internet since December 2004. A comprehensive training program benefited 550 judges, administrative staff and prosecutors by end-2004, and a permanent training program for court administrators has been established in 2003. A Judicial Inspection Office was established and is fully operational. A new transparent court and case administration system has been implemented in 4 courts, with further rollout scheduled in 2005. The Law Reform Commission has been established at the MoJ to improve coordination and quality of legal drafting. Blind admission testing, improved course curriculum, teaching methodologies and twining arrangements with firing law institutions have been introduced.

[9] World Bank (2004). "Albania: Decentralization in Transition" Report No. 27885-Alb. The World Bank, Washington DC, February 2004.
[10] These included community works, fishery, forestry, and irrigation and drainage projects based on CDD approaches in addition to the PRSCs.

15. **Outcome 3: Increasing the effectiveness of the judicial system.** The Legal and Judicial Reform Project (LJRP - FY00) also contributed by strengthening legal education, strengthening courts, establishing alternative dispute resolution mechanisms and improving the legal information infrastructure. However, compared to public administration reforms, support to the legal and judicial system has yielded fewer concrete results. While good progress has been made towards building institutional foundations in some areas, the cumulative effects of numerous initiatives by the Bank and other donors have not translated into marked improvements in the rule of law, law enforcement and measurable reductions in corruption and incidence of state capture according to anecdotal evidence and recent surveys. For example, while on paper Albania now has one of the best procurement frameworks in the Balkans, large infrastructure contracts in some sectors are still finalized without transparent and competitive bidding (Table 1.3 above).

Objective II: Promoting Sustainable Private Sector Growth

16. Under this pillar, CAS02 emphasized the importance of: (a) maintaining macroeconomic stability; (b) improving the environment for private investment; (c) reforming the financial sector; (d) completing enterprise privatization; (e) sustaining agricultural growth; and (f) fostering broad-based rural growth. CAS02 also noted the need to improve infrastructure and create institutional environments conducive to infrastructure sustainability, especially through community or private sector participation, and to promote environmental sustainability and the sustainable use of natural resources. Outcomes under this objective were supported through various lending and non-lending activities in both the pre-CAS02 portfolio as well as new activities in CAS02, including: Private Industry Recovery Project, Financial Sector Institution Building TA Project, the PRSC program, Recovery Program TA Project, FSAC, Microcredit Project, Forestry Project, Irrigation and Drainage II, Pilot Fishery Development Project, Water Resources Management, Municipal Water and Wastewater Project, Agricultural Services Project, Power Transmission and Distribution Project, Power Sector Rehabilitation and Restructuring Project, Power Sector Generation and Restructuring Project, Energy Community of South East Europe APL Project, Road Maintenance Supplemental and Urban Land Development Project (Annex C).

17. ***Program Assessment:*** Outcomes with regard to the overall promotion of sustainable private sector growth during CAS02 have been ***achieved***. Outcomes have varied substantially across different areas of the private sector agenda. Outcomes have been highly satisfactory in infrastructure (especially in the energy sector), financial sector reforms, agricultural development and rural development. However, in the areas of environment and natural resource development positive outcomes have been generally slow to materialize.

18. As noted earlier, macroeconomic performance, and the private sector contribution to it, has remained strong during CAS02. The period was characterized by sound monetary and financial sector policies, fiscal consolidation, successful privatization, and a substantial improvement in the performance of the electricity sector that has significantly reduced the macroeconomic risks posed by Albania's reliance on hydroelectric power generation. Private sector contribution to GDP and growth continued to increase in the last three years. Private investment picked up from about 17 percent of GDP in 2002 to more than 20 percent of GDP by 2004 while public investment declined by 2 percentage points during the same period.

19. **Outcome 1: Improving the facilitating environment for investment, production and export by the private sector.** Although significant progress has been made in reducing the administrative barriers to investors' entry, a survey conducted in 2004 shows that there are still some impediments to be overcome (e.g. unfair practices, tax rates, electricity supply, corruption and frequent changes to the regulatory framework). With the support from the World Bank's FSAC project, a new accounting law has

been enacted and accounting standards are improving. Some progress, albeit partial, was observed in improving the legal framework and alternatives for resolving commercial disputes (Table 2.1).

TABLE 2.1: CAS02 OUTCOMES IN PROMOTING SUSTAINABLE PRIVATE SECTOR GROWTH (Investment and Business Environment)

CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
THE FACILITATING ENVIRONMENT FOR INVESTMENT, PRODUCTION AND EXPORT BY THE PRIVATE SECTOR IS IMPROVED THROUGH: • Reduced administrative barriers to investors' entry; • Improved accounting standards; • Improved legal framework and alternatives for resolving commercial disputes.	• Complete Study on Administrative Barriers to Investment and develop Action Plan; • Evidence of implementation of Administrative Barriers action plan; • Enact a new modern accounting law based on international standards; • Business plan for the Bank Asset Resolution Trust portfolio completed; • Establishment and functioning of an Alternate Dispute Resolution Center to resolve commercial disputes outside courts.	A Study on the Administrative Barriers was completed in 2003 with support from FIAS, and an Action Plan to address them is under implementation. About 80% of the actions envisaged under the Action Plan have been implemented or under implementation. According to a survey in 2004, the severity of most of the administrative barriers was reduced compared to 2002, in particular those related to the customs administration. However, the survey shows that the general perception of the business community is that the major impediments to business growth still continue to be: (i) unfair practices, (ii) tax rates, (iii) electricity supply, (iv) corruption, and (v) frequent changes of regulatory framework. A new accounting law was enacted in April 2004 and an institutional development plan for bankruptcy enforcement and secured financing has been implemented. The business plan for the Bank Asset Resolution Trust portfolio has been completed with support from the Bank's FSAC project, and implementation is under way. An Alternative Dispute Resolution (ADR) institution for commercial disputes has been formed and its staff trained, and is ready to accept cases. No disputes have been referred to the ADR to date however, and thus this outcome has not been fully achieved.

20. **Outcome 2: Strengthening the financial sector and supporting robust private sector growth.** CAS02 successfully supported the final phase of the transition of the role of the state in the financial sector from that of owner to one of regulator. The Bank supported this transition by helping to improve the legal and institutional framework necessary for functioning of a market-based financial sector and strengthening of the independence and capacity of the Central Bank. Driven by strong government commitment, and facilitated by the considerable credibility that the Bank has built with relevant stakeholders, the Financial Sector Adjustment Credit (FSAC) and the Financial Sector Institution Building Technical Assistance (FSIBTA) successfully supported the State's divestiture of its bank holdings, and the establishment of a legal, institutional and supervisory framework for sound financial sector development (including non-banking sector such as insurance). The Savings Bank was privatized and the moratorium on its lending activities has been lifted and the state insurance company (INSIG) was partially privatized. The Bank of Albania (BoA) has substantially strengthened its supervisory capacity through the implementation of a more risk-based supervision process. The legal, regulatory and supervisory framework for non-financial institutions has been modernized, and the bankruptcy, collateral, debt resolution frameworks have been strengthened. These achievements have been particularly noteworthy in consideration of the financial sector crisis that engulfed Albania in 1997 (Table 2.2).

TABLE 2.2: CAS02 OUTCOMES IN PROMOTING SUSTAINABLE PRIVATE SECTOR GROWTH (Financial Sector Reforms)

CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
A STRENGTHENED FINANCIAL SECTOR SUPPORTING ROBUST PRIVATE SECTOR GROWTH THROUGH: • Increased financial intermediation and extension of credit to the private sector; • Better financial regulation and prudent controls; • Liberalized financial markets and reduced government ownership in the sector; • Improved availability and reliability of other financial services such as insurance; • Development of non-bank financial institutions.	• Increase credit to the private sector by 30% per annum (Baseline: 35 billion in 2001; Target: Lek 56 billion by 2004); • Introduce payment of public sector wages through banking system; • Implementation of a large value (RTGS) payment system; • Satisfactory banking regulations adopted and enforced by BoA; • Implementation of the Supervisory Development Plan and introduction of risk-based supervision; • Establishment of a Deposit Insurance Fund; • Complete privatization of Savings Bank and INSIG; • Establishment of Insurance Regulator.	Volume of credit increased from Lek 35 billion in 2001 to Lek 55 billion in June 2004, indicating that financial sector reform are beginning to play a greater role in fostering private sector led growth. Public sector wages began to be paid through the Banking system in 2004/05. With Bank's support, the BoA has established an Automated Clearing House (ACH) and a large value (RTGS) payment system is now operational. Satisfactory banking regulations have been adopted and are being enforced by BoA. The Supervisory Development Plan was adopted by the BoA in March 2002, defining long-term strategy and institutional development program for banking supervision. Supervisory strategies, the risk analysis, management evaluations, and supervisory plans therein have improved quality and comprehensiveness. A Deposit Insurance Agency (DIA) was established under the Deposit Insurance Law, which was effective in October 2002. By June 2004, the total accumulated assets of the Agency were Lek 1.7 billion, representing a fund-to-insured deposit ratio of 1.1%. The Savings Bank was privatized in 2004 (for a record FDI of US$ 126 million). This reduced government ownership in the banking sector to 40% shareholdings in 2 small Banks. 40% of INSIG is privatized, and preparations are underway to fully privatize it. The Insurance Supervisory Agency (ISA) was established in December 2004, in line with the budgetary and operational independence requirements of the International Association of Insurance Supervisors.

21. **Outcome 3: Improving rural productivity and higher incomes in rural areas.** Management responsibility for almost all irrigation networks has been transferred to farmers associations, which are also gradually becoming involved in flood protection. The concept of community-managed resources has been expanded in fisheries and forests, with Fishery Management Organizations (FMOs) established to manage fishery resources and ports and forest management transferred to over 100 communes. Access to finance in rural areas has also improved through increased coverage of the credit associations and increased bank lending. Microcredit schemes have been extended to both urban and rural areas, and the institutions providing them have matured in terms of both financial and operational sustainability. Agricultural productivity in rural areas has increased, with the annual income for a typical farmer benefiting from the Bank supported irrigation rehabilitation increased by about US$ 600.[11] (Table 2.3).

[11] The first irrigation and drainage project helped rehabilitation of 58,000 hectare of irrigation and 130,000 hectare of drainage and promoted the formation of about 200 water users associations (WUAs).

TABLE 2.3: CAS02 OUTCOMES IN PROMOTING SUSTAINABLE PRIVATE SECTOR GROWTH (Agriculture and Rural Sectors)

CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
IMPROVED RURAL PRODUCTIVITY AND HIGHER INCOMES IN RURAL AREAS THROUGH: • A better functioning rural land market; • Restructured extension services and liberalization of seed trading; • Adoption of international standards and certification of seed quality; • Increased sustainable exploitation of fish resources trough strengthening of the community based management of fishery resources; • Increased efficiency and coverage of irrigation and drainage by transferring management to community groups; • Increased bank lending to rural areas; • Improved access to agricultural markets; • Increase rural non-farm incomes.	• Establishment of a business plan for immovable property registration; • Reduced time/cost to register land (Baseline: 2 days in 2002; Target: 1 day in 2004); • Progress towards first time registration of rural cadastral zones (Baseline: 70% in 2002; Target: 87 % by 2005); • Increase in annual immovable property registrations (Baseline: 14,000 in 2002; Target: 20,000 by 2004); • Seed certification process set up and multiplication and trade are private sector based; • Enactment of laws and regulations on international seeds standards; • Freshwater aquaculture introduced into 70 irrigation reservoirs by 2005; • Set up Fishery Management Organizations (Baseline: 0 in 2002; Target: 5 by 2004); • Contracts signed for rehabilitation of ports in Vlora and Saranda; • Water User's Associations established to manage irrigation schemes (Targets: 60% coverage in 2004 rising to 100% by 2006); • Annual revenues of Lushnja markets increased by 50% to US$ 30,000 by 2004; • Completion of survey to determine non-farm income.	A business plan for immovable property registration system was finalized and Law No. 9235 (July 2004) for private property compensation and restitution was enacted. Time to register land was reduced and the cost of registration was halved, but notary fees are significant and have not been changed. First time registration of land was completed in 80.6% of rural cadastral zones. Immovable property registration offices are now functional with land registration transactions rising from 14,000 in 2002 to 20,000 by end of 2004. Seed certification process has been established and multiplication and trade are now fully private sector based. Agricultural research institutions have been restructured, and breeder seed production has increased by 8% to 43.2 tons per research station. Seeds regulations were adjusted to international standards by enactment of laws No. 8800 and No. 8732. Freshwater aquaculture was introduced in more than 70 irrigation reservoirs. 11 Fishery Management Organizations were established and the rehabilitation of ports in Vlora and Saranda completed. A hatchery for Lake Ohrid Trout was rehabilitated and its staff trained. A total of 550 WUAs were created to manage irrigation facilities and their representatives have been trained. Management of irrigation schemes by communities reached 60% of total irrigated area and will reach 100% by end of 2006. Agricultural land with functioning irrigation and drainage systems increased to 50% and 70% of total irrigated land respectively by rehabilitating 50,000 ha of irrigation facilities and 93,000 ha of drainage and flood facilities (2/3 of Albania irrigated land) benefiting more than 100,000 farmers. Lushnja and Korca markets were established with market use information points for traders and farmers, and connections with EU Aminsnet and markets in Italy and Greece were established. Annual revenues of the Lushnja municipal markets increased by 50% between 2002 and 2004, reaching US$30,000 in 2004. A survey of rural income is being completed.

22. **Outcome 4: Improving environmental conditions and more sustainable use of natural resources.** With the transfer of forest management to communes, the illegal logging of forests has been reduced. The establishment of the Environmental Inspectorate allowed for improvements in the enforcement of environmental regulations, while there are on-going efforts to reduce urban sewerage pollution with works currently undertaken in several cities in Albania. However, the general progress in this area has been slow, and two Bank projects supporting further results in this area were not approved until the last quarter of CAS02 (Table 2.4).

TABLE 2.4: CAS02 OUTCOMES IN PROMOTING SUSTAINABLE PRIVATE SECTOR GROWTH (Environment and Natural Resource Management)

CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
4. IMPROVED ENVIRONMENTAL CONDITIONS AND MORE SUSTAINABLE USE OF NATURAL RESOURCES THROUGH: • Reduced illegal logging of forests; • Increased coverage of 'Protected Areas'; • Enforcement of environmental regulations; • Integration of environmental considerations into sectoral policies; • Reduction of urban sewerage pollution; • Eliminate arsenic contamination; • Cleaning of environmental "Hotspots" to international standards.	• Reduction in illegal logging by 10% in 2002; 20% in 2003 and 20% in 2004; • Rehabilitation of 5,000 ha of forests and 200 ha of pastures; • Protected areas increased from 6% of total surface area in 2002 to 15% by end of 2004; • Establishment of Environmental Inspectorate; • Increase environmental inspections and sanctions; • Update National Environmental Action Plan by end 2002; • Contracting of work to construct wastewater treatment plant and hazardous waste landfill at Ballsh Refinery; • Completion of feasibility studies for sewage treatment plant in Pogradec in 2005 and wetlands in Durres, Lezhe & Saranda; • Complete feasibility studies for remediation work at three 'hotspots' by FY04.	A reduction of 52% in illegal logging occurred between 2001 and 2004 (12% in 2002; 37% in 2003 and 13% in 2004). Some 5,100 ha of forests and 270 ha of pastures have been rehabilitated. Protected areas have increased by 11% between 2002 and end of 2004 (from 165,000 ha to 183,000 ha). An Environmental Inspectorate was established in 2002 and the number of inspections and fines has continued to increase. The National Environmental Action Plan (NEAP) was updated in 2002. Few structures in line ministries dealing with environmental considerations have also been established. Work is currently ongoing to construct the wastewater treatment plant at Ballsh Refinery and a feasibility study for a hazardous waste landfill is also ongoing. Construction of the sewage treatment plant in Pogradec is planned in 2005, and feasibility studies are currently ongoing for wetlands in Durres, Lezhe & Saranda. Feasibility studies for hotspots including Sharra landfill, Porto Romano and remediation of PVC in Vlora were finalized during 2003/05.

23. **Outcome 5: Reducing macroeconomic risks associated with the energy sector and improving reliability of power supply.** Energy sector performance improved significantly over the CAS02 period, through the sustained implementation of a multi-year Power Sector Action Plan developed under the Bank's leadership. Quantitative performance targets outlined in the Action Plan were met in 15 out of the 16 quarters since its adoption in 2001. Illegal electricity usage has been progressively reduced, collections have increased, and tariffs are being gradually raised, while at the same time a scheme to protect socially vulnerable consumers from the impacts of price rises has been introduced. These achievements, coupled with favorable hydrology in 2003 and 2004, have resulted in diminished macroeconomic risks from the energy sector, improved electricity supply as well as a significantly improved financial performance by KESH (the Albanian electricity utility). Although significant electricity imports may still be necessary in the future, no subsidy from the Government budget will be required from 2005 onwards. Substantial governance-related improvements were also achieved, including improvements in the management structure of KESH, stronger internal financial controls leading to

increased transparency in the financial transactions undertaken by KESH, the establishment of an independent electricity regulator, the effective implementation of new laws to facilitate payment discipline by household and private consumers, and enforced payment discipline among budgetary and non-budgetary entities (Table 2.5).

TABLE 2.5: CAS02 IN PROMOTING SUSTAINABLE PRIVATE SECTOR GROWTH (Energy Reforms)

CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
REDUCED MACRO-ECONOMIC RISKS ASSOCIATED WITH THE ENERGY SECTOR AND IMPROVED RELIABILITY OF POWER SUPPLY THROUGH: • Reduced load shedding in the energy sector; • Reduced energy import subsidy to KESH; • Implementation of the first phase of the energy reform plan; • Improvements in governance in areas relevant to energy.	• Power losses reduced to 42% in 2002 and to the targets indicated in the Action Plan for 2003/04; • Bill collection increased to 90% in 2002 to the levels agreed in the Action Plan for 2003/04; • Number of consumers without meters reduced to levels indicated in the updated Action Plan; • Establishment of Transmission System Operator, develop a Transitional Market Model; • Implement an energy subsidy scheme to protect poor from effects of price rises; • Enact and implement new laws to facilitate payment discipline by households.	Load shedding has been reduced. Collection and losses targets specified in the Power Sector Action Plan were met in 15 of the 16 quarters since the start of 2001. Losses during 2004 were 36.6%, and collections increased to 94.7% during the year (from Lek 8.1 billion in 2000 to Lek 27 billion in 2004). As a result, import subsidies to KESH progressively declined from US$ 22 million in 2002 to US$ 2.5 million in 2004. No subsidy is envisaged for 2005 and beyond particularly after the establishment of an Equalization Fund. All existing household consumers have been provided with meters. A Transmission System Operator is established, and a Transitional Market Model developed. A subsidy is being provided to socially vulnerable consumers to mitigate the impact of electricity price increases. Laws to enforce payment discipline were strengthened and enforcement was strengthened.

24. **Outcome 6: More efficient operation and management of transport and water infrastructure.** Tremendous bottlenecks in water and roads have been recognized as representing major constraints to the further development of private sector, sustained economic growth and poverty alleviation. CAS02 introduced various lending and non-lending activities resulting in significant progress in the transport sector. Numerous road investments were completed, focused on the main East–West[12] and the North-South Corridor. Maintenance works were also completed to remediate damage caused by heavy trucks during Kosovo crisis, and institutional changes to increase the efficiency and targeting of road maintenance were effected. The functioning of the vital Durres port was improved through rehabilitation of infrastructure, establishment of an autonomous port authority, privatization of some port operations and overall improvements in custom procedures. In the railway sub-sector, the Albanian Railways Company (HSH) was transformed into a joint stock company, but a badly needed restructuring and rationalization of HSH in line with EU guidelines is yet to be undertaken, and the railway sub-sector continues to be financially unsustainable while providing extremely limited services. Other improvements have been made including lowering the non-tariff costs of trade and transport, reform of customs procedures, and improvements in border crossing facilities.[13] However, institutional development in the

[12] Pan-European Corridor VIII.

[13] By March 2005, TTFSE project contributed to: (i) significant decrease in Customs' and border agencies' processing times at all pilot sites - by 55% on the average; (ii) improvements in revenue collection by Customs (about 20% overall), and (iii) increases in regional trade volumes by about 30%. The project also contributed to

transport sector has been notably less successful. Although nascent reforms of the General Road Directorate have been initiated, much remains to be done to implement approved legislation, prioritize investments and build the capacity of institutions in the sector. The completion of the Albanian National Transport Plan (ANTP), with the support of the EU, provides a much-needed overall strategy on which a long overdue program of prioritized investments in transport can be developed. However, despite the Bank's long-term involvement in the sector, the Government proceeded in FY05 with large projects and concessions of dubious economic and social benefit that are not transparently planned and procured, and are not in line with the ANTP and NSSED priorities (Table 2.6).

TABLE 2.6: CAS02 IN PROMOTING SUSTAINABLE PRIVATE SECTOR GROWTH (Improved Infrastructure Services)

CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
MORE EFFICIENT OPERATION AND MANAGEMENT OF TRANSPORT AND WATER INFRASTRUCTURE THROUGH: • Restructuring of the National Road Administration; • Construction and rehabilitation of national and rural roads; • Improved transport infrastructure at borders; • Introduction of private sector participation in management and operation of water and wastewater.	• Introduction of operational pavement management system; • Competitive contracting out of road maintenance; • Increased community participation in the maintenance of community road networks; • Introduction/compliance with roads standards; • Construction/rehabilitation of 1,000 km of rural roads and construction / rehabilitation of 1,300 km of national roads by 2007; • Construction/rehabilitation of 2 border crossings; • Engagement of private operators in 4 cities by 2004.	A pavement management system was introduced in 2005 and the restructuring of the National Road Administration will be completed by the end of 2005. Bank road projects supported the construction/rehabilitation of 1,700 km of rural roads, and 1,300 km of national roads. The function of the vital Durres port was improved through rehabilitation of infrastructure, establishment of an autonomous port authority, privatization of some port operations and overall improvements in custom procedures, safety and port operations. The TTFSE project also assisted in improving infrastructure improvements at two border crossings as well as connectivity between border positions and the Center. Improvements in water services were achieved (average use, connections, safety compliance, increased collections of water bills) with the engagement of private operators in 4 cities by management contracts.
IMPROVED ACCESS OF THE POOR TO URBAN INFRASTRUCTURE THROUGH: • Improved planning of urban infrastructure; • Construction of essential infrastructure in under-serviced urban areas; • Regularization / legalization of informal dwellings in peri-urban areas in Tirana.	• Construction of basic infrastructure in 19 neglected/under-serviced areas; • Adoption of Infrastructure Management Plan for Great Tirana; • Enactment of Law on Legalization of the Illegal Settlement; • Registration of 500 family's houses and surrounding lands in informal settlements by 2004 (Baseline: 0, Target 1000 families by 2005).	Essential infrastructure was constructed (water and power supply, roads, sewerage and street lighting) in 19 neglected/under-serviced areas affecting 18,000 families, and engineering designs for 7 additional areas have been completed. An Infrastructure Management Plan for Greater Tirana was adopted and approved in principle by the National Council of Territory Adjustment. The Law on Legalization of Illegal Settlements was adopted in 2004. Registration of illegal settlements (family houses/surrounding land) was completed for 2,548 families in Bathore and Lapraka (Tirana), based on sub-legal acts of the Legalization Law these houses will be legalized from 2005 onwards.

establishing better interagency cooperation within the country, thus supporting the government's priorities to fight smuggling and organized crime.

25. In the water supply and sanitation sector, there has been progress in improving infrastructure, governance, private sector participation as well as in strengthening of institutions. The Bank's policy advice and lending assisted the preparation of a comprehensive National Water Supply and Sanitation Strategy and a Rural Water Supply and Sanitation Strategy. However, the government has made little progress in implementing the rural water supply strategy, and in rural areas water supply and sanitation services have further deteriorated during CAS02. In urban areas, urgent rehabilitation measures have been implemented, which were successful in bridging a gap in maintenance and rehabilitation services until a management contract was implemented in four cities. Municipalities were empowered to control water supply and wastewater services and investments, and institutional arrangements have been established for the municipalities to have arms-length relationships with private service providers. Consumer panels have been initiated as a mechanism for strengthening governance of service delivery (Table 2.6).

26. **Outcome 7: Improving access of the poor to urban infrastructure.** The NSSED also aimed to provide essential urban infrastructure in participating municipalities, supported by the Bank's Urban Land Management project (FY98). This has led to the adoption of more efficient methods of providing community infrastructure (where beneficiaries decide on the priorities and contribute to its financing), supported by land tenure reforms. However, poor urban land planning and enforcement remains a serious obstacle for cost effective investment decisions, and hampers service improvements. Also, delays in enacting the laws on land restitution and legalization of informal settlement have reduced the potential impact of the interventions of the Bank and other stakeholders (Table 2.7).

Objective III: Fostering Human Development

27. Social sector indicators place Albania at the bottom of European countries in the area of social development. The country faces a formidable agenda, with high levels of unemployment and high poverty prevalence). Net education enrollment rates, the quality and quantity of health infrastructure and access to health services have actually declined in the post-transition era. CAS02 represented a shift in the Bank's approach from emergency-type interventions towards a focus on infrastructure and institution building at the central level. Outcomes towards this objective were also largely supported by interventions initiated prior to 2002, namely: Education Reform Project, Social Services Development Project and Health Recovery Project, as well as a strong policy reform element addressed through the CAS02 PRSC program (Annex C).

28. ***Program Assessment:*** Outcomes with regard to fostering human resource development during implementation of CAS02 are assessed to have been ***achieved***. Again, outcomes have varied substantially across various aspects of the social sector reforms.

29. **Outcome 1: Improving the educational outcomes.** Despite the minor progress, the overall condition of the Albanian education sector remains quite poor at the end of the CAS02 period. However, the completion of sector strategies and policy papers on decentralization were critical milestones in the reforms of the sector, and concrete steps towards institutional reforms, preparation of actions plan for the implementation of the strategy and strengthening of assessment and examination capacities were initiated in this period. Albania has also completed its submission for the Education For All (EFA) initiative, which outlines specific targets to be met. However, other efforts aimed at increasing the enrollment and attainment level in primary and secondary education, introducing curriculum reforms in order to improve education quality and improving the monitoring of performance of the education sector, are in their nascent stage and yet to yield substantial results (Table 3.1).

TABLE 3.1: CAS02 OUTCOMES IN FOSTERING HUMAN RESOURCE DEVELOPMENT (EDUCATION)

CAS02 OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
IMPROVED EDUCATIONAL OUTCOMES THROUGH: • Raising public education spending; • Increasing education attainment by increasing average schooling; • Increasing enrollment in both primary and secondary education; • Introducing curriculum reforms to improve education quality; • Reducing number of pupils per teaching personnel; • Reduce number of teachers without adequate education; • Better monitoring of performance of the education sector.	• Benchmarks on educations spending (Baseline: 3.0%in 2002; Target: 3.1% in 2004); • Net Enrollment Rates (NER) in year 8 increased (Baseline: 90% in 2000; Target: 94% in 2004); • NER for secondary education increased. (Baseline: 40% in 2000, target 50% in 2004); • Adopt new textbook policy and introduce free textbooks for basic education; • Number of pupils per teacher declines (Baseline: 19 in 2002, Target: 17.8 in 2005 (for basic education); • No of teacher not meeting minimum qualifications reduced (Baseline: Primary 19%, Secondary 5.2% in 2002, Target: Primary 14.3 %, Secondary 3.8% in 2005); • Publication of the First Annual Education Performance Report in 2004; • MoES regularly publishes data showing progress in meeting targets for gross enrollment.	Although education spending as a percentage of total public expenditure increased over the CAS period, total spending declined from 3.3% of GDP in 2001 to 3.1% in 2004. NER in 2005 for 8-year education increased to 97%. The NER for secondary education reached only 46% in 2004 and thus fell short of the CAS target. A revised textbook policy was adopted and free textbooks provided for all basic education, plus free working books for the 80 poorest communes. Competitive bidding in the production of books led to major cuts in costs and improvements in the quality of books. The pupil/teacher ratio in basic education declined from 19 in 2002 to 18 in 2004, and subsequently to 17.8 in 2005 (for basic education, it was reduced from 19% in 2002 to 12.2% in 2004, while for secondary it was reduced from 5.2% in 2002 to 3.4% in 2004). The number of teachers without adequate qualifications was reduced to 12.2% in 2004 for basic education and 3.4% in 2004 for secondary. The first Annual Education Performance Report was published in fall 2004, and the MoES now regularly publishes data showing progress in meeting targets for gross enrollment rates. The process of curriculum reforms has also started.

30. **Outcome 2: Improving the accessibility and quality of preventive/curative health services.** The situation in the health sector has improved modestly, although from very poor initial conditions, and against a backdrop of a significant budget constraint. The quality of basic preventive and curative health services has improved, and the number of trained doctors and nurses has increased. A national HIV/AIDS strategy has also been adopted and there is an on-going effort to implement the health sector strategy and policy paper on decentralization of health services (Table 3.2).

TABLE 3.2: CAS02 OUTCOMES IN FOSTERING HUMAN RESOURCE DEVELOPMENT (HEALTH)

CAS02 OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
IMPROVED ACCESSIBILITY AND QUALITY OF PREVENTATIVE / CURATIVE HEALTH SERVICES THROUGH: • Increasing the proportion of the country covered by health centers, especially in poor areas; • Financing rehabilitation and equipment for health centers, particularly in poor areas; • Increased public financing of health services; • Increasing budget allocations for child vaccination and Female TT and Rubella coverage; • Increasing number of doctors, nurses, and pharmacists; • Institutionalizing a system for tracking health expenditure and reporting on health sector performance; • Ensuring that the Health budget is targeted towards priority needs identified by a health sector strategy.	• Full national coverage with health centers maintained; • 115 centers rehabilitated/ equipped in poor areas by 2004; • Health expenditures increase (Baseline: 2.3 % of GDP in 2002, Target: 2.6%of GDP in 2004); • Increase number of doctors/nurses/ pharmacists (Baseline 20,862 in 2000, Target: 21,000 in 2004)] • Decree to institutionalize budget tracking and reporting system including system of health national accounts by 2005; • Adoption of Health Sector Strategy by end 2004; • Adoption of policy paper on decentralization of health services by end 2004; • Allocations for key public health programs raised by 12% in 2004 versus 2003; • 25% increase in primary health care in 2004; • Revised contract between TRHA and the HII signed including performance-based remunerations.	Full national coverage with health centers was maintained, and the quality of basic preventive/curative health services has been improved through the financing of construction/equipping of 115 centers in poor areas. Health expenditures increased from 2.3% of GDP in 2001 to 2.6% in 2004, which was a modest increase, but an achievement against a backdrop of overall fiscal contraction. The number of doctors/nurses/ pharmacists increased from 20,862 in 2000 to 21,092 in 2004. A system for budget tracking and reporting now exists (e.g., budget law and other guidelines issued by MoF), institutionalization of the budget tracking and a reporting system, such as a system of regular health national accounts, is still lacking. A Health sector strategy and a policy paper on decentralization of health services have been completed, and an action plan for implementation has also been finalized, supported by the Bank PRSC program. Adequate Government resources made available to support priority Public Health Programs. Contract between TRHA and the HII was revised; but did not include performance-based remuneration system.

31. **Outcome 3: Improving the sustainability and targeting of the social safety net.** Despite implementation delays, improved overall delivery of social services through demand-driven community-based services is being successfully piloted, while a policy paper on decentralization of social services was adopted in late 2004. A series of parametric reforms to the pension system supported by the PRSC program have contributed to improving the sustainability of the urban pension system. However, the pensions system (particularly the rural system) is not yet actuarially sound and its financial integrity is not yet ensured (Table 3.3).

TABLE 3.3: CAS02 OUTCOMES IN FOSTERING HUMAN RESOURCE DEVELOPMENT (Social Safety Net)

CAS02 OUTCOMES THE BANK EXPECTED TO INFLUENCE	INTERMEDIATE PROGRESS INDICATORS	RESULTS
3. THE SUSTAINABILITY AND TARGETING OF THE SOCIAL SAFETY NET WILL BE IMPROVED THROUGH: • Parametric reforms implemented to strengthen the financial sustainability of the pension system; • Improved financial sustainability of community-based services; • Improve performance and administrative efficiency of the Social Insurance Institute; • Improved targeting of Ndihme Ekonomike (NE); • Raise contributor-beneficiary ratio in social insurance system.	• Implementation of parametric changes as per agreed schedule; • Adoption of satisfactory policy for financing of community-based services in 2004; • Finalization of policy paper on decentralization of social services by 2004; • A work and investment program for Social Insurance Institute prepared and adopted in 2004; • Increase % of poor receiving NE [Baseline: 18.6% in 2002; Target 25% in 2005); • Raise contributor-beneficiary ratio in social insurance system (Baseline: 0.92 in 2001; Target: 1.15 in 2005).	A Pension Policy Package was enacted in May 2002, and the agreed upon schedule of parametric changes was implemented (excluding indexation). A satisfactory policy for sustainable financing of community-based services was adopted in September 2004 and a policy paper on decentralization of social services was adopted in late 2004. A 3-year work and investment program for the SII was adopted in May 2004. Targeting of NE has been substantially improved, with the Bank's FY05 Social Safety Net Review Study indicating 65.2% of recipients are poor. The contributor / beneficiary ratio of social insurance reached 1.08 in 2003 and 1.15 by 2005.

D. Overall Bank Performance

32. Overall, the Bank's performance is rated as ***Satisfactory***. Bank assistance to Albania was well aligned with key priorities identified in the country's NSSED. Through lending and non-lending interventions, the Bank advanced reforms in numerous sectors and did achieve tangible results and outcomes. It has also played a key role in donor coordination, as well as attracting co-financing in most of its projects and programs. The Government considers the Bank as a valued and trusted partner, particularly in policy formulation. The Bank has also built considerable credibility with stakeholders, including external partners, the Parliament, the business community, representatives of the local government and NGOs, as documented by successive client surveys.

33. The CAS02 employed an appropriate and effective mix of Bank instruments (development policy and investment lending as well as ESW/AAA) and achieved significant synergies between projects. For example, the PRSCs supported far-reaching institutional reforms in the social sector as well as the development of policies for delivery of social services while investment operations supported the upgrading of infrastructure and facilities within those sectors. Similarly linkages were also critical to successful outcomes in civil service reform and building of capacity in public financial management and accountability. However, while implementation of the CAS saw remarkable progress in fostering CDD projects (community works, fisheries, irrigation and drainage, *etc*.) that are now recognized as best practices in the ECA region and elsewhere, the small size and dispersion of such initiatives resulted in them having limited institutional impact. In these parts of the portfolio there was not substantial linkage between the 'top down' and 'bottom up' activities supported by the Bank.

34. There are other areas in which the Bank could have done more work, including promoting the private sector development agenda, and environmental sustainability. The lending/AAA program also did

not adequately address emerging issues such as those resulting from the rapid migration from rural areas. More coherence could also have been achieved in efforts to improve governance, by ensuring that sectoral governance consideration were mainstreamed into all lending/AAA products, and linked to top level reforms being supported by the PRSC program.

35. The quality of the Bank's project preparation, supervision and ESW was satisfactory.[14] While the proportion of the Bank's resources devoted to knowledge products was lower than the regional average, this allowed for enhanced supervision effort, which was appropriate in the Albanian context. At the outset of the new CAS lending program there are no problem or risky projects in the portfolio, due largely to the level of supervision effort.

36. ***Bank Performance – Objective I.*** Overall, the Bank's performance in strengthening governance and building institutions through CAS02 is judged as ***Satisfactory***. In addition to strategic ESW,[15] this pillar was directly supported by (i) the Public Administration Reform Project (PARP); (ii) the Legal and Judicial Reform (LJRP); and (iii) the Poverty Reduction Support Credit program of three adjustment credits (PRSCs). The mix of lending and AAA for support on governance and institutional building is judged to be appropriate. The Bank's projects and programs were informed by substantial core diagnostic work (such as the CFAA, PEIR and CPAR) that had been undertaken prior to the CAS02. Throughout implementation, the monitoring and evaluation built into the PARP provided many of the inputs required for public administration reforms. The Bank also supported the NSSED process through AAA on poverty analysis as well as guidance on the annual progress reports in 2003 and 2004.

37. The Bank's interventions in support of strengthening governance and building institutions, particularly with regard to elimination of corruption and support to decentralization, have not led to fully satisfactory outcomes due to numerous design and implementation factors and to unanticipated changes in the policy environment that delayed and/or halted some reforms. Particularly relevant factors included:

- Political commitment to the implementation of some laws lagged behind in areas such as improving the contestability of policy formulation, fighting corruption and procurement reforms. This contributed to perceptions of increased state capture in Albania;
- The institutional framework for implementing the Anti-Corruption Plan (ACP) and other governance reforms remained weak, and many public sector reforms suffered from internal capacity constraints;
- Some reforms in public financial management were delayed due to the delay in completing the modernization of the treasury system until 2006;
- The Bank's support for decentralization has not been comprehensive, and different projects have tackled the issue in an uncoordinated manner, despite the preparation of a comprehensive report on the subject;
- Selectivity in institution building across sectors, and within sectors, proved to be difficult despite the intentions of CAS02;
- Weak donor coordination and Government leadership delayed some reforms measures when Bank programs were designed on expectations of prior key reforms supported by other donors.[16]

[14] For projects exiting between FY97 and FY04, OED rated outcomes of 89% of the projects (by value) as satisfactory; 47% had substantial institutional development impact and 77% were considered to have likely sustainability.
[15] For example, the lessons learned from the 1997-02 institutional and governance reform program (covering anti-corruption measures, public administration, tax and customs and the legal and judicial system) were taken into consideration in the design of the CAS02.
[16] In other public sector reform programs, improved donor coordination facilitated the implementation of Bank' programs and provided additional flexibility. For instance, budget reallocations in the PARP were possible because

- The lack of broad sector approaches as a base for some investment lending operations has been an obstacle to achieving changes in policies outside the scope of these projects.[17]

38. ***Bank Performance – Objective II.*** Overall, the Bank's performance in supporting sustainable private sector growth is rated as ***Satisfactory.*** Focusing on this area of Albania's NSSED was appropriate, as confirmed by the Bank's FY04 CEM that outlined the critical importance of attracting private investments. However, while the Bank's support included a number of successful single operations that fully met their development objectives, the somewhat fragmented approach did not constitute a comprehensive private sector development strategy. The interventions of the Bank and other partners had limited success in leveraging structural reforms and produce a significant impact in private sector growth – with the exception of the financial and energy sectors. While the CAS did support a Rural Development Strategy (FY02), the broader private sector development agenda was not sufficiently supported by ESW, and the Bank's role in facilitating dialogue between the government and the private sector was limited. Finally, while the CAS emphasized that high growth depends on increasing exports, only limited analysis was carried out to assess the business environment and sectoral constraints to export development. This dearth of analytic work can be at least partly explained by the need for selectivity during the formulation of the CAS02.

39. Support to agriculture and rural development through pre-CAS02 and CAS02 operations has been innovative and effective.[18] Various operations have helped strengthen communities as the key constituencies to form a counterpart to the local governments and other related decision-makers (bottom-up CDD approaches) and resulted in tangible outcomes and results. Towards the end of the CAS period the Bank's focus has shifted to long-term local government capacity building through institutionalizing citizen participation in all phases of infrastructure investment with considerable tangible impacts. Bank support has adopted an "incremental approach" where sub-sector strategies have been developed during implementation of the projects through intensive policy dialogue and provision of technical assistance. The overall impact of the Bank's interventions on sectoral reforms and policy formulation remained limited, however, due to their small size, dispersion, and the lack of emphasis on institutional and policy change within the relevant line ministries. The environmental sub-sector has also fallen short of achieving substantial institutional and policy strengthening, in part due to the decision to delay the envisaged projects until the last year of CAS02.

40. Bank support to the energy sector has been highly satisfactory. CAS02 recognized the precarious power situation as a major threat to continued macroeconomic stability and sustained growth. It emphasized the importance of policy and institutional reforms necessary for improved sector performance, privatization and sustainability. The Bank financed and played a critical role in supervising a comprehensive Energy Sector Study during 2002, which served as the basis for an Energy Strategy, adopted by the GoA in 2003, as well as a basis for the power sector reforms and for power sector investment projects.[19] The Bank supported the preparation of a Power Sector Policy Statement providing

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of close cooperation with DFID and SIDA, who took over parts of financial management reform. Cooperation with UNDP and EU has also been good in the support of policy formulation processes.

[17] For instance, the reforms in the irrigation sub-sector had little impact the way government did its business.

[18] At the beginning of CAS02 projects under implementation included: Microcredit, Irrigation and Drainage II, Fishery, Forestry and Community Works. New operations under CAS02 included Water Resources Management Project, Natural Resources Management project, and Community Works II. A few important non-lending TA activities have also been identified to develop the policy dialogue into concrete action programs and supplement the on-going projects. These included the Rural Strategy and the Poverty Study (both in 2002) as well as the Participatory Budgeting Pilot and the decentralization study.

[19] Bank financing to the power sector included the Power Sector Rehabilitation and Restructuring and the Power Sector Generation and Restructuring Projects. Both projects addressed the most critical deficiencies in power infrastructure, which contributed to the crisis in the sector and its macroeconomic fallout.

the framework for sector restructuring, strengthening of the regulatory agency, creation of a new electricity market, and fulfillment of Albania's commitments under the Energy Community of South East Europe. The Bank was then actively involved in the development of the Action Plan, its annual updates, and in close monitoring of the achievement of the quarterly targets specified in the Action Plan. The synergistic combination of investment lending, sector dialogue and sector work was key for successful power sector reform, and the Bank has played a leadership role in donor coordination and the sector dialogue with the Government, and in facilitating co-financing by other donors.[20]

41. ***Bank Performance-Objective III.*** The Bank's performance in supporting the human development agenda is rated as ***Satisfactory.*** Despite relying to some extent on an overly optimistic timetable for improving extremely weak institutions, the Bank was able to achieve lasting outcomes and build the basis for further enhancements to service delivery. Wavering political commitment to reforms coupled with the political decision to decentralize responsibilities for service delivery quickly, in the absence of a coherent strategy for decentralization, did reduce impact, as did occasional sub-optimal donor coordination in the sector.[21]

42. A 2005 Client Assessment Survey also addressed the effectiveness of the Bank support in project preparation and implementation. Overall, Bank's stakeholders appreciate the technical expertise of the Bank in Project design and implementation. The results show marked improvements in perceptions of the Bank's effectiveness in 2004 compared to 2001. Stakeholders also rated bank non-lending services as very important, and indicated that the Bank's delivery of these services has been highly effective (Box 2).

E. LESSONS LEARNED – IMPLICATIONS FOR THE NEW CAS

43. Experience since 1991 through the preparation and implementation of three CASs points to some clear lessons for the design of future lending operations. The implementation of the CAS02 pointed to additional lessons to inform and improve the design of the new strategy. These include:

(i) ***Clear sector strategic frameworks should precede Bank financing***: The Bank's financial support should be directed towards sectors in which there is a clear strategy and manifest commitment of stakeholders to its implementation. The NSSED (PRSP) needs to be augmented by such sector strategies. Where such sectoral strategies do not exist, or ownership is lacking, the support of the Bank should be directed towards strengthening analysis, policy reform and strategy development through economic sector work;

(ii) ***Increased selectivity (fewer and larger projects and programs) in the assistance program:*** While the role of IDA in initiating reforms in almost all sectors was relevant in the early transition years and during crises, more selectivity is necessary in the new strategy. The lending portfolio of the Bank in the last CASs has been characterized by a large number of small projects, in almost all sectors, with a relatively large number of repeat operations. With around half of the Bank's direct budgetary resources allocated for project supervision, ESW has been crowded out and the analytic underpinnings of the Bank's work weakened. The Bank should resist pressures to become involved in more sectors;

(iii) ***Creation of long-lasting and effective institutions:*** A gradual shift from implementation of projects through autonomous Project Implementation Units (PIUs) towards implementation through regular administrative structures of government is warranted to ensure strengthening of the public administration, capacity building, and the sustainability of interventions;

[20] Cofinancing and parallel financing with EBRD, EIB, KfW and Italy supported the various energy projects as well as technical assistance support from a number of other bilateral donors.

[21] Some co-financiers failed to deliver support to key activities resulting in cancellation of some project components (e.g. the Health Reform Project).

(iv) ***Creating and crowding-in constituencies for changes:*** Change can be achieved and made more endurable by creating or crowding in stakeholders (e.g., with civil service reforms). By creating new categories of stakeholders with the real incentives to change not only their behavior but the behavior of other influential groups such as politicians;

(v) ***Governance should permeate all development interventions:*** Governance cannot be effectively addressed as a 'sector', but needs to be mainstreamed into sectoral interventions and into the detailed design of projects. Increased efforts to collaborate across sectors and maintain an overt focus on governance – especially on service delivery – is likely to achieve better outcomes;

(vi) ***Improved donor coordination require Government leadership:*** even with a PRSP, the Government needs to take an active role in the process of donor coordination, and in order for this to happen donors must be prepared to truly align their assistance to national priorities;

(vii) ***Adopt an outcome-oriented approach:*** Design new interventions with clear outcome targets and establish monitorable and realistic indicators in line with the national priorities;

(viii) ***Incorporate investment lending into Sector-Wide approaches:*** Some sector investment lending has had a narrow focus, which has not adequately addressed urgent needs for sector-wide change in policies, sector efficiency, corruption and transparency. Investment lending can have an important impact on budget formulation in line ministries if attention is paid to the usage of the government's own funds as well as those of the Bank. This implies that the sector assistance should depart from a 'project' approach towards a more sector wide and integrated approach;

(ix) ***Addressing fiduciary issues requires a systematic approach:*** Project-specific fiduciary controls can be effective in minimizing fiduciary abuses in Bank-funded projects but they fail to address broad fiduciary issues that undermine sustainable development. The Bank should take a more comprehensive approach to fiduciary safeguards in addition to project specific controls;

(x) ***More support to areas with high poverty rates:*** An analysis of the portfolio reveals a concentration in Central and Southern Albania. With the detailed poverty data now available highlighting the Northeast of Albania as the poorest area, the new CAS should place special emphasis on addressing the known profile of poverty.

ANNEX A: ALBANIA: CAS PLANNED LENDING PROGRAM AND ACTUAL DELIVERY

CAS Board Date: June 20, 2002 CAS Lending Scenarios, FY03-05 ($Mil.): **Base Case: $131.0m (see details below).** Low Case: $70.0m					
FY	**Project**	**IDA ($Mil.)**	**Project**	**Board Date**	**IDA ($Mil.)**
FY03	Municipal Water/Wastewater	15.0	Municipal Water/Wastewater	01/28/03	15.0
	Environment *	5.0	Community Works II	06/24/03	15.0
	Thermal Power I[22]*	20.0	Road Maintenance Supplement	06/26/03	13.0
	PRSC II	10.0			
	Subtotal	***50.0***	***Subtotal***		***43.0***
FY04	Transport	20.0	PRSC 2	07/10/03	18.0
	Community Works II *	10.0	Power Sector Generation and Restructuring	03/16/04	25.0
	Education III *	8.0	Water Resource Management	06/03/04	15.0
	PRSC III	10.0			
	Subtotal	**48.0**	***Subtotal***		***58.0***
FY05	Health III *	10.0	PRSC 3	12/07/04	10.0
	Rural Development/Water [23]*	8.0	Integrated Coastal Zone Management and Clean Up	06/21/05	14.0
	Agriculture/Irrigation III[24] *	8.0	Natural Resources	06/09/05	7.0
	Natural Resources	7.0	Energy Community of South East Europe APL	06/27/05	27.0
	Subtotal	***33.0***	***Subtotal***		***58.0***
	Total	**131.0**	**Total**		**159.0**

* Projects in the low case scenario

In addition to the above IDA credits, an Integrated Water/Ecosystem GEF project (US$ 4.87) was approved in FY04 and a Butrinti Global Bo-Diversity (GEF) of US$ 1.2 million was approved in FY05.

[22] This project has been renamed Power Sector Generation and Restructuring Project.
[23] This project has been named Integrated Coastal Zone Management Project.
[24] This project has been renamed Water Resources Management Project.

ANNEX B: PLANNED NON-LENDING SERVICES AND ACTUAL DELIVERY

FY	PLANNED NON-LENDING PROGRAM	ACTUAL DELIVERY OF NON-LENDING ASSISTANCE
03	▪ National Water Strategy; ▪ Privatization TA; ▪ PCF Early Childhood Dev. TA; ▪ Social Safety Net Review; ▪ Anti-Corruption TA; ▪ Poverty Assessment; ▪ Decentralization Study;	▪ Actual (delivered FY03) ▪ Actual (delivered FY04) ▪ Actual (delivered FY05) ▪ Actual (delivered FY05) ▪ Actual (delivered FY04) ▪ Actual (delivered FY03) ▪ Actual (delivered FY03)
04	▪ CEM: Competitiveness and sources of growth ▪ Rural Human Capital Development; ▪ Privatization (Private Strategy Program) TA; ▪ Roma Assessment Note; ▪ PCF Early Childhood Dev. TA ; ▪ Anti-Corruption TA;	▪ Actual (delivered FY04) ▪ Slipped ▪ Actual (delivered FY05) ▪ Actual (delivered FY04) ▪ Actual (delivered FY05) ▪ Actual (delivered FY04)
05	▪ Labor Market Assessment; ▪ Transport Study; ▪ Anti-Corruption TA; ▪ Public Expenditure Review; ▪ Health Sector Note; ▪ Debt Sustainability Analysis; ▪ Public Education; ▪ Private Sector Policy Note; ▪ An Assessment of the Legal and Regulatory Environment for Civil Society Engagement; ▪ Agriculture Stat. Capacity Bldg TA; ▪ Fiscal Decentralization (IDF grant).	▪ Actual (delivered FY05) ▪ Slipped ▪ Dropped ▪ Ongoing (delivery FY06) ▪ Actual (delivered FY05) ▪ Actual (delivered FY05) ▪ Actual (delivered FY05) ▪ Actual (delivered FY05) ▪ Actual (delivered FY05) ▪ Actual (delivered FY05) ▪ Ongoing

ANNEX C: RETROFITTING 2002 CAS OUTCOMES INTO THE RESULTS-BASED FRAMEWORK

COUNTRY LEVEL GOALS		OUTCOMES INFLUENCED BY THE CAS		BANK SUPPORTED INTERVENTIONS & PARTNERSHIPS
HIGH ORDER COUNTRY OUTCOMES	RELATED DEVELOPMENT CHALLENGES	CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE / OUTCOME LEVEL & INDICATORS	INTERMEDIATE PROGRESS INDICATORS	
IMPROVING GOVERNANCE & STRENGTHENING INSTITUTIONS • Strengthen public administration and professionalize civil service; • Strengthen policymaking and inter-institutional coordination; • Improve the wage system.	• Weak public institutions are unable to keep pace with Albania's economic transformation and to plan and prioritize programs and projects. • Responsibility for service delivery among central and local governments is not clarified.	**MANAGEMENT OF PUBLIC EXPENDITURE IS STRENGTHENED THROUGH:** • Improved policy formulation capacity; • Reduced opportunities for corruption in public administration; • Use of the GPRS as a basis for developing the MTEF. • Use of the MTEF to allocate the budget and widen its coverage; • Improved capacity of MoF to assess fiscal impact of new projects and laws; • Increased understanding of responsibilities between central and local governments.	• Enactment of the Law on Organization and Functioning of the Council of Ministers and the Law on Ethics in Public Administration and effectiveness of the new tax reform law; • MTEF is developed based on the GPRS priorities and used as primary source for annual budgets. • Approval of National Training Strategy for Local Government and setting of a Training Agency; • Regulations established for fiscal autonomy of local governments with identification of revenue sources for local governments and definition of responsibilities for common and shared functions; • Revised 2002 provisional formula for allocation of unconditional transfers to the local governments.	**EXISTING PORTFOLIO (END FY02):** ***Lending/Grant:*** Public Administration Reform (FY00); Tirana Transparency (FY01) projects. ***ESW/AAA:*** CPAR (FY01); PEIR (FY01); CFAA (FY02); Anti-Corruption TA (00-02) **INTERVENTIONS IN 2002 CAS:** ***Lending/Grant:*** Poverty Reduction Support Credits (FY03), II (FY04), III (FY05); Participatory Budgeting Pilot initiative; PRSP Trust Fund Grant. ***ESW/AAA:*** Anti-Corruption TA (03-05); Fiscal Decentralization Study (FY03); **Partners:** EU, OSCE, DfID, UNDP, and SIDA.
• Strengthen public administration and professionalize civil service; • Increase capacity, transparency, accountability	• Weak governance, corruption and state capture impede economic growth by deterring private investment. • Civil service has	**CORRUPTION IN GOVERNMENT IS REDUCED THROUGH:** • Reduced political interference in hiring and firing of civil servants; • Strengthened systems for public accountability; • Increased public interest and participation in local government.	• All Civil Service positions are advertised (and regularly tracked); • Increased competitive filling of civil service positions (Baseline: 52% in 2001; Target: 75% in 2004); • Reduced contractual services in the civil service (Baseline: 16% in 2001; Target: 1% in 2004); • Increased coverage of CS performance evaluations (Baseline: 0% in 2001; Target: 75% in 2003);	**EXISTING PORTFOLIO (END FY02):** ***Lending/Grant:*** Public Administration Reform (FY00); Legal and Judicial Reform (FY00); Tirana Transparency – Dutch grant (FY01) projects. ***ESW/AAA:*** PEIR (FY01); CFAA (FY02). **INTERVENTIONS IN 2002 CAS:**

COUNTRY LEVEL GOALS		OUTCOMES INFLUENCED BY THE CAS		BANK SUPPORTED INTERVENTIONS & PARTNERSHIPS
HIGH ORDER COUNTRY OUTCOMES	RELATED DEVELOPMENT CHALLENGES	CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE / OUTCOME LEVEL & INDICATORS	INTERMEDIATE PROGRESS INDICATORS	
and participation in local government.	been highly politicized, inefficient and non-attractive for competent cadres.		• Application of the Civil Service Law (CSL) extended to cover tax and custom administration; • Enforced code of ethics and income/asset declarations; • Adoption of new laws on internal audit and procurement.	PRSCs (FY03, FY04, FY05); Participatory Budgeting Pilots; ***ESW/AAA:*** Anti-Corruption TA (03-05); Fiscal Decentralization Study **Partners:** EU, DfID, UNDP, USAID, SIDA, Urban Inst.
• Improve quality of legislative process and capacities in the system; • Increase quality of legal education particularly EU related; • Ensure effective operation of legal and judicial systems and combat of crime.	• Capacity and training of judges, prosecutors is weak; • Law enforcement is weak and uneven; • Confidence in the legal and judicial system is poor and deteriorating; • Knowledge of EU laws, standards and regulations is weak.	**EFFECTIVENESS OF THE JUDICIAL SYSTEM IS INCREASED THROUGH:** • Improved enforcement of judicial decisions in civil cases; • Greater transparency in the legal and judicial system; • Improved capacity and knowledge of judges and prosecutors; • Stronger role of the Ministry of Justice (MoJ) in policy making and legal drafting; • Improved effectiveness of court administrators; • Improved learning outcomes of students of the Faculty of Law (FoL).	• Training provided to bailiff officers; • 60% enforcement rate of judicial decisions in civil cases; • A State Publication Center is fully operational and an electronic database accessible on the Internet; • Completion of a comprehensive training program for judges and prosecutors; • Permanent training program for court administrators in Magistrates' School; • Judicial Inspection Office established and fully operational; • A transparent court and case administration system is implemented in at least 4 courts. • Law Reform Commission set at MoJ; • Blind admission testing in FoL.	**EXISTING PORTFOLIO (END FY02):** ***Lending/Grant:*** Legal and Judicial Reform (FY00); Public Administration Reform (FY00) projects. **INTERVENTIONS IN 2002 CAS:** Poverty Reduction Support Credits (FY03), II (FY04), III (FY05); ***ESW/AAA:*** Anti-corruption Technical Assistance. **Partners:** EU, USAID, DANIDA, DfID, UNDP, and SIDA.
PROMOTING SUSTAINABLE PRIVATE SECTOR GROWTH	• Cost of doing business is high due to lengthy procedures and corruption; • No specialized	**THE FACILITATING ENVIRONMENT FOR INVESTMENT, PRODUCTION AND EXPORT BY THE PRIVATE SECTOR IS IMPROVED THROUGH:**	• Complete Study on Administrative Barriers to Investment and develop Action Plan; • Evidence of implementation of Administrative Barriers action plan.	**EXISTING PORTFOLIO (END FY02):** ***Lending/Grant:*** Private Industry Recovery (FY98); Financial Sector Institution Building TA (FY01) projects.

COUNTRY LEVEL GOALS		OUTCOMES INFLUENCED BY THE CAS		BANK SUPPORTED INTERVENTIONS & PARTNERSHIPS
HIGH ORDER COUNTRY OUTCOMES	RELATED DEVELOPMENT CHALLENGES	CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE / OUTCOME LEVEL & INDICATORS	INTERMEDIATE PROGRESS INDICATORS	
• Real GDP to increase by 18-21% & inflation at 2-4% by end of the GRPS.	commercial judicial system; • Poor and inconsistent enforcement of laws and contracts; • Difficult access to land & poor application of tax and custom laws.	• Reduced administrative barriers to investors' entry; • Improved accounting standards; • Improved legal framework and alternatives for resolving commercial disputes;	• Enact a new modern accounting law based on international standards; • Business plan for the Bank Asset Resolution Trust portfolio completed; • Establishment and functioning of an Alternate Dispute Resolution Center to resolve commercial disputes outside courts.	**INTERVENTIONS IN 2002 CAS:** Poverty Reduction Support Credits (FY03), II (FY04), III (FY05); ***ESW/AAA:*** FIAS Study on Administrative Barriers (FY03). **Partners**: IMF, FIAS, SEED, IFC, MIGA, GTZ, USAID, SOROS, EBRD, EIB, and EU.
• Improve and increase access to credit for private sector and ensure financial stability.	• The Banking sector is still perceived as risky, resulting in a large cash economy; • Large state ownership in the financial sector; • Financial intermediation is weak and access to credit is constrained; • Limited financial products.	**A STRENGTHENED FINANCIAL SECTOR SUPPORTING ROBUST PRIVATE SECTOR GROWTH THROUGH:** • Increased financial intermediation and extension of credit to the private sector; • Better financial regulation and prudent controls; • Liberalized financial markets and reduced government ownership in the sector; • Improved availability and reliability of other financial services such as insurance; • Development of non-bank financial institutions.	• Increase credit to the private sector by 30% per annum; • Progressively introduce payment of public sector wages through banking system; • Implementation of a large value (RTGS) payment system; • Satisfactory banking regulations adopted and enforced by BoA; • Implementation of the Supervisory Development plan and introduction of risk-based supervision; • Establishment of a Deposit Insurance Fund; • Complete privatization of Savings Bank and INSIG. • Establishment of Insurance Regulator.	**EXISTING PORTFOLIO (END FY02):** ***Lending/Grant:*** Recovery Program Technical Assistance (FY98); Financial Sector Institution Building TA (FY00); Financial Sector Adjustment Credit (FY02); and Microcredit (FY99) projects. **INTERVENTIONS IN 2002 CAS:** Poverty Reduction Support Credits (FY03), II (FY04), III (FY05). **Partners**: IMF, USAID, EBRD, and IFC.
• Strengthen environmental institutions and legal framework; • Improve	• Capacities for sustainable use of resources are limited; • Soil erosion, deforestation,	**IMPROVED ENVIRONMENTAL CONDITIONS AND MORE SUSTAINABLE USE OF NATURAL RESOURCES THROUGH:** • Reduced illegal logging of forests;	• Reduction in illegal logging by 10% in 2002; 20% in 2003 and 20% in 2004; • Rehabilitation of 5,000 ha of forests and 200 ha of pastures; • Protected areas increased from 6% of	**EXISTING PORTFOLIO (END FY02):** ***Lending/Grant:*** Forestry (FY97); Irrigation and Drainage II (FY99); Pilot Fishery Development (FY02) projects.

COUNTRY LEVEL GOALS		OUTCOMES INFLUENCED BY THE CAS		BANK SUPPORTED INTERVENTIONS & PARTNERSHIPS
HIGH ORDER COUNTRY OUTCOMES	RELATED DEVELOPMENT CHALLENGES	CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE / OUTCOME LEVEL & INDICATORS	INTERMEDIATE PROGRESS INDICATORS	
sustainable use of resources and reduce pollution.	severe environmental degradation, and heavy pollution threaten rural development and poverty alleviation.	• Increased land area defined as 'Protected Area'; • Better enforcement of environmental regulations; • The integration of environmental considerations into sectoral policies; • Reduction of sewerage pollution in major cities and urban areas; • Eliminate arsenic contamination from Fier Nitrogen Plant; • Initiation of work to clean 3 environmental "Hotspots" to international standards.	total surface area in 2002 to 15% by end of 2004; • Set up an Environmental Inspectorate; • Increase in number of environmental inspections and sanctions; • Update National Environmental Action Plan (NEAP) by end 2002; • Contracting of work for a wastewater treatment plant hazardous waste landfill at Ballsh Refinery; • Complete feasibility studies for sewage treatment plant in Pogradec in 2005 and wetlands in Durres, Lezhe & Saranda; • Complete feasibility studies for remediation at 3 'hotspots' by FY04.	***ESW/AAA :*** National Environmental Action Plan TA Support (FY01); **INTERVENTIONS IN 2002 CAS:** Water Resources Management (FY04); Municipal Water and Wastewater (FY03); Natural Resources Management (FY05); Integrated Coastal Zone Management (FY05) projects. **Partners**: DFID, EU, Norway, CIDA, UNEP, SIDA, and IFAD.
• Agricultural growth rate of 5% during GRPS; • Improve Rural Infrastructure and Raise Rural Incomes; • Improve Management of Natural Resources; • Facilitate non-Farm Development; • Promote Rural Human	• Wide spread poverty, low productivity and high unemployment and underemployment • Access to markets, credit and basic services is difficult;	**IMPROVED RURAL PRODUCTIVITY AND HIGHER INCOMES IN RURAL AREAS THROUGH:** • A better functioning rural land market; • Restructured extension services and liberalization of seed trading (Indicator – breeder seed production increase in each research station). Adoption of international standards and certification of seed quality; • Increased sustainable exploitation of fish resources trough strengthening of the community based management of fishery resources;	• Establishment of a business plan for immovable property registration; • Reduction in time and cost to register land (Baseline: 2 days in 2002: Target 1 day in 2004); • Progress towards first time registration of rural cadastral zones (Baseline 70% in 2002: Target 87 % by 2005); • Increase in annual property registrations (Baseline: 14,000 in 2002: Target, 20,000 by 2004); • Seed certification process established and multiplication and trade are fully private sector based; • Enactment of laws and regulations specifying international seeds standards;	**EXISTING PORTFOLIO (END FY02):** ***Lending/Grant*** Community Works I Project (FY99); Irrigation and Drainage II Project (FY99); Microcredit Project (FY99); Pilot Fishery Development Project (FY02); Agricultural Services Project (FY01); **INTERVENTIONS IN 2002 CAS:** PRSCs (FY03, FY04, FY05); Community Works II (FY03); Water Resources Management (FY04) projects.

COUNTRY LEVEL GOALS		OUTCOMES INFLUENCED BY THE CAS		BANK SUPPORTED INTERVENTIONS & PARTNERSHIPS
HIGH ORDER COUNTRY OUTCOMES	RELATED DEVELOPMENT CHALLENGES	CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE / OUTCOME LEVEL & INDICATORS	INTERMEDIATE PROGRESS INDICATORS	
Development; • Reduce unemployment from 14% in 2001 to 12% in 2004.		• Increased efficiency and coverage of irrigation and drainage by transferring management to community groups; Increased bank lending to rural areas; • Improved access to agricultural markets; • Increase of non-farm activities in rural areas (increase of share of non-farm income to total rural income) • Establish Water User Associations (WUAs).	• Freshwater aquaculture introduced into 70 irrigation reservoirs by 2005; • Set up Fishery Management Organizations (Baseline: 0 in 2002, Target: 5 by 2004); • Contracts signed for rehabilitation of ports in Vlora and Saranda; • WUAs established and responsible for management of irrigation schemes (Targets: 60% coverage in 2004 rising to 100% by 2006); • Annual revenues of Lushnja market rise 50% to US$ 30,000 by 2004; • Set survey to determine share of non-farm income/total rural income.	***ESW/AAA:*** Poverty Assessment (FY03); Roma Social Assessment (FY04); **Partners**: IFAD, FAO, The Netherlands, Italy, Switzerland, SIDA, USAID, EU, OPEC, Islamic Bank, ECHO, and GTZ.
• Improve the management and performance of the power sector.	• Poor infrastructure lowers the marginal productivity of private capital. • Bottlenecks in power, water and roads constraint the development of private sector and economic growth. • Poor collections for electricity and over-reliance on hydropower create macro-economic risks.	**REDUCED MACROECONOMIC RISKS ASSOCIATED WITH THE ENERGY SECTOR AND IMPROVED RELIABILITY OF POWER SUPPLY THROUGH:** • Reduced load shedding in the energy sector; • Reduced energy import subsidy to KESH (Baseline 22 US$ mn in 2002, Target: 0 in 2005) • Implementation of the first phase of the energy sector reform plan.	• Power losses reduced to 42% in 2002 and to the targets indicated in the Action Plan for 2003/04; • Bill collection increased to 90% in 2002 to the levels agreed in the Action Plan for 2003/04; • Number of consumers without meters reduced in accordance with the levels in the updated Action Plan for 2003 and 2004; • Establishment of Transmission System Operator, develop a Transitional Market Model; • Implement an energy subsidy scheme to protect poor from effects of price rise.	**EXISTING PORTFOLIO-END FY02:** ***Lending/Grant:*** Power Transmission and Distribution Project (FY97); Power Sector Rehabilitation and Restructuring Project (FY02) **INTERVENTIONS IN 2002 CAS:** PRSCs (FY03, FY04, FY05); Power Sector generation and Restructuring (FY04); Energy Community of South East Europe APL (FY05). ***ESW/AAA:*** Poverty Assessment (FY03). **Partners**: IFC, EU, Italy, EBRD, and EIB, KUWAIT Fund.

COUNTRY LEVEL GOALS		OUTCOMES INFLUENCED BY THE CAS		BANK SUPPORTED INTERVENTIONS & PARTNERSHIPS
HIGH ORDER COUNTRY OUTCOMES	**RELATED DEVELOPMENT CHALLENGES**	**CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE / OUTCOME LEVEL & INDICATORS**	**INTERMEDIATE PROGRESS INDICATORS**	
• Rehabilitate existing transport infrastructure networks; • Commercialize transport services and privatize State services; • Raise public spending on transport and communication		**MORE EFFICIENT OPERATIONS AND MANAGEMENT, AND IMPROVED STRATEGIC PLANNING, OF TRANSPORT AND WATER INFRASTRUCTURE THROUGH:** • Restructuring of the National Road Administration; • Construction and rehabilitation of national and rural roads; • Improved transport infrastructure at border points; • Introduction of private sector participation into the management and operation of water and wastewater operations in four large cities;	• Introduction of operational pavement management system; • Competitive contracting out of road maintenance; • Increased community participation in the maintenance of community road networks; • Introduction/compliance with roads standards; • Construction/rehabilitation of 1,000 km of rural roads by 2007; Construction/rehabilitation of 1,300 km of national roads by 2007; • Construction/rehabilitation of 2 border crossings; • Engagement of private operators in 4 cities through management contracts by 2004.	**EXISTING PORTFOLIO -END FY02:** ***Lending/Grant:*** Community Works I (FY99); National Roads (FY96); Emergency Road Repair (FY00); Road Maintenance (FY02); Durres Port Rehabilitation (FY98); TTFSE (FY01); Water Supply Urgent Rehabilitation (FY00) projects. **INTERVENTIONS IN 2002 CAS:** PRSCs (I, II, III); Road Maintenance Supplemental (FY03); Municipal Water and Wastewater (FY03); Community Works II (FY03) projects. ***ESW/AAA:*** National Water Strategy (FY03); **Partners**: IFC, EU, Italy, EBRD, and EIB, KUWAIT Fund.
• Improve access to urban infrastructure and guarantee land ownership rights.	• Difficult access to urban infrastructure; • Land ownership rights are not guaranteed, constraining housing market is not developed.	**IMPROVED ACCESS OF THE POOR TO URBAN INFRASTRUCTURE THROUGH:** • Improved planning of urban infrastructure; • Construction of essential infrastructure in under-serviced urban areas; • Regularization / legalization of informal dwellings in peri-urban areas in Tirana and register 1,000 families in informal settlements.	• Construction of basic infrastructure in 19 neglected/under-serviced areas; • Adoption of Infrastructure Management Plan for Greater Tirana by the National Council of Territory Adjustment; • Enactment of Law on Legalization of the Illegal Settlement; • Registration of 500 family houses and surrounding lands in informal settlements by 2004 (Baseline: 0, Target 1000 families).	**EXISTING PORTFOLIO - END FY02:** ***Lending/Grant:*** Urban Land Development Project (FY98); ***ESW/AAA:*** Qualitative Poverty Assessment (FY01); **FY03-05 CAS INTERVENTIONS:** Poverty Reduction Support Credits; ***ESW/AAA:*** Poverty Assessment (FY03); Roma Social Assessment (FY04); National Water Strategy (FY03); **Partnerships**: USAID, KfW, EU, OSCE, and Italy.

COUNTRY LEVEL GOALS		OUTCOMES INFLUENCED BY THE CAS		BANK SUPPORTED INTERVENTIONS & PARTNERSHIPS
HIGH ORDER COUNTRY OUTCOMES	RELATED DEVELOPMENT CHALLENGES	CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE / OUTCOME LEVEL & INDICATORS	INTERMEDIATE PROGRESS INDICATORS	
FOSTERING HUMAN DEVELOPMENT • ***MDG 2***: Achieve universal primary education by 2015; • ***MDG 3***: Promote Gender Equality and Empower Women (Eliminate gender disparities in basic education by 2005 and in other levels by 2015).	• Enrolment rates, which were universal at transition, are deteriorating. • Lack of clear strategic approach to education management. • Low levels and poor efficiency of public spending on education. • Poorly defined responsibilities and revenues sources between the national and local level. • Very weak capacities in the local level.	**IMPROVED EDUCATIONAL OUTCOMES THROUGH;** • Raising public education spending as a percent of GDP • Increasing education attainment by increasing average schooling; • Increasing enrollment in year 8 education; • Increasing enrolment in secondary education • Introducing curriculum reforms to improve education quality; • Reducing number of pupils per teaching personnel; • Reduce no of teachers without adequate education • Better monitoring of performance of the education sector.	• Benchmarks on educations spending; • Net Enrollment Rates (NER) in year 8 increased to 92% in 2003; • NER for secondary education increased to 46%% in 2003; • Adopt new textbook policy and introduce free textbooks for basic education; • Number of pupils per teacher declines to 18 in 2004; • No of teacher not meeting minimum qualifications reduced to 15% (Primary) and 4% (Secondary) by 2004; • First Annual Education Performance Report published in 2004; • MoES regularly publishes data showing progress in meeting targets for gross enrollment.	**EXISTING PORTFOLIO (END FY02):** ***Lending/Grant:*** Education Reform Project (FY00). ***ESW/AAA:*** Qualitative Poverty Assessment (FY01); PEIR (FY01). **INTERVENTIONS IN 2002 CAS:** PRSCs (FY03, FY04, FY05). ***ESW/AAA:*** Poverty Assessment (FY03); Fiscal Decentralization Study (FY03); Education: Poverty & Social Impact Analyses (FY05); Roma Social Assessment (FY04); **Partnerships:** Italian Cooperation, SOROS Foundation, GTZ, and OPEC.
• Poverty rate reduced from 46.6% to 38% and extreme poverty from 17.4% to 14% by 2004; • Strengthen the Social Safety Net	• 25% of population is poor and 5% are extremely poor; • Access to basic social services is difficult and costly; • Social services are poor and not well targeted.	**THE SUSTAINABILITY AND TARGETING OF THE SOCIAL SAFETY NET WILL BE IMPROVED THROUGH;** o Parametric reforms implemented to strengthen the financial sustainability of the pension system; o The financial sustainability of community-based services will be improved; • Improve performance and administrative efficiency of the	• Implementation of parametric changes as per agreed schedule; • Adoption of satisfactory policy for financing of community-based services in 2004; • Finalization of policy paper on decentralization of social services (by 2004); • A work and investment program for Social Insurance Institute prepared and adopted by end of 2004; • Increase % of poor receiving NE [Baseline 18.6% in 2002, Target	**EXISTING PORTFOLIO -END FY02** ***Lending/Grant:*** Social Services Dev. Project (FY01); ***ESW/AAA:*** Qualitative Poverty Assessment (FY01); PEIR (FY01). **INTERVENTIONS IN 2002 CAS:** PRSCs (FY03, FY04, FY05); ***ESW/AAA:*** Poverty Assessment (FY03); Fiscal Decentralization Study (FY03); Roma Social

COUNTRY LEVEL GOALS		OUTCOMES INFLUENCED BY THE CAS		BANK SUPPORTED INTERVENTIONS & PARTNERSHIPS
HIGH ORDER COUNTRY OUTCOMES	RELATED DEVELOPMENT CHALLENGES	CAS OUTCOMES THE BANK EXPECTED TO INFLUENCE / OUTCOME LEVEL & INDICATORS	INTERMEDIATE PROGRESS INDICATORS	
		Social Insurance Institute; • Improved targeting of Ndihme Ekonomike (NE); • Raise contributor-beneficiary ratio in social insurance system	25% in 2005); • Raise contributor-beneficiary ratio in social insurance system (Baseline: 0.92 in 2001, Target 1.15 in 2005).	Assessment (FY04); Social Safety Net Review (FY05); Labor Market Review (FY05); **Partnerships:** DFID, British Council, EU.
• ***MDG 4***: Reduce Child mortality by two thirds by 2015; • ***MDG 5***: Improve maternal Health (reduce maternal mortality by ¾ by 2015); • ***MDG 6***: Combat HIV/AIDS and other diseases (halved by 2015)	• GPRS emphasizes the strong links between poor health, low education and poverty; • Declining life expectancy and rise in infant mortality in addition to new chronic diseases; • High morbidity and mortality from road accidents.	**IMPROVED ACCESSIBILITY AND QUALITY OF PREVENTATIVE/CURATIVE HEALTH SERVICES THROUGH:** • Increasing the proportion of the country covered by health centers, especially in poor areas; • Financing rehabilitation and equipment for health centers, particularly in poor areas; • Increased public financing of health services; • Increasing budget allocations for child vaccination and Female TT and Rubella coverage; • Increasing number of doctors, nurses, and pharmacists per 1,000 inhabitants; • Institutionalizing a system for tracking health expenditure and reporting on health sector performance; • Ensuring that the Health budget is targeted towards priority needs identified by a comprehensive health sector strategy.	• Full national coverage with health centers maintained; • 115 centers rehabilitated/equipped in poor areas by 2004; • Health spending increase (From 2.3 % of GDP in 2002, to 2.6% in 2004); • Increase number of doctors/nurses/ pharmacists (Baseline 20,862 in 2000, Target: 21,000 in 2004)]; • Decree to institutionalize budget tracking and reporting system and health national accounts by 2005. • Adoption of Health Sector Strategy in 2004; • Adoption of policy paper on decentralization of health services by end 2004; • Allocations for key public health programs raised by 12% in 2004; • 25% increase in primary health care in 2004; • Revised contract between TRHA and the HII signed including performance-based remuneration system.	**EXISTING PORTFOLIO -END FY02:** ***Lending/Grant:*** Health Recovery Project (FY98) ***ESW/AAA:*** Qualitative Poverty Assessment (FY01); PEIR (FY01). **INTERVENTIONS IN 2002 CAS:** Poverty Reduction Support Credits (FY03), II (FY04), III (FY05). **ESW/AAA:** Poverty Assessment (FY03); Fiscal Decentralization Study (FY03); Roma Social Assessment (FY04); Health Sector Policy Note (FY05). **Partnerships:** WHO and Italian Cooperation, DFID and CIDA.

ANNEX 3: IFC STRATEGY IN ALBANIA, FY06-FY09

1. IFC'S ACTIVITIES TO DATE

As of September 2005, IFC has committed about US$ 125 million in Albania, allocated to the financial sector (7%), general manufacturing (37%), infrastructure (33%), and oil and gas (23%). In the current portfolio, IFC has committed US$ 69 million and has mobilized about US$ 6 million as syndicated loans in 6 projects. IFC's disbursement factor is very high-about 90% of total commitments. In terms of IFC's committed portfolio per capita, Albania ranks the fourth in the ECA region.

2. IMPLEMENTATION OF THE PAST CAS

The World Bank's Country Assistance Strategy for Albania, approved in May 2002, outlined the following IFC's strategic priorities: (i) strengthening the financial sector; (ii) supporting SME development; (iii) acting as a catalyst in key privatizations; and (iv) providing support for private sector investments in infrastructure. Overall, IFC has achieved good results during the last CAS period, supporting private sector development through direct investments and donors-funded technical assistance programs. During FY02-05, IFC has committed US$ 66 million, or about 95% of current portfolio projects. In addition, IFC has completed or is in the process of implementing 9 technical assistance projects focusing on institutional and capacity building in the financial sectors including insurance, leasing, access to information for SMEs, preparation of domestic companies for EU accession, administrative barriers to FDI and housing finance. Slow privatization in infrastructure, corruption, corporate governance issues and reputation risks, however, have limited IFC to act as a catalyst in privatization of strategic sectors and related investment program in infrastructure, as well as in financing projects with local sponsors.

During FY03-05 IFC has financed, in coordination with the EBRD, three projects in insurance, manufacturing, and telecom sectors:

- In 2003, IFC acquired 20% stake of INSIG, one of Albania's leading insurers. During the second stage, with the assistance of the IFC and EBRD, the Government of Albania will complete the full privatization of INSIG by divesting its remaining stake and relinquishing its controlling interest to a reputable technical partner;
- In 2003, IFC has also committed € 42.5 million (€ 7.5 million syndicated loan through local banks), to support further development of the second nationwide digital GSM cellular network in Albania, which is owned and operated by Vodafone Albania. The project is expected to increase competition, lower costs, and provide approximately 95% of the population with the ability to access Vodafone Albania's mobile telecommunications network by the end of 2005;
- In 2005, IFC signed a US$ 130 million project to establish a new modern production line in Fushe Kruja Cement Factory, with aggregate annual cement capacity of 1.3 million tons. The project will reduce Albania's dependence on imported cement, enhance the domestic market for construction materials and facilitate rapid reconstruction and development of Albania's infrastructure. IFC has committed US$ 30 million from its own account. The financing represents the largest foreign direct investment in Albania's manufacturing sector since the country's transition to a market economy in the early 1990s.

Most of IFC's technical assistance program in Albania is delivered through its Southeast Europe Enterprise Development (SEED) facility. During FY03-05, SEED activities in Albania included:

- Addressing some of the crippling problems of SME financing through the development of, and advocacy for, new financing solutions. A law on financial leasing was introduced in 2005 which has

proved to be a valuable financial tool to supplement conventional lending to SMEs. In addition, a large Housing Finance TA program is being developed for the region, including Albania;
- Working in supply chains has led to the introduction of international food safety standards at the company level to add to the work on the distribution chains currently operating in the country;
- Strengthening the ability of business associations to successfully advocate for regulatory changes that affect the business enabling environment. SEED helped to introduce the Business Advisory Council as a leading voice in the public-private dialogue;
- Build awareness about the importance of implementing EU standards and systems as well assisting export-oriented SMEs to implement them;
- Helping SMEs cut through judicial red tape and reduce the cost of litigation, SEED introduced Alternative Dispute Resolution (ADR) mechanisms in the region including in Albania.

In 2002, the Foreign Investment Advisory Service (FIAS) conducted a study of the administrative barriers to investment. The study included detailed policy and institutional recommendations, which were incorporated in an Action Plan on Removing Administrative Barriers to Investors approved by the Council of Ministers in August 2003. A high-quality self-assessment report, made available by the Government in March 2005, provided evidence of progress, but also identified remaining gaps and challenges to improve the regulatory business environment. FIAS is currently involved with assisting the Government to broaden regulatory and institutional capacity for reforms.

3. IFC STRATEGY DURING FY06-FY09

Development constraints: At an average annual growth rate of more than 6% per year over the past decade, Albania's performance has been impressive. Yet, there are concerns about the sustainability of high rates of economic growth in the future. The total factor productivity growth has slowed in recent years, and thus future economic growth will depend in a major way on the contribution of the private sector in capital accumulation. Remittances do not constitute a solid basis for long-term economic development and export-driven growth expansion is not taking place. In addition, the government has a limited fiscal space and donor-provided funds cannot fill the investment needs in infrastructure. So far, FDI has been among the lowest in the region.

The domestic market is small, domestic credit to enterprises is limited and the bulk of financing is short term up to 1-year maturity. Entrepreneurs often lack much of the expertise needed for a modern market economy. Corruption is high and the judiciary lacks experience with commercial disputes, and there is poor law enforcement. Now that the country has made significant progress on macroeconomic stabilization, policy issues affecting fair competition are among the most significant impediments to private sector development. Underdeveloped infrastructure sector is holding back the private sector growth, including in sectors with huge potential for growth such as in tourism.

IFC's Objectives: In this environment, there is a clear role for the IFC to play in Albania through promoting private sector development (one of the two pillars of the current CAS). However, given the difficult business environment, close coordination with the Bank and building on the Bank's efforts to address many of the constraints is even more important. IFC's development objectives in Albania during the current CAS (FY06-FY09) are to:

(i) facilitate privatization of strategic sectors and promote private sector investments in infrastructure sectors through PPP - in close cooperation with the Bank;
(ii) facilitate financial intermediation through introduction of new financial products in the market;
(iii) promote external competitiveness of the economy through promotion and support to local export-oriented companies to become more competitive in the regional market;
(iv) improve investors' confidence and help increase foreign investment flows;

(v) contribute to reducing petty corruption through facilitating outsourcing of services from public to private sector;
(vi) promote market liberalization through encouraging fair practices and effective competition and discouraging monopolistic behaviors.

IFC's strategy targets a broad range of sectors such as financial markets, telecommunications, infrastructure, social sectors, tourism, and general manufacturing. IFC support will include technical assistance and advisory services components aimed at improving the investment climate and promoting private sector development particularly in drafting legislation and advising on strategic privatizations.

In the past, close IDA-IFC cooperation has been instrumental in helping Albania move forward and achieve impressive results with financial sector privatization. Further collaboration and effective cooperation between IFC and the Bank will be important for the WBG to play a catalytic role in key privatizations of strategic sectors and infrastructure development and in implementation of a regulatory framework enabling sound market competition.

3.1. Manufacturing and Corporate Sector

Manufacturing remains a priority for IFC operations in Albania. This sector is one of the potential engines of growth in Albania, as well as other Balkan countries, as became evident from the recent globalization trends and the shift of manufacturing activities towards developing countries. Manufacturing sector is likely to attract increasing levels of FDI and in turn will enhance transfer of technology, modern management, corporate governance, and innovative logistical methods. Albania is expected to improve its competitiveness to attract FDI into the sector not only because of its labor cost advantages but also because of the expected improvements in the business environment and political stability.

IFC's strategic objective is to support competitive export-oriented and/or import-substitution companies through post-privatization support and through improved access to finance for SMEs. IFC will facilitate FDI in Albania through debt and equity investment with strategic partners, particularly when a greenfield project is envisaged. IFC will support post-privatization restructuring in key sectors such as export-oriented companies in agribusiness/food processing and light industry and construction materials. IFC will continue to play an important role in improving corporate governance, environmental standards and sharing best practices.

Export promotion is vital for future economic growth and reduction of the large trade deficit. One area in which IFC and the Bank would jointly explore is the possibility of turning the numerous industrial sites that were previously owned by state enterprises (and currently privately/publicly owned) into industrial parks. Many of the sites have existing industrial infrastructure, and with relatively less complicated in property rights; but they lay idle today. In the meantime, new greenfield investments, including small and medium sized export oriented manufacturing industries (e.g., textile, food-processing, leather goods, *etc.*) that are critically needed cannot take place without availability of specific earmarked sites. This is a potential area in which Albania could benefit from international best practice (Ireland, Czech Republic, Singapore, China, *etc.*) that the WBG (IFC, IDA/IBRD and MIGA) can bring to Albania.

Technical assistance to SME clients in the region is handled increasingly through SEED (Southeast Europe Enterprise Development), which has been leading IFC's effort to develop and promote the SME sector in the region. SEED, replaced with the Private Enterprise Partnership Southeast Europe (PEP-SE) in July 2005, will continue to work on improving the business environment for SMEs and helping them to gain access to finance, developing technical and managerial skills and improve their access to information. Also, PEP-SE will continue to work on strengthening the institutional and regulatory framework for EU-oriented competition and industrial polices (See box 1).

BOX A3.1: SEED (PEP-SE) ALBANIA

The Southeast European Enterprise Development Facility (SEED) is a multi-donor partnership, led by IFC, in support of SME development in Western Balkans. In 2004, SEED was fully integrated into the IFC regional strategy by focusing on local implementation of new financing solutions, SME supply chain management advisory work, supporting the development of business membership organizations, and supporting selected institutions critical to the development of the private sector. This approach ensures integration of SEED's products with the needs of key partners and IFC's investment strategy. With SEED's mandate completed in June 2005, IFC is currently planning programs through PEP-SE (started operations in July 2005) that target key private sector development issues such as: (i) introduction of commercial mediation; (ii) development of a regional recycling supply chain; (iii) introduction of International and EU manufacturing standards; and (iv) a targeted company level corporate governance program in the region, whose performance will contribute to improvements in their corporate governance standards. PEP-SE will continue to place a strong emphasis on the development of sustainable local capacities to support SME development initiatives in the longer term. Furthermore program roll out will be focused on a specific number of sectors of critical importance and where the TA has the best opportunity to complement IFC investment activities.

3.1. Financial Sector

The financial sector in Albania is in private hands. Despite recent increases in bank lending in 2004, the level of banking intermediation in Albania remains one of the lowest in Europe. While the legal, institutional and supervisory framework for the financial sector is in line with international practices, implementation remains weak, especially in the insurance sector. Financial intermediation suffers from a business environment not conductive to robust and sound lending practices. Enterprises are characterized by poor transparency and disclosure of financial information. Financial reporting is generally unreliable. Uncertainty of property rights hinders secured lending. Judicial procedures for collateral enforcement are weakened by poor performance of court bailiffs and auction procedures. Lack of credit information on borrowers continues to be an impediment to access to finance.

Banks appear to be very liquid. IFC, rather than providing just financing, will thus focus on encouraging and helping financial institutions to develop new products. IFC intents to help the banks with leasing, renewable energy finance products, housing finance, and derivative products involving swaps to support long-term local currency loans, just to mention a few. Further to the strengthening of the INSIG position, IFC will also work with the Government and the EBRD to identify a strategic partner so as to privatize the Company as soon as possible.

The expansion of private sector credit especially to SMEs has been slow. Midsize companies, new entrepreneurs, and small businesses remain largely dependent on self-finance, while the banking sector still offers limited products, short maturities and at relatively high costs. IFC will continue to support SMEs through helping the financial sector to develop new products targeting SMEs, through provision of micro finance, local capacity building, and business environment improvement conducive to SME development. IFC has so far invested directly in a number of micro-finance banks and will continue to be in the forefront of promoting micro-finance in the region. In Albania, IFC supported ProCredit Bank which has been successful in helping the microfinance business for entrepreneurs with limited access to credit from the banking system.

3.2. Infrastructure

Improving infrastructure in Albania will be important to support the country's economic growth and its regional integration. Infrastructure development through private sector participation will be a key priority of IFC's strategy. Lack of financing to infrastructure and lack of reform in the sector add to the existing bottlenecks to sustainable growth and private sector development. Albania's competitiveness and sustainable development is being undermined due to high transport costs, still recurrent power shortages, and problematic access and quality of sanitation. So far, private sector interest in investing in infrastructure in Western Balkans, including in Albania, has been limited. Therefore, IFC will work closely with the Government and the Bank to attract private sector financing in the infrastructure sectors through public-private partnership (PPP). The PPP structure might be helpful in improving the risk perception of infrastructure transaction in Albania by mitigating different components of the risk in a project. IFC and the Bank will have a joint comprehensive approach to transparency and competition policy in infrastructure including close coordination between the regulators and the anti-monopoly authority.

IFC's will focus on promoting private sector investments in power, telecom, transport, and water sectors. Pursuing the opportunities to implement the PPP approach, as a way to attract private sector in infrastructure, IFC expects to see some tangible results in Albania in the near future. In cooperation with a number of donors, IFC established PEP-SE infrastructure to help public sector entities in Western Balkans attract private investment, particularly in energy, transport and water and sanitation (see Box A3.2). In addition, the recent grants from PPIAF to the Ministries of Transport and Territorial Adjustment to design the framework for public-private partnerships in the highway and water supply sectors will assist private provision of infrastructure.

BOX A3.2: BALKAN INFRASTRUCTURE DEVELOPMENT

A poor and unreliable infrastructure continues to discourage private investors and hinder economic growth in the Balkan region. In turn, slower economic growth reduces the availability of government funds to improve infrastructure. To break this cycle, IFC established PEP-SE Infrastructure in cooperation with a number of donors. The activity will help public sector entities in the Southeast Europe to attract private sector investments in infrastructure, focusing on the energy, transportation, and water and sanitation sectors. It reflects the World Bank Group strategy to broaden engagement in this sector to ensure efficient, affordable, and sustainable delivery of infrastructure services. The activity will help identify, develop, structure, and reach financial closure on infrastructure projects, so that committed public sector entities can engage more effectively with the private sector and attract investments critical to the region's economic development. This activity will start operating in FY06.

3.3.1. Power Sector:

Despite the substantial progress achieved since 2001 in improving the performance of the power sector, the sector still suffers from significant inefficiencies linked to electricity theft, high technical losses, and non-payment of dues. In addition, electricity supply is constrained by insufficient domestic capacity and import transmission constraints. Notwithstanding recent progress made in initiating restructuring of the sector, the state power company (KESH) still needs further institutional and managerial support. The power sector has been capital-constrained for many years and needs significant investment for rehabilitation, upgrading and addition of new capacity. Continuing financial assistance by donors, which has been substantial so far, will continue to be necessary but by itself will be inadequate to meet total capital needs. Neither KESH nor GoA has adequate resources to meet these capital needs. Traditional solutions to this situation include the restructuring of the sector to attract private sector involvement in both generation and distribution thorough appropriate legal and regulatory frameworks, restructuring of KESH through unbundling into separate distribution, transmission and generation enterprises and establishing a modern and competitive electricity market with clear rules for financial settlements.

The GoA, with support from the World Bank and other donors, has been implementing reforms under the Power Sector Policy Statement, adopted in April 2002. Some of the major achievements have been the establishment of the Transmission System Operator (TSO) as a joint stock company, development of a Transitional Market Model, and Market Rules approved by the Regulator. In addition, the Government and the Regulator are proceeding with implementation of the commitments agreed to under the Athens MOU in terms of primary and secondary legislation, electricity market implementation, environmental legislation, and other measures necessary for market opening to support Albania's integration within the Energy Community of Southeast Europe (ECSEE) and interconnection with the Union for the Co-ordination of Transmission of Electricity (UCTE) system. The restructuring process of KESH has already started with allocation of existing assets and liabilities of KESH to the successor companies. The average tariff has been adjusted annually (estimated at about US$70/per 1,000 kWh in 2005), KESH's financial performance for 2004 has been strong with a pre-tax profit (unaudited) of US$ 83 million, compared to US$ 51 million in 2003, and the collection and losses targets have been met.

IFC shares the Government's objective of increasing private sector participation in the power sector as soon as conditions permit to do so. A study, financed by IDA, is underway and this will provide recommendations on a number of critical issues, such as the number of distribution and generation companies to be created on unbundling of KESH, degree of separation of the wire and supply side of the distribution functions, developing appropriate incentive mechanisms to ensure that the required investments are made after privatization, nature of privatization (sale of assets, concessions, management contract), sequence and schedule of privatization, etc. The Government will embark on preparation of a detailed privatization strategy of the sector after consideration of the recommendation of the study.

IFC will look for opportunities to support the privatization in power sector offering its advisory service as well as its financing, possibly combined with a guarantee instrument from the Bank to cover for political and regulatory risks. In addition, IFC would consider financing new power generation investments, subject to being satisfied with the strategic investor as well as financial and economic viability of the investments.

3.3.2. Telecommunications:

During the last CAS period, IFC has showed its commitment and readiness to help the government with the restructuring and privatization of the state run company Albtelecom. With the Government re-launching of the privatization of Albtelecom, IFC would consider post-privatization financing for Albtelecom, subject to satisfaction with the strategic investor as well as with the financial and economic viability of the investments.

Improving legal and regulatory framework is crucial for the future development of the sector and successful privatization of Albtelecom. Key to success in opening telecommunications markets to competition is the establishment of an independent regulatory body. Accordingly, IFC has initiated and mobilized, in coordination with the Bank and EBRD, a technical assistance to support Telecommunications Regulatory Authority (TRA). IFC is helping to implement a needs assessment of the additional skills, human resources and organizational changes necessary to ensure that TRA has the capacity to effectively oversee policy changes and structural reforms leading to the liberalization of the sector. This work is expected to be followed by other technical assistance support and will be monitored closely by the relevant government bodies.

3.3.3. Transportation:

Albania is a natural transit route between Western Balkans and EU Member States. The elimination of border crossing obstacles in land transport, ports, as well as oil/gas pipeline projects calls for harmonized regional investments with potential involvement from the private sector. With a regional integration approach strategy in mind, IFC will follow any developments and look for opportunities to facilitate private sector involvement especially in port and pipeline projects.

3.3.4. Water and Sanitation:

Although 80% of Albania's urban population has access to piped water, the supply is intermittent, and the quality of drinking water is far below internationally accepted standards. Inadequate maintenance and repairs and the absence of metering and operational control have resulted in water losses of over 50% of water production in most cities. The situation in rural areas is worse: access to piped water supply has decreased from 75% in 1989 to 50% today, and areas without piped supply rely on heavily contaminated sources. Unreliable water supply and the pollution of beach areas by raw sewage is a major obstacle for the development of tourism.

IDA has been helping the government to develop its National Water Supply and Sanitation Sector Strategy and to focus on increasing private provision of these services. IFC will explore ways to approach municipal financing also through public-private partnership to attract private operators with a focus in the city of Tirana, the capital of Albania.

3.4. Outsourcing Services to the Private Sector

In an effort to bolster quality and efficiency of services, Albanian Government is currently considering outsourcing certain services to private companies. The first major candidates include the customs administration and payment systems. The Government hopes to outsource revenue collections and payment systems services to private contractors to facilitate trade, increase the transparency and reduce corruption. It is currently looking into successful models implemented in other countries. Similarly, IFC can help the outsourcing of services to the private sector through methodical and transparent approaches in areas such as land titles and certification, issuance of ID and passports, income tax calculation and collection, payroll management, motor vehicle registration and licensing, driver license issuance etc. The outsourcing of some of these services can invigorate the service market in Albania and will reduce public spending, red tape, corruption and will increase the satisfaction of citizens and clients.

Also, Albanian government is exploring ways to make best use of country's scarce resources to improve health care services for public patients under the national health insurance system. The government strategy is to explore the additional opportunities that the private sector offers through public-private partnership in the health sector. Albania has some experience in this area, having previously outsourced limited ancillary services at several hospital locations. Following IFC's successful PPP advisory mandates for outsourcing selected healthcare services and strengthening of the strategic purchasing capabilities of the national health insurance house, the government initiated a dialogue with IFC to explore opportunities to further develop PPPs in the health sector. This dialogue is ongoing.

TABLE A3.1: STATEMENT OF IFC COMMITTED AND OUTSTANDING PORTFOLIO IN ALBANIA

(Amounts in US$ million as of 31st August 2005)

Approval Fiscal Year	Institution Short Name	LN Cmtd-IFC	ET Cmtd-IFC	QL+QE Cmtd-IFC	All Cmtd-Part	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	All Out-Part
2005	Fushe Kruje	30.0	0.0	0.0	0.0	24.0	0.0	0.0	0.0
2002	INSIG	0.0	0.0	6.2	0.0	0.0	0.0	6.2	0.0
2000	NCBank	0.0	2.0	0.0	0.0	0.0	2.0	0.0	0.0
1999	ProCredit ALB	0.0	1.0	0.0	0.0	0.0	1.0	0.0	0.0
1999	SEF Eurotech	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0
2003	Vodafone Albania	29.6	0.0	0.0	6.4	29.6	0.0	0.0	6.4
Total		**59.8**	**3.0**	**6.2**	**6.4**	**53.8**	**3.0**	**6.2**	**6.4**

TABLE A3.2: IFC HISTORICAL COUNTRY SUMMERY: ALBANIA
(Amount in Millions of US Dollars as of 31st August 2005)

Approval Fiscal Year	Institution Short Name-Primary Sector	LN Orig Cmt-IFC	ET Orig Cmt-IFC	QL+QE Orig Cmt-IFC	All Orig Cmt-Part	All Cmtd-IFC	All Cmtd-Part	All Undisb-Total
1998	AAP-Oil, Gas and Mining	0.0	28.5	0.0	0.0	0.0	0.0	0.0
2005	Fushe-Kruje-Manufacturing	30.0	0.0	0.0	0.0	30.0	0.0	6.0
2002	INSIG-Finance & Insurance	0.0	0.0	5.5	0.0	6.2	0.0	0.0
2000	NCBBank-Finance & Insurance	0.0	2.3	0.0	0.0	2.0	0.0	0.0
1999	ProCredit ALB-Finance & Insurance	0.0	1.1	0.0	0.0	1.0	0.0	0.0
1999	SEF Eirotech-Manufacturing	1.2	0.0	0.0	0.0	0.2	0.0	0.0
2001	Seament-Manufacturing	15.0	0.0	0.0	0.0	0.0	0.0	0.0
2003	Vodafone Albania-Information	41.4	0.0	0.0	8.9	29.6	6.3	0.0
Total		**87.6**	**31.9**	**5.5**	**8.9**	**69.0**	**6.8**	**6.0**

ANNEX 4: MIGA PROGRAM IN ALBANIA

1. MIGA PROGRAM TO DATE

The outstanding guarantee portfolio of the Multilateral Investment Guarantee Agency (MIGA) in Albania consists of two contracts with a total gross and net exposure of US$ 8.6 million. One contract is in the tourism sector and the other in the financial sector. Net exposure in Albania is equivalent to 0.3% of MIGA's net exposure. On the technical assistance side, MIGA has provided in FY03-04 capacity building support to ANIH (the Albanian Foreign Investment Promotion Agency). Activities included training on investment promotion skills and assistance in establishing an on-line marketing presence and developing marketing materials. ANIH is currently one of the partner organizations participating in MIGA's European Investor Outreach Program, a regional initiative to promote foreign investment into the Western Balkans region.

TABLE A4.1: MIGA'S GUARANTEE PROGRAM IN ALBANIA
(Outstanding gross exposure in US$ million as of 30 June 2005)

As of end of fiscal year	FY01	FY02	FY03	FY04	FY05
Sectoral Distribution					
Finance	7.0	7.0	7.0	7.0	7.0
Infrastructure	0.0	0.0	0.0	0.0	0.0
Mining	0.0	0.0	0.0	0.0	0.0
Oil & Gas	0.0	0.0	0.0	0.0	0.0
Agribusiness/Manufacturing/Services/Tourism	1.6	1.6	1.6	1.6	1.6
	8.6	8.6	8.6	8.6	8.6
MIGA's Risk Profile					
Transfer Restriction	7.0	7.0	7.0	7.0	7.0
Expropriation	8.6	8.6	8.6	8.6	8.6
War & Civil Disturbance	7.0	7.0	7.0	7.0	7.0
Breach of Contract	0.0	0.0	0.0	0.0	0.0
MIGA's Gross Exposure in Country	8.6	8.6	8.6	8.6	8.6
% Share of MIGA's Gross Exposure	0.2%	0.2%	0.2%	0.2%	0.2%
MIGA Net Exposure in Country	8.6	8.6	8.6	8.6	8.6
% Share of MIGA's Net Exposure	0.3%	0.3%	0.3%	0.3%	0.3%

TABLE A4.2: LIST OF MIGA'S ACTIVE PROJECTS IN ALBANIA

Project Name	Investor Name	Investor Country	Business Sector	Effective Date	Original Amount Issued ($M)
Giorgi Alfo Sh. P. k.	GE.POR.TUR. s.a.s.	Italy	Tourism	2/28/00	1.57
Intercommercial Ban (Albania)	Emporia Bank of Greece S.A.	Greece	Financial	06/29/01	7.02

2. MIGA's Non-Guarantee TA: The European Investor Outreach Program (EIOP)

The European Investor Outreach Program has been established by MIGA to promote Foreign Direct Investment (FDI) in the Western Balkans (Albania, Bosnia & Herzegovina, Croatia, FYR of Macedonia, Serbia and Montenegro). Under this initiative, a project office has been established in Vienna, staffed with MIGA's investment promotion specialists. Acting as a partner to potential investors, the office provides full support to companies through all phases of their investment. It delivers information and investment facilitation services on a confidential basis and free of charge.

2.1. EIOP Information and Research Services

The Western Balkans is a dynamic region for investment with an improving economic outlook and overall business climate. However, up to now, the lack of relevant, sector-specific information about investment opportunities and conditions in the region has been a major challenge for companies interested in investing in the region.

To overcome this lack of information, EIOP has conducted an extensive study on doing business in the region. The study will provide potential investors with the kinds of information they find most useful when making site selection decisions: high-quality information on operating cost and conditions in each country. Moreover, the countries of the region will be benchmarked as site locations, both against each other and against the most important competing countries, for example, the new EU member states.

The findings of this study will be available in the form of sector briefs for selected sectors with the highest potential for investment. EIOP will present these findings to interested investors free of charge. Moreover, EIOP can assist potential investors in identifying site options and in assessing the optimum site location within the region.

2.2. EIOP Facilitation Services

The EIOP offers a number of investment facilitation services to help potential investors in making their investments in the target region a success:

- Close cooperation with investment promotion agencies: The EIOP works very closely with the national and local investment promotion agencies in the region to help ensure a top quality support service to prospective investors at all stages of the investment process;
- Network of key contacts in the target region: The EIOP draws upon a network of high-quality contacts in all the countries of the target region. EIOP uses this network to ensure that the needs of a potential investor are fully understood by government officials at the national and local levels;
- Assistance in risk mitigation tools: The EIOP can provide potential investors with access to risk mitigation tools via its extensive network of contacts among national and international providers (MIGA) of political and commercial risk insurance;
- Assistance in the sourcing of finance: The EIOP can introduce potential investors to additional sources of finance, if required. The program links companies to national as well as international providers of finance (e.g. European Development Finance Institutions, EBRD and IFC).

ANNEX 5: CAS CONSULTATIONS AND OUTREACH

1. CONSULTATIONS AND OUTREACH

1. ***Extensive consultations underpinned the preparation of the CAS***. Internally, the whole country team (both in headquarters as well as in the Country Office) has been actively involved in the preparation of the strategy including IFC and MIGA members of the team. This was assisted by the support of OPCS, PREM, SFRCR, FRM, OED and various other networks.

2. ***In Albania, the Country Office has embarked on consultations with all stakeholders since late 2004.*** The team started the consultation process by preparation and completion of a Clients Assessment Survey in December 2004 (see Annex 2 CASCR for the main results of the survey). Some 137 stakeholders from government, parliament, civil society, private sector, media and academic institutions responded to the questionnaire. The results show increasing appreciation of the World Bank in Albania (compared with a previous survey in 2001) and overall endorsement of the priority areas of the Bank and its effectiveness in delivering the support. A special CAS Electronic Discussion Forum has been established to ensure wider participation of all stakeholders in the CAS preparation. The consultation meetings have considerably informed both the CASCR and the new strategy.

3. ***A CAS government counterpart team (comprising most central and line ministries) has been formed to guide the preparation of the strategy***. The Government team conducted a thorough review of Bank operations in Albania, their effectiveness as well as the lessons drawn from the decade-and-a-half of IDA support. They reviewed government's challenges and priorities in light of the NSSED and presented a list of priority program of interventions to be supported in the CAS (FY06-09). The Government team also made an effort to prioritize the various proposals of support presented by line ministries. The final list of programs and projects were presented to the Bank prior to the July elections. After the finalization of the results of the elections, the CAS has also been discussed with new Government. These consultations concluded in a joint retreat with the whole Cabinet in Durres on 12 September 2005. The new Government endorsed the CAS program and made several requests and suggestions which have been incorporated in the final version of the CAS.

4. ***Consultations with parliamentary commissions and groups have markedly sharpened the focus of proposed interventions under the CAS06.*** These consultations started with a large consultative meeting under the auspices of the Economic Commission, where all members of the commissions, heads of other commissions as well as leaders of party groups attended. The meeting enabled the team to assess the national priorities at various stages of CAS preparations as presented by the representatives of all political parties in Parliament. A special meeting on agriculture, environment and natural resources was organized on May 9, 2005 under the auspices of the Agriculture Commission of the Parliament. Parliamentarians praised the Bank's contribution to the sector in the last 14 years and agreed it was effective, sustainable and innovative. They stressed the importance of improving donor coordination in the sector, of integrating various projects to ensure greater synergy in the interventions and to consolidate or eliminate PIUs. In future, they recommended increased support to rural roads, fisheries, forestry, and increased coverage of "protected areas". Finally, the Parliamentarians agreed that the agro-processing sector has huge potentials for growth and export promotion, subsequently urging the Bank to increase its support to the sub-sector.

5. ***Extensive consultations with major political parties on the CAS program took place in the first half of 2005.*** With the parliamentary elections concluded in July 2005, these consultations were critical to ensure that the support program is focused on national priorities and has the support of all stakeholders.

Despite the differences in party platforms during the election campaign, the consultations demonstrated wide consensus on the effectiveness of the Bank support and the priorities of the NSSED. All political parties stressed on the importance of focusing the new program on governance, rule of law, public administrative reforms, enhancing the business environment, upgrading of infrastructure (particularly roads and energy), ensuring establishment of efficient land market and resolving land tenure issues, natural resources management and further support to the social sector (education, health and social assistance). Following the announcement of official results of the parliamentary elections, close contact and consultations with the Democratic Party (DP) also took place.

6. ***Two workshops were organized in north Albania (Kukes) and south Albania (Fier) for representatives of local governments and civil society organizations in the respective regions.*** The first consultation meeting with the local government and civil society at the regional level took place on March 18, 2005 at the Municipality of Kukes. Representatives from municipalities, communes, civil society, media as well as forestry association representatives from northern regions of Albania attended the meeting. The priorities identified by participants from northeastern Albania include (by order of priorities): (i) road infrastructure (Durres-Kukes-Morine road in particular); (ii) health services; (iii) education (all levels from pre-primary levels to secondary education); (iv) urban development;(v) job creation; (vi) strengthening the citizens' voice in the decision making process; (vii) natural resources management (fisheries and forestry in particular) and tourism development and (viii) trade – links to neighboring countries and country integration. The second regional workshop was organized in Fier on April 1, 2005. It was attended by representatives of the local government, civil society, women and youth organizations and media representatives of the major cities of southern Albania. The participants stressed the importance of more direct support to local government, including fiscal decentralization and direct crediting, increased support to urban and rural infrastructure, greater emphasis on job creation and strengthening of administrative capacities of local government, re-forestation and flood protection, investment in environment protection (in particular in urban areas), greater support to youth, cultural heritage protection and tourism development as well as feasible efforts for business development and private sector growth.

7. ***An advisory committee from civil society organizations has advised the Bank's team throughout the preparation processes.*** This group was composed of representatives of think tanks, youth, women, environmental organizations, media associations and regional development agencies (e.g., Human Development Promotion Center, Institute of Contemporary Studies, Gender Alliance, Regional Environmental Center, Albanian Media Institute, Partners-Albania, Youth Council, Majaft Movements, etc.). Thanks to their long standing cooperation with the Bank and their good understanding of the Bank mission, policies and operations, group participants provided extended advice and support to the CAS preparation and the consultation process. The representatives of the group expressed their readiness to disseminate to various civil society networks the information about new CAS and obtain the necessary feedback. They appreciated the Bank contribution to the NSSED, governance reforms, and development efforts in the country. The group stressed the importance of further involvement of their bodies in the future Bank programs at initial stages starting from the preparation, implementation to the monitoring of the project results.

8. ***Two rounds of consultations with private sector representatives were organized in February and April 2005.*** The first meeting on private sector development was organized jointly by the World Bank Country Office and IFC (including SEED). The participants in the meeting praised the efforts of the World Bank and exchanged views on actual impediments in the current business environment. They stressed that limited access to credit and lack of credit information bureau, were among the major impediments for growth in the private sector. Other participants emphasized the difficulties with regard to land titles, while few others complained about bureaucratic harassment of tax, custom and other government authorities. Finally, there were some participants that stressed the impact of increasing state

capture and the cost of corruption. The second consultative meeting with the private sector representatives took place on April 25, 2005. Participants in this meeting emphasized the importance of export and trade promotion for the private sector growth. They underscored the importance of improving the business environment to attract FDI and domestic investment. Representatives of the Banking sector again suggested that the Bank should support the establishment of a credit bureau. They cited the difficulties with regard to the bankruptcy and execution of foreclosures that prevent faster provision of credit to the private sector. Other participants raised concerns about unfair competition and high cost of doing business stemming from poor infrastructure (transportation, communications and energy). Participants agreed that tax administration needs be improved. Other impediments that ought to be removed include land registration, lack of quality and standard certification as well as smuggling.

9. ***An Open House for Youth on March 21, 2005 focused on youth priorities and their expectations for the new CAS on the occasion of the Launching of the Youth, Development and Peace (YDP) Network***. About 29 Youth representatives (from 17 different youth organization; all in the 18-31 age bracket, two-thirds female, 7 from rural areas, as well as youth from Tirana, Fier, Tepelene, Kukes, Peshkopi, Durres) attended the event. They included representatives from the main Youth umbrella organizations: the Balkan Youth Link Albania, "Majaft (Enough) Movement", Albanian Youth Council (representing 99 youth organizations), Albanian Youth Parliament, Women for Global Action, Center for Integration and Development, Youth Women Christian Association, Regional Environmental Center, PASS, and YMCA. With regard to the role of the World Bank in Albania in the new CAS (FY06-FY09), participants suggested the following: (i) increasing support to all levels of education and revisions of curriculum for quality improvements; (ii) improving health services (both in term coverage, access and quality); (iii) providing greater support to rural area, to the Northeastern regions and to local infrastructure particularly roads; (iv) increasing support to urban poor in the informal settlements; (v) cleaning up of environmental "hot spots"; (vi) supporting the implementation of the National Youth Strategy and direct support to strengthen youth organizations; (vii) providing greater outreach to youth organizations in rural area and youth that are not organized; (viii) direct involvement in employment creation and reversing the brain drain; (ix) efforts to protect youth and children from trafficking and crime; (x) creating of separate prisons for juveniles; and (xii) paying special attention to the integration of migrants from the North East in coastal and urban communities.

10. ***Two rounds of consultations were organized for donors specifically for the CAS priorities and donor coordination*.** On April 21, 2005, development counselors and representatives of most bilateral and multilateral agencies discussed the new World Bank Country Assistance Strategy for Albania. They all appreciated the role of the Bank in supporting the process of socioeconomic development in Albania and the achievements that have been made since early days of transition. The donors also elaborated on the possibilities for improved coordination among donors, country priorities and the focus of the programs of each of the participating donors. The participants agreed on the importance of selectivity, complementarily and information sharing to avoid duplication of efforts and wasting financial resources. They also stressed the importance of supporting the Integrated Planning System (IPS) and the importance of encouraging the government to take lead in donor coordination. Donor representatives agreed to furnish the Bank team with data and information about their development support in Albania. The second meeting was organized on 21 July 2005 and focused specifically on the results framework and the draft new result CAS Matrix for FY06-FY09 and the partnerships with regard to the implementation of the CAS. Participants expressed their agreement to the proposed results, the pillars of the CAS and particularly the heavy emphasis on governance (Governance filter). They also requested the Bank to play an active role in donor coordination, the implementation of the IPS and alignment of the NSSED with the SAp. A number of donors emphasized the importance of collaboration to resolve land registration and titling issues

11. ***The Country Office will continue to expand its outreach and communication to strengthen partnerships in the implementation of the new CAS.*** The Public Information Center (PIC) has been relocated to the Library of the Faculty of Economics, University of Tirana in 2005, following the signing of a partnership agreement with the Faculty. Most of the dissemination activities of the Bank AAA activities, and the CAS06, will be launched in the new PIC. A quarterly newsletter is now published and disseminated by the Country office and efforts are underway to establish affiliations with the Global Distance Learning Network (GDLN). The Bank has also completed an assessment of the legal framework for civil society organizations and will continue to support its activities through the small grant program as well as direct involvement in project preparation and monitoring. A communication strategy for the Country Office has been formulated to expand the Bank outreach activities.

2. PARTNERSHIPS

12. ***In addition to building strong partnership with Albanian stakeholders, the Bank has built effective partnerships with development partners and donor organizations active in Albania, mainly through the country office***. The European Commission (EC), UNDP and OSCE are the Bank's key multilateral partners in Albania with shared responsibilities in donor coordination (joint responsibility in the Donors Technical Secretariat). As the pace of Albanian integration with the European Union accelerated, the Bank has started to coordinate most of its activities with the European Commission both in Albania and in Brussels and specific meetings for CAS preparations have been undertaken to ensure better alignment of the CAS with the SAp (see Annex 9). The relations with the IMF have been very effective and strong. The Bank also has worked closely with EBRD and EIB and has co-financed a number of projects and programs with them. Coordination with the ISDB, OPEC Fund, and Kuwait Fund has been strong.

13. ***With the widening of the circle of Albanian friends, the Bank has also build strong partnerships with most bilateral donor agencies in Albania.*** These include, among others: the Italian Cooperation, The Netherlands, USAID, GTZ, DFID, SNV, SIDA, Swiss Cooperation, and Austrian Cooperation.

14. ***The Bank intends to provide increased support to the implementation of the integrated planning system (IPS) that the Government of Albania adopted in April 2005*** (see Box 2). The IPS calls for the consolidation of the various policy formulations (NSSED, Sap, MDGs) into an integrated medium term plan in 2007 with a comprehensive functional classification of the role of the various government agencies and a consolidated scheme for donor coordination and harmonization. Under the IPS, the GoA is expected to take leadership role in donor coordination particularly in face of expected decline in concessional financing to Albania. Under the new donor architecture the Bank will continue to provide support to 9 thematic groups (education; health; social assistance; infrastructure (transport, energy and water supply); agriculture and natural resources; private sector development and financial sector; public finance; and tourism and coastal development). The new Government adopted, in November 2005, a decision to embark on the implementation of the IPS (including formation of two cabinet committees for the Strategic Planning and Government Modernization and setting up an IPS Department in the Councils of Ministers).

ANNEX 6: DONOR ASSISTANCE TO ALBANIA BY PROGRAMS

	EU	EBRD	EIB	UNDP	UNFPA	UNICEF	UNHCR	ILO	WHO	FAO	WFP	IOM	USAID/US	DFID	OSCE	GTZ	Kfw	Italy	Netherlands	Austria	Switzerland	Norway	Sweden	Kuwait Fund	OPEC Fund	IsDB
1. AGRICULTURE, NATURAL RESOURCES, ENVIRONMENT, FORESTRY AND PASTURES																										
Agriculture	X	X								X				X				X				X	X	X		X
Environment	X			X									X	X			X	X	X	X			X			
Forestry and Pastures											X															
2. PRIVATE SECTOR DEVELOPMENT, BANKING, SME AND FINANCE																										
Banking													X													
Finance	X	X											X	X			X									
SME													X													
Private Sector Development	X												X		X		X	X	X		X		X		X	
Investment promotion													X								X					
3. PUBLIC SECTOR REFORMS, GOVERNANCE AND DECENTRALIZATION																										
Public Administration/Governance	X			X									X				X		X	X		X	X			
Local Government/Decentralization	X			X									X						X	X						
Tax Administration	X													X												
Civil Society Development	X												X		X				X			X				
Human rights	X			X	X	X		X					X		X			X		X						
4. ECONOMIC MANAGEMENT, PLANNING AND CAPACITY BUILDING																										
Macro support (PEM, NSSED)	X													X												
Statistics	X			X		X							X	X				X		X		X				
Advice/Technical Support				X												X										
5. RULE OF LAW (LAW AND ORDER)																										
Judiciary	X							X					X				X	X				X	X			
Property Rights	X												X					X				X				
Security and Police	X												X									X				
6. SOCIAL SECTOR																										
Education	X					X		X				X	X		X			X								
Health				X	X	X		X	X			X	X	X			X	X				X	X		X	X
Social protection/welfare	X					X	X	X			X	X		X	X							X	X			X
Culture/Media	X												X						X			X				
Labor								X				X						X								
7. INFRASTRUCTURE AND OTHER ECONOMIC SECTORS																										
Energy	X	X	X										X				X	X		X	X	X				
Transport	X	X	X														X									X
Municipal Development	X			X									X		X		X	X		X						
Water	X														X		X			X	X	X			X	
Tourism													X					X								

ANNEX 7: ALBANIA'S COUNTRY FINANCING PARAMETERS

Date: March 23, 2005

The Country Financing Parameters (CFPs) for Albania set out below have been approved by the Regional Vice President, Europe and Central Asia, and are being posted on the Bank's internal website.

ITEM	Parameter	Remarks
Cost Sharing: Limit on the proportion of individual project costs that the Bank may finance.	Up to 100 percent	Individual projects may be financed up to 100 percent. The level of Bank financing will be considered on a case by case basis. In the aggregate, it is expected that current financing patterns would broadly continue – with significant financing by the Government and other donors, and Bank financing continuing at the current level of about 55 percent of project costs.
Recurrent Cost Financing: Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance.	No country-level limit on recurrent cost financing.	In determining Bank financing of recurrent costs in individual projects, the Bank would take into account sustainability issues at the sector and project levels. Accordingly, where individual projects include significant recurrent costs, a detailed assessment will be conducted addressing the sustainability of project achievements, the implied future budgetary outlays, and the sustainability of proposed Bank-financed recurrent costs.
Local Cost Financing: Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the countries development program would exceed the public sector's own resources and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects.	Yes	The two criteria are met. The Bank may finance local costs as needed in individual projects.
Taxes and duties: Are there any taxes and duties that the Bank would not finance?	None.	The Bank may finance all taxes and duties in Albania. At the project-level the Bank would consider whether taxes and duties constitute an excessively high share of project costs. Should taxes or duties that the Bank considers unreasonable be introduced, the CFP will be updated.

ANNEX 8: ALBANIA'S DEBT SUSTAINABILITY ANALYSIS

This Annex updates Albania's Debt Sustainability Analysis (DSA). It concludes that, under a base case scenario of sustained growth, fiscal prudence and low interest rates, public and external debt sustainability could remain manageable over the medium term. Both solvency and liquidity indicators remain below standard threshold however, proving that strong and sustained growth and export expansion along with improved track record of implementing structural reforms would allow Albania to access debt on non-concessional terms without worsening its solvency or liquidity indicators.

1. EVOLUTION OF DOMESTIC AND EXTERNAL DEBT

Albania's external and domestic debt indicators have improved considerably over time. Overall public debt has been declining from 71 percent in 2000, to 56.6 percent of GDP at end-2004. Recent declines have been accelerated by the lek's appreciation. The public external debt to GDP ratio has declined from 29 percent in 2000 to a relatively low level of 18.8 percent in 2004. Domestic debt declined recently largely driven by the use of the proceeds of Savings Bank privatization in 2004 to write off part of the accumulated domestic debt stock. The latter remains however sizeable at 37.8 percent of GDP at end 2004.

Substantial forgiveness of external debt in arrears has been the main driver of declining public debt ratios. Arrears on external debt reached 1 percent of GDP at end 2004 down from a high of 22 percent in 1997. The reduction in arrears took largely the form of debt forgiveness, with a small part being regularized and converted to external debt. Debt rescheduling agreements have been reached with both Paris Club creditors (1993, 1998 and 2000) and commercial banks. This was compounded by improvement in macroeconomic performance under IMF supported programs which helped maintain a declining trend in the public debt/GDP ratio.

TABLE A8. 1: COMPARATIVE EXTERNAL DEBT* INDICATORS-2003

	Albania	BiH	Bulgaria	Romania	Serbia & Montenegro	FYROM	Lebanon	Jamaica	Egypt
Solvency Ratios									
Total External Debt to GNI**	**23.6%**	39.9%	68.6%	38.1%	72.6%	39.6%	102.6.3%	74.2%	38.1%
EDT to XGS*	**56.2%**	89%	121.5%	93.1%	263.1%	97.3%	377.8%	111.6%	132.9%
Liquidity Ratios									
EDT Service to XGS***	**2.6%**	8.8%	15.8%	18.7%	6.0%	12.4%	52.3%	16.7%	10%
Interest Service to XGS***	**1.1%**	3.2%	6.1%	4.4%	2.7%	3.2%	24.3%	6.6%	3.7%
Memo Item									
Concessional debt (% of EDT)	**71.8%**	45.3%	3.3%	1.7%	24.7%	27.4%	6.3%	18.4%	71.9%
Official reserves coverage (in months of imports)**	**4.8**	3.7	6.2	4.3	4.4	4.3	13	2.5	8.5

* Includes both government and non-government external debt **Figures are for 2003. ***Indicates average for 2000-03.
Source: World Bank (Global Development Finance 2004 report), IMF, and staff calculations.

Albania's overall indebtedness indicators compare favorably to those of its regional peers. The Government debt to GDP ratio is more relatively in line with that of other countries in the region. It is also considerably lower than other IBRD countries. Both solvency and liquidity external debt indicators are much superior for example to those of Serbia and Montenegro, Bosnia and Herzegovina, FYROM, Bulgaria, and Romania. Total external debt service amounts only to 2.4 percent of total exports of goods and services (including remittances), while the ratio of NPV of external debt to GNI and to exports is much lower than other neighboring countries. In addition to the low debt level, Albania is characterized by a relatively high ratio of concessional debt to total external debt of 72 percent. Most of the external debt is due to multilateral creditors, the largest being the World Bank, followed by the IMF and EIB.

TABLE A8. 2: COMPARATIVE PUBLIC DEBT INDICATORS- 2003

	Albania*	BiH	Bulgaria	Romania	Serbia & Montenegro	FYROM	Lebanon	Jamaica	Egypt
Solvency Ratios									
Public and Publicly Guaranteed Debt to GDP	**56.6%**	33.7%**	48.3%	26%	79.2%	46.6%	167.2%	144.8%	65.7%
of which: Domestic Public Debt to GDP	**38%**	--	6.5%	7%	10%	12.2%	144%	87.3%	28.1%
Liquidity Ratios									
Interest Payments to GDP	**3.7%**	1%	2%	2%	1%	1%	16.5%	15%	6%
Interest Payments to Government Revenue (incl. Grants)	**15.3%**	1%	6%	7%	2%	3%	73%	53%	28%
Memo Item									
GNI per capita, Atlas method (US$)	**2,040**	1,540	2,130	2,310	1,910	1,980	4040	2760	1390
Long-Term Foreign Currency Sovereign Credit Rating***	**N/A**	B3	Ba1	Ba1	BB-	BB+	B3	B1	Ba1

** Figures for Albania are for 2004; ** Excludes the large stock of domestic claims on government, pending court decisions on the parameters for restructuring the claims; *** Taken from Moody's (latest available) except for Serbia and Montenegro and Macedonia (source is S&P).*
Source: World Bank (Global Development Finance 2004 report), IMF, Moody's, staff calculations.

2. MAIN RESULTS OF DEBT SUSTAINABILITY ANALYSIS.

Under the base case scenario, public debt sustainability continues to improve, albeit at a slow pace. Fiscal financing needs are primarily driven by the rolling over of existing short-term domestic debt. However, with increased reliance on longer-maturity domestic debt and increasing fiscal consolidation over time, the gross financing gap decreases and financing sources become increasingly dominated by government revenue. This positive picture is reinforced by the improving public debt ratios over this period. In particular, total public debt/GDP ratio declines from 56.6 percent in 2004 to 53.5 percent in 2009. The decline in the debt trajectory is moderate since Albania continues to run fiscal deficits, though at lower levels, and needs to finance its capital investments with higher cost new borrowing.

External debt sustainability is maintained at relatively stable levels over the CAS period, only worsening slightly in outer years, and both solvency and liquidity indicators remain well below standard sustainability thresholds. The ratio of total external debt to GDP is projected to remain stable between 18 to 19% by 2009, but remains significantly below standard solvency thresholds,[25] suggesting that the base case macroeconomic framework satisfies the long-run sustainability condition. Liquidity pressure remains at low levels due to a small external debt stock and prolonged grace periods currently applied. The ratio of TDS to exports is projected to stabilize at around 2.5 percent in 2009.

Given that **IBRD's current and projected exposure to Albania is very limited, and that Albania has established a strong record of servicing Bank debt, exposure indicators are projected to improve over the CAS period.** IBRD exposure is low measured on a per capita basis or as a share of GDP or

[25] The World Bank uses two ratios to classify countries annually based on their external indebtedness: the NPV of external debt-to-GDP and the NPV of external debt service to exports of goods and services. If either ratio exceeds its critical value (80 percent and 220 percent respectively), the country is classified as heavily indebted. Moderately indebted means either of the two key ratios exceeds 60 percent, but does not reach the critical levels. All other classified low- and middle-income economies are listed as less indebted. See also Part III of the IMF (2003)" "External Debt Statistics: Guide for Compilers and Users", International Monetary Fund, Washington DC.

exports, and IBRD debt accounts for a negligible share of Albania's total debt outstanding. Debt service ratios are also favorable. IBRD debt service to exports of goods and services is projected to increase moderately over the CAS period but remains low at less than 0.1 percent. Bank debt service as a share of total public debt service is projected to increase from 10.6% in 2004 to 16% in 2009. The share of IBRD debt in Albania's total debt outstanding is projected to reach 2.3 percent in 2009 and 5 percent of total World Bank portfolio.

These projections rely on continued strong macroeconomic management and policy performance, conservative assumptions regarding privatization proceeds, and a medium-term balance of payments outlook based on moderately favorable assumptions regarding trade growth and capital inflows. Albania's fiscal and external sustainability in the medium term under the base-case lending scenario depends on: (i) furthering ongoing fiscal consolidation efforts, improving the quality of fiscal adjustment and raising revenue collections; (ii) substantially improving the strategic management of debt; (iii) strong policy reform supporting improved export performance, especially through removing administrative barriers to investment and improving public sector governance, and (iv) a relatively favorable external environment that would help boost export growth.

Sensitivity Analysis:

Public debt sustainability indicators were found to be most vulnerable to a loose fiscal stance. A higher fiscal deficit due to lower tax revenues (unmatched by expenditure cuts) leads to close to doubling the overall fiscal deficit compared to the base case scenario (5 percent compared to 3 percent of GDP). Since public borrowing increases, solvency indicators for public debt deteriorate markedly over time. These results emphasize the need for continued fiscal consolidation that, combined with a reduced reliance on domestic financing, will help ease the pressure on the domestic credit market and facilitate a reduction in domestic rates.

The effect of higher interest rates on overall indebtedness levels is less strong. Everything else staying the same, a one percentage point increase in the domestic interest rate compared to the base case scenario widens the overall deficit only slightly and raises public sector borrowing requirements. With a smaller share of the deficit being financed by domestic borrowing, the impact of the shock would taper off gradually. Without deteriorating, solvency and liquidity indicators do not improve as fast as in the base case. Other risks that have not been simulated, but that constitute sources of vulnerability on the domestic debt side are the short maturity structure of public debt, the high concentration of debt ownership (in the banking system), the low quality of the fiscal adjustment, and lack of market arrangements for public debt management. These give rise to liquidity and rollover risk that need to be mitigated.

External debt sustainability indicators are most sensitive to an adverse shock to exports. Due to the high historical variability in export growth, a temporary reduction by half in annual base case export growth during 2007-2008 would sharply deteriorate external sustainability leading to a one-off increase in the external debt/GDP ratio that approaches critical thresholds. External sustainability would decline from both a solvency and liquidity perspective. Debt service ratios would deteriorate markedly, with an increasing share of the lower export earnings going to service the debt. This shock confirms the imperative to significantly raise exports, including through diversifying its export base, in view of boosting growth, and reducing reliance on migrants' transfers.

Other potentially important determinants of debt sustainability were also examined, but were found to be less significant on the external debt side. Variables such as the level of foreign interest rates and the proportion of future non-concessional financing were also analyzed. Given the relatively low share of external debt, these shocks were found to be relatively less important sources of vulnerability within a 10-year horizon.

TABLE A8. 3: KEY SUSTAINABILITY, LIQUIDITY, AND EXPOSURE INDICATORS UNDER THE BASE CASE

	Act. 2002	Act. 2003	Act. 2004	Est. 2005	Proj. 2006	Proj. 2007	Proj. 2008	Proj. 2009
PUBLIC DEBT: Solvency Ratios								
TDO/GDP	65.7	62.1	56.6	55.9	56.3	55.7	54.6	53.5
TDO/Revenue	265.5	253.5	218.1	231.1	225.4	222.8	217.2	211.7
FOREIGN DEBT: Solvency Ratios								
TDO/GDP[a]	25.1	21.4	18.8	18.2	19.1	19.4	18.8	18.5
TDO/XGS[b]	67.4	56.2	49.2	46.7	47.6	47.4	44.9	43.6
FOREIGN DEBT Liquidity ratios								
TDS/XGS	3.5	2.6	2.4	2.3	2.6	2.5	2.5	2.5
INT/XGS	1.4	0.9	0.7	0.7	0.8	0.9	0.9	1.0
TDS/GDP	1.3	1.0	0.9	0.9	1.0	1.0	1.0	1.0
TDS/gross official reserves	6.8	5.3	4.9	5.6	6.0	6.1	5.9	5.7
TDS/Revenues	5.3	4.0	3.5	3.7	4.1	4.2	4.2	4.2
WORLD BANK EXPOSURE INDICATORS								
DO to IDA (US$ million)	476	583	677	743	819	858	889	901
DO to IBRD (US$ million)	0.0	0.0	0.0	0.0	1.25	5	16.3	50.0
Share of IDA in TDO (%)	42.5	48.6	48.7	46.9	46.2	43.7	43.1	40.8
Share of IBRD in TDO (%)	0.0	0.0	0.0	0.0	0.1	0.3	0.8	2.3
DS to WB (US$ million)	3.2	5.2	7.0	8.8	9.7	10.3	12.0	15.3
Share of DS to WB in TDS (%)	5.6	9.5	10.6	11.7	11.0	7.3	12.7	16.0
Interest to IDA	2.9	3.8	4.7	5.4	6.0	6.6	7.0	7.3
Principal to IDA	0.4	1.4	2.5	4.1	4.9	5.4	6.7	8.5
Repayment to IDA	3.2	5.2	7.2	9.6	10.9	11.9	13.7	15.9
Repayment to IDA as % TDS	5.6	9.5	10.7	12.4	11.5	11.3	12.0	12.7
DS to IDA as % XGS	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
DS to IDA as % of public DS	5.6	9.5	10.7	12.4	11.5	11.3	12.0	12.7
DS to IBRD as % of public DS	0.0	0.0	0.0	0.0	0.1	0.2	0.7	2.1
Preferred Creditor DS/ Total DS	54.2	58.8	56.8	55.3	54.2	57.2	55.1	52.9
DO to IDA (US$ million)	476	583	677	743	819	858	889	901

a. Includes public and publicly guaranteed debt, private non-guaranteed, use of IMF credits and net short-term capital
b. “XGS" denotes exports of goods and services, including workers' remittances.

For Albania to minimize its exposure to external shocks and ensure sustainability of its public and external debt, it will need to improve the quality of its fiscal adjustment by further strengthening its revenue generation capacity and improving the efficiency of its capital spending; improving the business environment, and removing obstacles to exports stemming from poor infrastructure and institutional quality. This will need to be accompanied by a financing and debt management strategy that would alter the size, terms and composition of its domestic debt, improve the functioning of government securities markets and actively take measures to gradually access market based lending on favorable terms.

ANNEX 9: ALBANIA'S RELATIONS WITH THE EU AND PROGRESS ON THE SAP

Relations between Albania and the European Union (EU) have been developing in the context of the Stabilization and Association process (SAp). As such, the SAp is a framework in which a new contractual relationship (Stabilization and Association Agreements) and an assistance program (CARDS)[26] help each country in the Western Balkans to progress, at its own pace towards EU membership.[27]

The idea of a SAp as a new and genuine tool of anchoring the countries from the Western Balkans towards the EU was born at the Zagreb Summit in November 2000, after the Feira Council of June 2000 that addressed the future of the Balkans countries is in Europe.[28] In Zagreb, the Western Balkan countries made a pledge to abide by the EU rules and conditionality, receiving in return the prospect for EU accession based on the Treaty of the European Union (TEU) and the Copenhagen criteria as well as on assistance program to promote and support this ambition.[29] They also agreed that when signed, the Stabilization and Association Agreements (SAAs) would be the principal means to begin preparing themselves for the demands that the prospect of accession to the EU entails.[30] In addition, the countries agreed (once they meet the necessary rules and conditions) to receive financial assistance (CARDS), which would focus on supporting necessary reforms and institution building, and thus facilitate their approximation with the EU.

Since 1991, successive Albanian governments have placed the prospect of European integration at the top of their agendas. In fact, integration in the EU has been the only overarching national interest in Albania because of lack of broader national consensus on other development challenges, due to political rivalry. Although Albania signed a Co-operation and Trade Agreement with the EU in 1992, the civil unrest in 1997 (the so-called "pyramid schemes crisis"), delayed further development of relations between the EU and Albania. In 1999, the European Commission (EC) presented a Feasibility Report, which concluded that, despite progress made since the 1997 crisis, Albania was not yet in a position to take on the far reaching contractual obligations with the EU.[31]

In November 2000, the EU decided at the Zagreb summit to set up an EU/Albania High Level Steering Group (HLSG), with the objective of stepping up cooperation between the EU and Albania, and identifying and supporting reforms to be carried out by Albania in preparation for negotiation of a SAA. The EU/Albania HLSG was asked to assess progress, to recommend necessary reform measures and to provide advice and guidance in the areas of concern outlined in the 1999 Feasibility Report, and to report

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[26] Community Assistance for Reconstruction, Development and Stabilization.

[27] European Community CARDS Programme - *Albania Country Strategy Paper*, 30 November 2001.

[28] The European Council in Feira confirmed that its objective remained fullest possible integration of the countries in the region into the political and economic mainstream of Europe through the SAp, political dialogue, liberalization of trade and cooperation in Justice and Home Affairs. http://www.euoparl.eu.int/summits/fei1_en.htm.

[29] The European Council in Copenhagen 1993 spelled out the Copenhagen criteria, by which candidate countries would be judged for accession on: (i) stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; (ii) existence of a functioning market economy, as well as capacity to cope with competitive pressure and market forces within the EU; and (iii) ability to take on obligations of membership, including adherence to the aims of political, economic and monetary union – i.e. *the acquis communautaire*.

[30] Engineered similarly to the Europe Agreements that were signed between the EU and the 10 countries of Central and Eastern Europe at the beginning of 1990, the SAAs focus on respect for democratic principles and integration of the countries of the region into the EU single market. They foresee the establishment of a free trade area with the EU and set out rights and obligations in areas such as competition and state aid rules, intellectual property and establishment, which will allow the economies of the region to begin to integrate with the EU. The conclusion of such Agreements represents the signatories' commitment to complete over a transition period a formal association with the EU, tailored to the circumstances of each country but based on the implementation of the same core obligations.

[31] COM 599 final (1999).

to the European Council by mid-2001. Based upon the report prepared by the HSLG, the EC concluded that, taking into account political, economic, regional and SAA-related technical factors, it is appropriate to proceed with negotiations for a SAA with Albania.[32] The Gothenburg European Council of June 2001 welcomed the EC's report and invited the EC to present draft negotiating directives to the Council for the negotiation of an SAA with Albania. The directives were finally adopted 2002. On January 31, 2003 the President of the European Commission, Romano Prodi, officially launched the negotiations for a SAA.

Negotiations on a draft SAA began in early 2003. Since then three official rounds (including member states representatives) and five technical rounds of negotiations have been held with the Albanian authorities. Agreement in principle has now been reached on most elements of the text of the draft agreement.[33] However, actual implementation of reforms has been insufficient to properly address many of the shortcomings identified in the 2001 High Level Steering Group report, subsequent SAp reports, and in the framework of the regular dialogue between the EC and Albania.[34] In fact, the SAp reports reveal that most of the recommendations from 2002 were not implemented and thus carried over to 2003, while only a limited number of policy recommendations in the 2003 SAp report and the various Consultative Task Force meetings have been fully implemented.[35] According to the 2004 SAp report, Albania does not yet offer a sufficient guarantee that it will be capable of correctly implementing the future SAA[36]

The 2005 SAp Progress Report, however, highlighted that progress been made in Albania on economic and political developments and in meeting European standards. It recognized that Albania has made progress in reinforcing its democratic, judicial and public administration institutions but needs to implement strategies and laws with more vigor to improve their functioning. It assessed Parliamentary elections as been conducted in line with the Electoral Code and that they adhered to fundamental democratic principles, leading to smooth transfer of power. The 2005 Progress Report also recognized that Albania made progress in improving the oversight, recruitment and training of the civil service and taken steps to enhance its legal framework and to make public administration more robust. Proper implementation of the existing legislative framework and the overall effective functioning of the judicial system remain a matter of concern to the EC despite some efforts made to fight corruption.[37]

The 2005 SAp Progress Report also concluded that Albania operates to some degree within the framework of functioning market principles. Further vigorous reform efforts are, however, necessary to address the shortcoming in competitiveness of the economy (weak infrastructure, poor legislation, weak implementation of tax legislation, unfair competition by business operating in the grey economy, etc.). The report also recognized that Albania has made progress towards meeting European standards. Progress has been mainly through adoption of new legislation and establishment of new institutions. But in a number of cases, more commitment and resources are needed for further progress and implementation.

In order for Albania to make meaningful progress in the SAp, the progress reports assess that major reforms are necessary in the following areas: (i) fighting organized crime, trafficking and corruption; (ii) strengthening the judicial system and public administration; (iii) ensuring the proper functioning of democracy (including elections) and preserving the political stability necessary for speedy reform implementation; (iv) improvement in terms of human and minority rights; (v) further formalization and reform of the economy, as well as increased fiscal sustainability through more efficient customs and tax administrations and a strengthened legal framework.

[32] COM 300 final (2001).
[33] Albania, 2005 Progress Report, European Commission, Brussels, 9 November 2005.
[34] Albania, Stabilization and Association Report 2004, European Commission.
[35] Albania, Stabilization and Association Report 2003, European Commission.
[36] Albania, Stabilization and Association Report 2004, European Commission.
[37] Albania, 2005 Progress Report, European Commission, Brussels, 9 November 2005.

The SAp was further deepened with the Thessaloniki Council of June 2003, which reiterated the EU's determination to fully and effectively support the European prospects of the Western Balkan countries. The Council also introduced a new tool aimed at approximating the countries in the region with the EU – the European Partnership. The Council decision approving a European Partnership for Albania was published in June 2004. The Albanian Government adopted its Action Plan for the Implementation of European Partnership Priorities in September 2004 and provided the Commission with updates on its progress in implementing the Action Plan in December 2004 and March 2005.

The European Partnership for Albania is based on the provisions of Council Regulation (EC) No. 533/2004. It is modeled on the Accession Partnerships developed to prepare past aspirants to EU membership. It defines short and medium term priorities for Albania's preparations for further integration with the EU identified in the EC's 2004 Annual Report, and serves as a checklist against which to measure progress. The priorities specified in the European Partnership are adapted to Albania's specific needs and stage of preparation and will be updated as necessary. The European Partnership also provides guidance for financial assistance to Albania through the CARDS program.[38]

The 2005 SAp Progress Report also made an assessment about progress in implementation of the European Partnership. It concluded that "overall, Albania had made some progress in implementing the European Partnership's short-term priorities, but has not yet began to address concertedly those set out for the medium term".[39] While new laws have been enacted and new institutions been created, slow implementation, and in few cases lack of political will, have been the main factors behind the slow pace of progress. The main remaining challenges facing Albania include:

- In the ***political field***, priority should be given to better parliamentary rules and creation of a more constructive political climate. Judicial transparency should be fostered and the civil service law should be fully implemented. Albania should ensure that its strategy to fight corruption is realistic and precise. Further efforts are required also to complete the legal and administrative framework for the protection of minorities.

- In the area of ***economic management***, priority should be given to certainty of property ownership. Albania also need to secure that it will be able to fulfill its future SAA obligation with regard to non-discriminatory application of business law for EU companies, improve commercial legislation and provide more resource to its SME agency and make progress in the business environment.

- Finally, in the area of ***European Standards***, measure to increase awareness of the importance European standards among economic actors needs to be adopted. Fighting corruption, smuggling and trafficking by the custom service should receive a higher priority. Public procurement need to be improved both legislatively and in terms of building administrative capacity. Albania also needs to raise awareness of intellectual property rights among economic operators and law enforcement agencies.

The EU is currently rationalizing the pre-accession aid. In September 2004, the European Commission proposed a Regulation that creates a single framework for assistance: the Instrument for Pre-Accession (IPA). Under the draft IPA Regulation, assistance for potential candidate countries such as Albania will remain very much the same as currently under CARDS, i.e., similar sectors and same kind of operations: (i) institution building and democratization; (ii) economic and social development; (iii) regional and cross-border cooperation; and (iv) partial alignment with the *acquis* communautaire, in particular where

[38] *European Partnership for Albania, March 2004,* European Commission.
[39] Albania, 2005 Progress Report, European Commission, Brussels, 9 November 2005 (page 66).

this is in the mutual interest of the EU and the beneficiary country. Project management responsibilities under IPA may be decentralized to the local administration, but this is likely to be done gradually.

Over the period 1991-2004, the EC assistance to Albania had totalled about € 1.2 billion, of which € 635 million was delivered through the Phare program. Since 2001, CARDS has been the main EC financial instrument for Albania. The support provided through CARDS in 2005 (€ 44.2) is mainly focused on European partnership priorities.

TABLE A9.1: FOCUS AREAS OF CURRENT EC AND WORLD BANK PROGRAMS IN ALBANIA

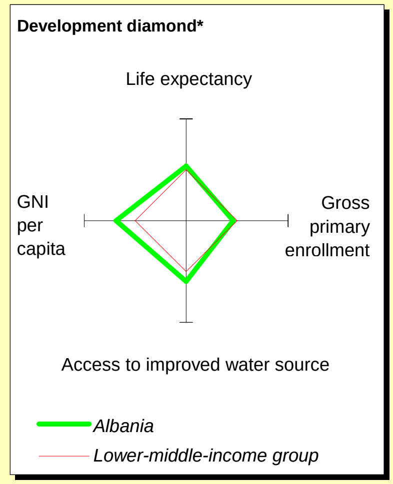
EC Programs	Current WB Programs
Democratic Stabilization (civil society and the media , reinforcing the role of NGOs, trade unions and other civil society organizations, support a funding mechanism for the delivery of social services by civil society)	
Democracy and Human Rights: European Initiative for Democracy and Human Rights	
Good Governance and Institution Building (Judicial Reforms, Administrative Capacity, Police, Organized Crime and Terrorism, Integrated Border Management)	Public Administration Reform Project; Legal and Judicial Reform Project
Asylum and Migration	
Decentralization (including Local Community and Development Program)	IDF's "Institutional Capacity Enhancement for a Reform of Intergovernmental Fiscal Relations in Albania"; PEIR.
Customs and Taxation	
Investment climate	Agricultural Services Project; Fishery Development Project; and Water Resource Management projects
Trade	
Infrastructure	Power Sector Generation and Restructuring; Power Sector Rehabilitation and Restructuring; and Road Maintenance
Environment	Integrated Water and Ecosystem Management; Municipal Water/Waste Water; Water Resource Management; and Natural Resource Management projects
Education and Employment	Social Services Development; and Community Works II
Neighborhood Program (projects on Transnational and Cross Border Cooperation supported by CARDS)	

ANNEX 10 STANDARD CAS ANNEXES

Albania at a glance

11/19/05

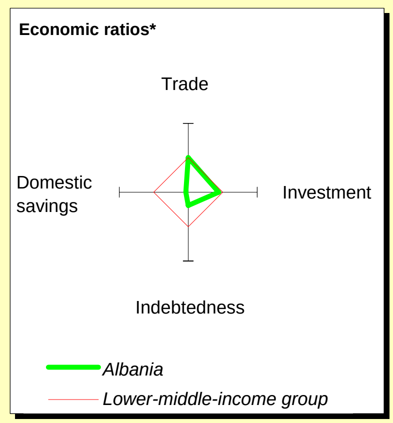
POVERTY and SOCIAL	Albania	Europe & Central Asia	Lower-middle-income
2004			
Population, mid-year *(millions)*	3.2	473	2,655
GNI per capita *(Atlas method, US$)*	2,040	2,570	1,480
GNI *(Atlas method, US$ billions)*	6.5	1,217	3,934
Average annual growth, 1998-04			
Population *(%)*	0.5	0.0	0.9
Labor force *(%)*	1.0	0.2	1.2
Most recent estimate (latest year available, 1998-04)			
Poverty *(% of population below national poverty line)*	25	..	..
Urban population *(% of total population)*	44	63	50
Life expectancy at birth *(years)*	74	69	69
Infant mortality *(per 1,000 live births)*	18	31	32
Child malnutrition *(% of children under 5)*	14	..	11
Access to an improved water source *(% of population)*	97	91	81
Illiteracy *(% of population age 15+)*	1	3	10
Gross primary enrollment *(% of school-age population)*	104	103	112
Male	105	104	113
Female	102	102	111



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

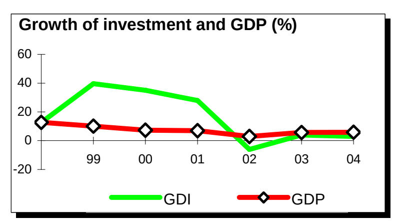
	1984	1994	2003	2004
GDP *(US$ billions)*	..	2.0	5.6	7.4
Gross domestic investment/GDP	31.8	17.9	23.5	23.8
Exports of goods and services/GDP	17.4	11.4	20.7	21.9
Gross domestic savings/GDP	29.8	-9.7	-1.7	2.0
Gross national savings/GDP	30.0	3.9	15.3	18.3
Current account balance/GDP	..	..	-8.3	-5.5
Interest payments/GDP	..	0.5	0.3	0.3
Total debt/GDP	..	44.5	21.4	18.8
Total debt service/exports	..	6.6	2.6	2.3
Present value of debt/GDP	..	..	18.4	16.1
Present value of debt/exports	..	..	48.3	42.1

	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	-3.9	6.0	5.7	5.9	5.6
GDP per capita	-5.2	6.0	5.1	5.3	5.0
Exports of goods and services	..	20.6	18.2	19.3	11.3

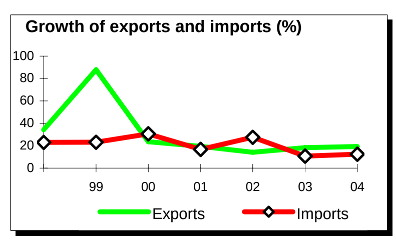


STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	33.1	53.6	24.0	24.7
Industry	44.0	21.7	21.1	19.2
Manufacturing	..	..	12.3	..
Services	22.9	24.6	54.9	56.1
Private consumption	60.8	95.8	91.6	88.5
General government consumption	9.4	13.9	10.1	9.5
Imports of goods and services	19.4	39.0	45.8	44.0



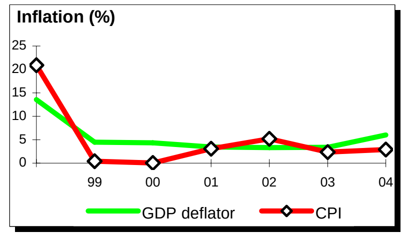
	1984-94	1994-04	2003	2004
(average annual growth)				
Agriculture	2.1	2.6	2.7	3.5
Industry	-10.5	7.3	6.1	10.2
Manufacturing	..	5.8	0.0	0.0
Services	-3.5	8.8	7.0	5.6
Private consumption	..	4.2	10.0	7.0
General government consumption	..	18.5	10.5	6.2
Gross domestic investment	8.4	12.8	3.9	3.0
Imports of goods and services	..	16.9	10.7	12.3



Albania

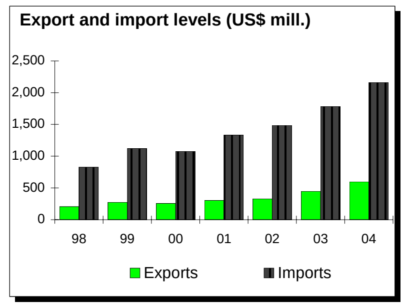
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	..	..	2.4	2.9
Implicit GDP deflator	0.0	38.4	3.4	6.0
Government finance				
(% of GDP, includes current grants)				
Total revenue	50.9	25.6	24.5	24.1
Current budget balance	25.6	-0.4	-0.1	0.1
Overall surplus/deficit	..	-7.8	-4.5	-5.1



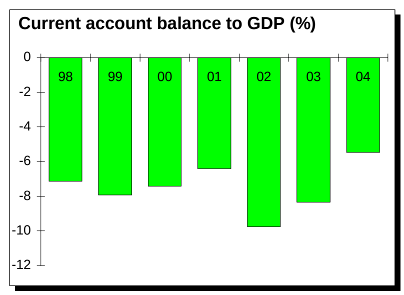
TRADE

	1984	1994	2003	2004
(US$ millions)				
Total exports (fob)	319	141	447	599
Agriculture and food	..	27	37	50
Energy, minerals and electricity	..	23	79	135
Manufactures	..	1	331	414
Total imports (cif)	353	601	1,783	2,161
Food	..	68	369	447
Fuel and energy	..	77	220	245
Capital goods	..	231	644	837
Export price index *(1996=100)*	..	..	92	100
Import price index *(1996=100)*	..	..	89	94
Terms of trade *(1996=100)*	..	..	104	106



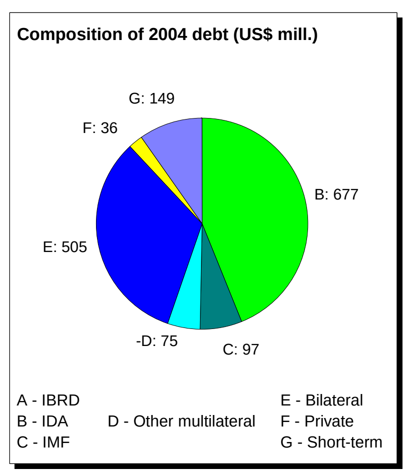
BALANCE of PAYMENTS

	1984	1994	2003	2004
(US$ millions)				
Exports of goods and services	335	220	1,167	1,596
Imports of goods and services	372	734	2,586	3,208
Resource balance	-38	-513	-1,419	-1,612
Net income	3	14	167	183
Net current transfers	..	..	782	1,025
Current account balance	..	..	-469	-404
Financing items (net)	..	..	587	167
Changes in net reserves	12	-7	-118	237
Memo:				
Reserves including gold *(US$ millions)*	..	226	1,026	1,374
Conversion rate *(DEC, local/US$)*	..	94.6	121.5	103.8



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US$ millions)				
Total debt outstanding and disbursed	..	883	1,201	1,389
IBRD	..	0	0	0
IDA	..	65	583	677
Total debt service	..	18	57	66
IBRD	..	0	0	0
IDA	..	0	5	8
Composition of net resource flows				
Official grants	0	68	146	127
Official creditors	..	72	111	113
Private creditors	..	-8	-3	-1
Foreign direct investment	0	53	178	344
Portfolio equity	0	0	0	0
World Bank program				
Commitments	..	63	61	50
Disbursements	..	35	61	67
Principal repayments	..	0	1	3
Net flows	..	35	60	64
Interest payments	..	0	4	5
Net transfers	..	35	56	59



CAS Annex B2 - Albania
Selected Indicators* of Bank Portfolio Performance and Management
As Of Date 09/09/2005

Indicator	2003	2004	2005	2006
Portfolio Assessment				
Number of Projects Under Implementation [a]	21	21	15	15
Average Implementation Period (years) [b]	3.0	3.2	2.4	2.6
Percent of Problem Projects by Number [a, c]	4.8	14.3	0.0	0.0
Percent of Problem Projects by Amount [a, c]	4.2	12.0	0.0	0.0
Percent of Projects at Risk by Number [a, d]	4.8	14.3	0.0	0.0
Percent of Projects at Risk by Amount [a, d]	4.2	12.0	0.0	0.0
Disbursement Ratio (%) [e]	24.1	23.6	25.2	2.5
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				
Memorandum Item	**Since FY 80**	**Last Five FYs**		
Proj Eval by OED by Number	35	13		
Proj Eval by OED by Amt (US$ millions)	468.3	163.7		
% of OED Projects Rated U or HU by Number	14.3	15.4		
% of OED Projects Rated U or HU by Amt	11.0	18.5		

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year

Albania Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1998-04	Europe & Central Asia	Lower-middle-income
POPULATION					
Total population, mid-year *(millions)*	2.7	3.3	3.2	472.1	2,430.3
Growth rate *(% annual average for period)*	2.1	2.1	0.5	-0.1	1.0
Urban population *(% of population)*	33.7	36.1	44.4	63.6	48.6
Total fertility rate *(births per woman)*	3.6	3.0	2.2	1.6	2.1
POVERTY					
(% of population)					
National headcount index	..	..	25.4	..	..
Urban headcount index	..	..	19.8	..	..
Rural headcount index	..	..	29.6	..	..
INCOME					
GNI per capita *(US$)*	..	..	2,040	3,290	1,580
Consumer price index *(1996=100)*	..	..	180	..	..
Food price index *(1996=100)*	..	..	153	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	28.2	..	..
Lowest quintile *(% of income or consumption)*	..	..	9.1	..	..
Highest quintile *(% of income or consumption)*	..	..	37.4	..	..
SOCIAL INDICATORS					
Public expenditure					
Health *(% of GDP)*	..	..	2.4	4.2	2.5
Education *(% of GNI)*	..	..	..	4.4	3.5
Social security and welfare *(% of GDP)*	..	..	6.0	..	..
Net primary school enrollment rate					
(% of age group)					
Total	..	95	95	89	..
Male	..	95	96	89	..
Female	..	96	94	88	..
Access to an improved water source					
(% of population)					
Total	..	97	97	91	81
Urban	..	99	99	98	93
Rural	..	95	95	80	70
Immunization rate					
(% of children ages 12-23 months)					
Measles	90	88	93	92	86
DPT	94	94	97	90	88
Child malnutrition *(% under 5 years)*	..	..	14	..	11
Life expectancy at birth					
(years)					
Total	68	72	74	68	70
Male	66	69	72	64	68
Female	71	75	77	73	72
Mortality					
Infant *(per 1,000 live births)*	55	37	18	29	33
Under 5 *(per 1,000)*	72	45	21	36	42
Adult (15-59)					
Male *(per 1,000 population)*	..	..	209	317	192
Female *(per 1,000 population)*	..	..	95	136	123
Maternal *(per 100,000 live births)*	..	..	55	61	111
Births attended by skilled health staff *(%)*	..	..	94	..	86

Albania - Key Economic Indicators

Indicator	Actual 1999	2000	2001	Estimate 2002	2003	2004	Projected 2005	2006	2007	2008	2009
National accounts (as % of GDP)											
Gross domestic product[a]	100	100	100	100	100	100	100	100	100	100	100
Agriculture	30	29	27	26	24	25					
Industry	17	19	20	19	21	19					
Services	54	52	53	55	55	56					
Total Consumption	99.8	97.4	95.6	101.6	101.7	98.0	98.6	97.5	95.6	94.3	93.5
Gross domestic fixed investment	20.0	24.7	27.5	24.5	23.4	23.8	23.6	24.8	25.8	26.3	27.1
Government investment	7.8	6.6	7.3	6.7	4.6	5.0	4.6	5.5	6.0	5.9	6.1
Private investment	12.2	18.1	20.2	17.8	18.8	18.8	19.0	19.3	19.8	20.5	21.0
Exports (GNFS)[b]	15.7	17.6	18.3	19.5	20.7	21.9	23.3	24.5	25.5	26.4	27.1
Imports (GNFS)	32.0	37.5	38.7	46.7	45.8	44.0	45.4	46.8	46.9	47.1	47.7
Gross domestic savings	0.2	2.6	4.4	-1.6	-1.7	2.0	1.4	2.5	4.4	5.7	6.5
Gross national savings[c]	11.8	17.3	21.2	14.7	15.3	18.3	16.6	17.6	19.4	20.5	21.1
Memorandum items											
Gross domestic product (US$ million at current prices)	3434	3687	4091	4456	5617	7382	8695	9299	10097	10997	11959
GNI per capita (US$, Atlas method)	980	1160	1310	1370	1620	2040	2480	2880	3160	3380	..
Real annual growth rates (%, calculated from 1996 prices)											
Gross domestic product at market prices	10.1	7.3	7.0	2.9	5.7	5.9	5.5	5.0	6.0	6.0	6.0
Gross Domestic Income	10.9	7.7	6.9	3.2	6.5	7.6	8.3	7.2	7.2	7.3	7.1
Real annual per capita growth rates (%, calculated from 1996 prices)											
Gross domestic product at market prices	10.1	6.9	6.4	2.3	5.1	5.3	4.9	4.4	5.4	5.4	5.4
Total consumption	2.1	7.4	3.1	12.3	9.5	6.1	10.4	4.5	4.3	5.1	5.8
Private consumption	1.3	10.5	2.0	13.7	9.3	6.3	11.6	5.4	3.9	5.0	5.9
Balance of Payments (US$ millions)											
Exports (GNFS)[b]	594	705	839	915	1167	1596	2026	2275	2571	2906	3245
Merchandise FOB	275	255	305	330	447	599	759	881	1016	1173	1330
Imports (GNFS)[b]	1254	1521	1790	2075	2586	3208	3951	4349	4734	5175	5710
Merchandise FOB	1121	1076	1332	1485	1783	2161	2688	2976	3233	3514	3848
Resource balance	-660	-816	-950	-1159	-1419	-1612	-1925	-2074	-2163	-2270	-2465
Net current transfers	327	439	543	597	782	1025	1170	1254	1358	1457	1565
Current account balance	-272	-274	-262	-435	-469	-404	-602	-669	-648	-646	-713
Net private foreign direct investment	51	143	204	135	178	344	299	344	389	434	487
Long-term loans (net)	72	71	83	93	85	84	126	205	140	94	88
Official	128	111	90	129	111	113	139	103	76	67	96
Private	-55	-40	-7	-36	-26	-29	-13	102	64	27	-8
Other capital (net, incl. errors & ommissions)	228	186	110	257	325	-262	190	316	288	352	411
Change in reserves[d]	-79	-126	-135	-50	-118	237	-13	-195	-170	-234	-273
Memorandum items											
Resource balance (% of GDP)	-19.2	-22.1	-23.2	-26.0	-25.3	-21.8	-22.1	-22.3	-21.4	-20.6	-20.6
Current Account Balance excluding capital	-7.9	-7.4	-6.4	-9.8	-8.3	-5.5	-6.9	-7.2	-6.4	-5.9	-6.0
Current Account Balance including capital	-3.9	-4.4	-3.4	-7.0	-5.7	-3.8	-5.5	-5.8	-5.1	-4.7	-4.8
Remittances (%of GDP)	9.5	11.9	13.3	13.4	13.9	13.9	13.5	13.5	13.4	13.2	13.1

(Continued)

Albania - Key Economic Indicators
(Continued)

Indicator	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Actual			Estimate			Projected				
Public finance (as % of GDP at market prices)[e]											
Total Renenue[fg]		25.4	25.8	24.8	24.6	26.0	24.1	24.8	24.9	25.0	25.1
Total Expenditure		31.9	31.6	31.4	29.0	29.2	27.7	28.7	28.4	28.1	28.1
Capital expenditure		6.6	7.3	6.6	4.5	5.2	4.6	5.5	6.0	5.9	6.1
Overall Balance		-8.2	-7.9	-6.6	-4.5	-5.1	-3.6	-3.9	-3.6	-3.1	-3.0
Foreign financing (includes grants)		3.3	2.6	3.3	1.5	1.0	0.8	1.3	1.0	0.6	0.6
Monetary indicators											
M2/GDP	61.7	61.8	67.1	65.3	65.0	65.6	67.7	70.5	72.4	74.4	76.7
Growth of M2 (%)	22.3	12.0	20.2	3.5	8.7	13.5	12.7	11.8	12.2	12.5	12.8
Private sector credit growth / total credit growth (%)	8.7	28.4	26.3	46.5	45.6	64.7	84.3	79.2	83.1	84.5	85.1
Price indices(YR96 =100)											
Merchandise export price index	85.2	82.8	80.0	81.5	92.1	100.0	109.0	108.5	107.5	107.0	106.6
Merchandise import price index	81.7	78.6	77.2	79.6	89.0	94.1	95.1	95.1	95.1	95.1	95.1
Merchandise terms of trade index	104.3	105.4	103.6	102.3	103.5	106.2	114.6	114.1	113.1	112.5	112.1
Real exchange rate (US$/LCU)[f]	93.5	100.0	109.8	97.9	101.8	107.0	98.9	100.4	98.8	97.0	95.4
Real interest rates											
Consumer price index (% change)	0.4	0.0	3.1	5.2	2.4	2.9	2.2	2.5	3.0	3.0	3.0
GDP deflator (% change)	4.5	4.3	3.5	3.3	3.4	6.0	3.5	2.4	3.0	3.3	3.2

a. GDP at factor cost
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Consolidated central government.
f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.
g. excludes grants but includes privatization receipts, which in 2004 amounted to 1.9% of GDP due to the privatization of the Savings Bank

Albania - Key Exposure Indicators

Indicator	Actual			Estimate		Projected					
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt outstanding and disbursed (TDO) (US$m)[a]	709	1061	1093	1119	1201	1389	1583	1775	1963	2064	2209
Net disbursements (US$m)[a]	142	122	88	124	120	180	186	181	103	88	114
Total debt service (TDS) (US$m)[a]	23	27	37	58	55	68	78	95	106	115	125
Debt and debt service indicators (%)											
TDO/XGS[b]	71.3	84.2	70.9	67.4	56.2	49.2	46.7	47.6	47.4	44.9	43.6
TDO/GDP	20.6	28.8	26.7	25.1	21.4	18.8	18.2	19.1	19.4	18.8	18.5
TDS/XGS	2.3	2.2	2.4	3.5	2.6	2.4	2.3	2.6	2.5	2.5	2.5
Concessional/TDO	71.8	52.2	54.9	76.7	88.5	87.3	86.7	82.7	79.0	77.2	72.7
IBRD exposure indicators (%)											
IBRD DS/public DS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.7	2.1
Preferred creditor DS/public DS (%)[c]	48.9	59.0	72.1	54.2	58.8	56.8	55.3	54.2	57.2	55.1	52.9
IBRD DS/XGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
IBRD TDO (US$m)[d]	0	0	0	0	0	0	0	1	5	16	50
Of which present value of guarantees (US$m)											
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	1	2	5
IDA TDO (US$m)[d]	296	346	366	476	583	677	743	819	858	889	901

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.