

Country Partnership
Framework for Albania
2015 – 2019

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Country Partnership
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CURRENCY EQUIVALENTS

(Exchange Rate Effective, April 27, 2015)

Currency Unit – Albanian Lek (LEK)

1.00 = US\$ 0.00772

US\$ 1.00 = LEK 130

GOVERNMENT'S FISCAL YEAR

January 1 – December 31

WORLD BANK'S FISCAL YEAR

July 1 – June 30

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities
ADA	Austrian Development Agency
AFMIS	Albania Financial Management Information System
AGFIS	Albania Government Financial Information System
APL	Adaptable Program Loan
BEEPS	Business Environment and Enterprise Performance Survey
BoA	Bank of Albania
CEB	Council of Europe Development Bank
CEFTA	Central European Free Trade Agreement
CIT	Corporate Income Tax
CFRR	Center for Financial Reporting Reform
CMU	Country Management Unit
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CSC	Citizen Service Center
CSD	Citizen-Centric Delivery
DB	Doing Business
DDPFFA	Department of Development Planning, Financing and Foreign Aid
DLIs	Disbursement Linked Indicators
DP	Democratic Party
DPL	Development Policy Loan
DTF	Doing Business Distance to Frontier
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
ECSEE	Energy Community of South East Europe
EE	Energy Efficiency
EFF	Extended Fund Facility
EIB	European Investment Bank
EITI	Extractive Industry Transparency Initiative
EQ-FINREP	Enhancing Quality of Financial Reporting
ESP	Environmental Services Project
ESW	Economic Sector Work
EU	European Union
FDI	Foreign Direct Investment
FinSAC	Financial Sector Advisory Center
FIRST	Financial Sector Reform and Strengthening Initiative
FM	Financial Management
FMIS	Financial Management Information System
FY	Fiscal Year
GDP	Gross Domestic Product

ABBREVIATIONS AND ACRONYMS

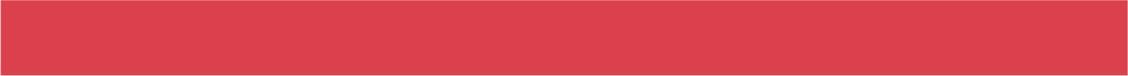
GIZ	Gesellschaft für Internationale Zusammenarbeit
GP	Global Practice
HMIS	Health Management Information System
HPP	Hydro Power Plant
HSIP	Health Systems Improvement Project
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICT	Information Communication Technology
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ILO	International Labor Office
IMF	International Monetary Fund
IPS	Integrated Planning System
IRI	Interactive Radio Instruction
JIP	Joint Implementation Program
KfW	Kreditanstalt für Wiederaufbau
LADI	Land Administration and Data Improvement
LFS	Labor Force Survey
MDTF	Multi-Donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MoSWY	Ministry of Social Welfare and Youth
MW	Mega Watt
NCB	National Competitive Bidding
NPLs	Non-performing Loans
NSDI	National Strategy for Development Integration
OSCE	Organization for Security and Cooperation in Europe
P4R	Program for Results
PBG	Policy Based Guarantee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFR	Public Finance Review
PLR	Performance and Learning Review
PP	Public Procurement
PPA	Public Procurement Agency
PPP	Public-Private Partnership
PRC	Procurement Review Commission
RE	Renewable Energy
REPARIS	Road to Europe: Program of Accounting Reform and Institutional Strengthening

ABBREVIATIONS AND ACRONYMS

SAMP	Social Assistance Modernization Project
SCAs	Savings and Credit Associations
SCD	Systematic Country Diagnostic
SIGMA	Support for Improvement in Governance and Management
SME	Small and Medium-sized Enterprise
SORT	Standardized Operations Risk-rating Tool
SP	Socialist Party
TA	Technical Assistance
TF	Trust Fund
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WB	World Bank
WBG	World Bank Group
WRIP	Water Resources and Irrigation Project
WSIP	Water Sector Investment Project

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EXECUTIVE SUMMARY

Introduction

i. This Country Partnership Framework (CPF) sets out the World Bank Group (WBG) program for Albania for the period FY15-19, aimed at **supporting Albania's aspiration to achieve equitable growth and integration into the European Union**. The WBG program will be pursued with a focus on the *twin goals* of reducing poverty and boosting shared prosperity. The CPF program of technical and financial support is *designed selectively* around a subset of top priorities identified in the Systematic Country Diagnostic (SCD), which assessed the constraints and opportunities to accelerate growth, reduce poverty and enhance inclusion and shared prosperity. The SCD built on a longer-term effort by the WBG to strengthen the evidence base and analysis to support a process of priority setting as part of the *science of delivery approach* adopted by the Albanian Government upon assuming office in September 2013.

Country Context

ii. Albania emerged from the collapse of isolationist communism in the early 1990s as one of the poorest countries in Europe. The country then experienced rapid growth of nearly 6 percent per annum, rising into the ranks of middle income countries by 2008. The rapid pace of growth helped the country narrow the per capita income gap with the rest of Europe from 18 percent of average EU incomes in 1998 to 30 percent by 2012, and fueled aspirations to join the EU. Growth successfully halved poverty from 25.2 percent in 2002 to 12.5 percent in 2008. Growth before 2008 was largely the product of rising domestic consumption, fueled by a real estate boom on the coast, and by remittances reaching as much as 10.8 percent of GDP from high levels of out-migration. The global and Eurozone crises in 2008 brought Albania's growth to a near stand-still by 2012, and the country is struggling to recover, particularly given its historic ties to Europe's poorer performing economies. Although the country avoided the recession seen elsewhere in Europe, the dramatic slowing of growth coupled with fiscal indiscipline and reform paralysis exposed severe macroeconomic imbalances, with a rapid escalation in public debt and arrears, unsustainable deficits in the energy sector and a sharp increase in non-performing loans in the banking sector. The poverty rate rose to 14.5 percent along with rising unemployment in the aftermath of the crises.

iii. In this unfavorable context, a highly reformist Government took office in 2013 on a platform aimed at accelerating growth, creating jobs, restoring trust in government and furthering progress toward EU accession. The Government's ambition and drive to reform are tempered by limited prior public sector experience and the country's historically weak administrative capacity to implement change. Nonetheless, with adequate support from the international community, Albania now has a historic opportunity to break with the past and accelerate its path toward prosperity and integration into the EU. This opportunity has been met with an increased level of WBG support to implement deep and long-overdue structural reforms — a level of support which will be continued in the new CPF if reform commitment is sustained.

Early wins

iv. Recognizing the urgency of restoring growth and reducing poverty, the Government moved energetically to begin implementing a medium-term program of fiscal consolidation and financial sector stability that has included clearing public sector arrears equivalent to more than 5 percent of GDP. Concurrently, it has moved forward on structural reforms in energy and pensions that have important impacts on fiscal sustainability as well as growth and inclusion. Initial reforms were also undertaken to improve the investment climate and tackle corruption in public service delivery. The track record of the past year demonstrates the highest level of political commitment to resolve the deep-rooted issues facing the country.

v. Government ownership and commitment enabled the World Bank Group to significantly step up its policy and operational engagement during 2014, including through provision of policy-based lending after a gap of five years. Government commitment also re-invigorated the dialogue on EU accession which is an overarching national goal for Albania, with support from 85 percent of the population. Albania's reform progress in the past 18 months has been recognized internationally through, *inter alia*: i) granting of EU candidate status in June 2014; ii) Moody's improving the outlook on its B1 rating to stable from negative and S&P raising its outlook on its B rating to positive from stable; and iii) placement for the first time in the top half of the global ranking in Doing Business 2014.

Priority setting and the SCD

vi. The WBG has been a trusted and highly-valued partner to Albania in the decades since the country emerged from communist isolation. In mid-2013, the WBG prepared a set of policy briefs for the incoming Government that, as a precursor to the SCD, systematically assessed the constraints and opportunities to restore growth and poverty reduction in Albania. The new Government relied on these briefs to convene an international advisory conference entitled *Next Generation Albania: Shaping a New Model for Economic Growth*. The Prime Minister adopted a science of delivery approach to governing, and this was reflected in his participation as a founding member of the WBG's *Global Network of Delivery Leaders*. In late 2013, the new Government requested WBG technical support for an immediate priority-setting exercise based on available evidence. The WBG worked closely with the Government to define the top three priorities for each ministry as well as the top priorities for the Government as a whole, which would be the subject of close monitoring and facilitation by the Prime Minister through a newly-established Delivery Unit. The Government has since codified these priorities in its draft National Strategy for Development Integration (NSDI) which considers progress towards EU integration as an overarching national goal and outlines a vision to promote inclusive and sustainable economic growth. The Government's priorities to accomplish its vision include: ensuring macroeconomic and fiscal sustainability; enhancing competitiveness; making public services transparent and accountable; promoting efficient and sustainable use of natural resources, in particular water, energy and land sector development and management.

vii. By mid-2014, with the Government priority-setting exercise completed, the WBG began the SCD preparation process in order to formalize and expand on the WBG's earlier assessment of analytic work and available evidence. The value added of the SCD was to evaluate this evidence through the lens of

the WBG's twin goals of eliminating extreme poverty and boosting shared prosperity. Using the same evidence base, complemented with additional analysis (particularly on inclusion and shared prosperity), the SCD highlighted that the consumption-fueled growth model of the pre-crisis period is now exhausted and cannot be counted on to restore rapid growth in Albania, reduce poverty and improve prosperity among the bottom 40 percent of households. Restoring rapid growth is essential, as *the line of sight to the twin goals is clear: aggregate growth in Albania has been strongly and reliably associated with both poverty reduction and increased welfare of the bottom 40 percent of the population*. Thus, a new model is needed for the post-crisis era, based on restoring macro-fiscal sustainability and increasing domestic productivity and export-oriented growth. Accelerated growth is the *sine qua non* of resuming poverty reduction and increasing shared prosperity, but the inclusiveness of growth also matters. Such a model of accelerated, inclusive and sustainable growth requires deep structural reforms to release binding constraints to growth and to take advantage of Albania's many endowments and opportunities while ensuring that the benefits of growth are inclusive and reduce regional disparities.

viii. The SCD defined 12 broad priority areas for action to allow Albania to progress toward the twin goals. The Country Team prioritized these 12 further into three distinct groups based on their direct impact on achievement of the twin goals: fundamental priorities, supporting priorities and sustaining priorities. Those with the greatest direct impact on growth, poverty reduction and inclusion are considered *fundamental priorities*, which then form the basis for selectivity in defining the WBG program within the CPF. The remaining priorities were viewed as *supporting* and *sustaining* priorities for enhancing the impact and sustainability of the fundamental priorities. The five fundamental priorities identified by the SCD are: i) restoring fiscal sustainability and financial stability; ii) establishing a high-quality business environment that promotes firm growth and job creation; iii) providing clean energy efficiently, equitably and sustainably; iv) formalizing and enhancing the inclusiveness and sustainability of the land market; and v) enhancing governance, transparency and accountability of government.

Country Partnership Framework: FY15-19

ix. The CPF reflects selectivity based on the fundamental priorities of the SCD that allows for ramping up support from the World Bank Group. The CPF selectively chooses only five of the twelve SCD priorities, and builds a program of support around this subset of priorities on the basis of additional selectivity filters. In doing so, it keeps the line of sight to the twin goals and to issues of regional disparities and inclusion. In addition to the SCD-driven selectivity, the CPF is based on the following **selectivity filters**: i) **championship** – drilling down within the focus areas to interventions which have both high impact and strong government champions; ii) **comparative advantage** - carefully examining where the WBG can make the best contribution vis-a-vis other partners, especially the EU; iii) **strategic programming** – identifying where the WBG can support larger transformative operations, moving away from a proliferation of thinly-spread investment projects.

x. The rationale to build the CPF around five fundamental priorities out of a total of twelve SCD priorities is based on these additional selectivity filters as follows:

- **Restoring fiscal sustainability and maintaining financial stability** – this is an area of WBG comparative advantage and long-standing engagement, where WBG brings established macro-fiscal analysis and a well-defined division of labor with the IMF. With championship from the highest lev-

el of Government to tackle long-standing imbalances, the WBG has an unprecedented opportunity to support reform in this area. The WBG also has a comparative advantage among international partners in public investment management with strong body of analytic work including Public Finance Reviews.

- **Establishing a high quality business environment** – WBG engagement in Albania reflects a global comparative advantage in this area (most visible through the Doing Business Report) as well as successful WBG engagement in this area in neighboring Balkan countries. The engagement exploits the complementarity of IBRD and IFC, building on an ongoing IFC advisory engagement. It brings WBG expertise in assisting the Government to pursue legal and regulatory reforms aimed at improving the business environment and investment climate. The Ministry of Economic Development has been given a leadership role in this cross-cutting area, and is an effective champion and focal point for deepening reform in this area.
- **Providing clean, efficient, equitable and financially sustainable energy** – the WBG will maintain a high level of engagement while applying lessons learned from past engagement in the energy sector in Albania. The WBG will engage in large operations expected to support a transformative turnaround in energy sector performance. Government has already begun waging a high-profile campaign to improve power sector performance. The full combined force of IBRD, IFC and MIGA will be brought to bear on the reform and investment needs of the sector. WBG engagement also leverages resources from other partners such as the EBRD and the EU.
- **Formalizing and enhancing inclusiveness and sustainability of land markets** – the WBG is generally recognized as the lead partner for land administration reforms in the Western Balkans, including Albania, where the WBG's earlier engagement has produced improved regulatory regimes and measurable results on land registration and management. The WBG also has a successful track record of supporting environmental clean-up and land management in Albania, with important linkages to sustainable coastal tourism.
- **Enhancing governance, transparency and accountability of government** – WBG will build on its analytic base and comparative advantage among development partners in supporting public service delivery reforms. It is well placed to support public service reforms by making them more transparent, better governed and citizen-centric. Government has made the strongest commitment at its highest levels to transform the relationship between citizens and Government, and has adopted a science of delivery approach to implement this which WBG has the capacity and knowledge to support.

xi. The above rationale for engaging in these five priorities implies that other SCD priorities will not be addressed through WBG support. Among the areas where the IBRD will not commit financial resources are: basic and secondary education, civil service reforms, security and rule of law, climate change, mining and agricultural production. On the last point, the IBRD will close out legacy operations, while IFC will look for opportunities to finance agribusiness projects as part of its work on the business environment given the sector's contribution to GDP and impact on employment. In transport, the IBRD will restrict engagement to the road sector, where public investment management is a central aspect of supporting fiscal consolidation. In some areas (e.g. security and rule of law) the WBG has limited comparative advantage and EU has an active engagement. In other areas (civil service reform, agriculture), other international partners, especially the EU, will be supporting Government reform and investment needs. With respect to climate change, the EU Instrument of Pre-Accession (IPA) has earmarked significant financing for climate change initiatives.

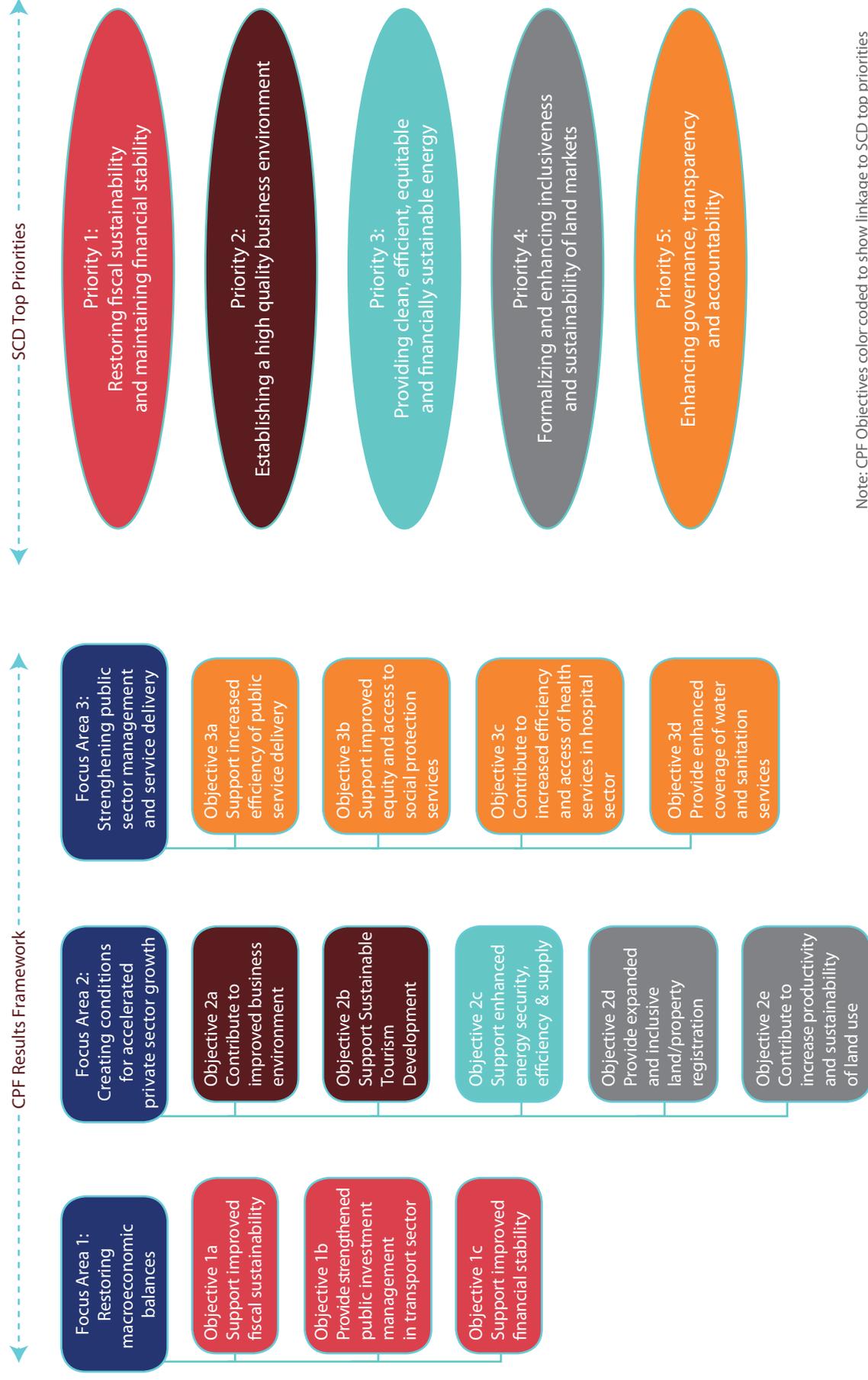
xii. The WBG will engage to support Government in achieving results related to the top SCD priorities, as outlined above. This engagement will consist of twelve CPF objectives grouped into three broad focus areas (see chart below):

- **Focus Area 1: Restoring macroeconomic balances.** The SCD considers macro-fiscal sustainability and financial sector stability to be the highest priority, having a fundamental impact on the country's ability to move to an accelerated and sustainable growth model. Albania's economic vulnerabilities are exacerbated by its high public debt and arrears, inadequate planning and management of public investments especially in transport infrastructure, unsustainable fiscal deficits and financial sector imbalances, including a large volume of non-performing loans. In the short term and beyond, these vulnerabilities can affect the generation of welfare gains and their distribution among households and firms, the capacity of households and firms to accumulate assets, and the returns households and firms receive. Measures for growth acceleration will support income growth, thereby contributing to the twin goals. For instance, clearing public sector arrears is resulting in increased financial flows to the private sector, which is likely to raise domestic demand and contribute directly to growth and job creation. Addressing the macro-fiscal and financial challenge is a pre-requisite for the country to transition to a new growth model. The strategy proposes three inter-related CPF objectives supported by a strong program of technical and financial interventions to implement the agreed medium-term macro-fiscal framework. One CPF objective in this area will focus on fiscal consolidation, reforming areas with unsustainable fiscal liabilities, such as pensions. Wages and pensions were main drivers of Albania's sharp poverty reduction prior to 2008. Pension reforms include social pensions targeted to protect the poor and the vulnerable population. Another objective will focus on enhancing transparency and predictability in financing and managing public investments, particularly in infrastructure. Better expenditure management and reduction of inefficient spending will make space for investments in social services and public infrastructure which will contribute to increased welfare of the poor and the bottom forty percent of the population through increased access to services and job creation. The third CPF objective will address financial sector weaknesses that jeopardize stability and undermine the role of financial sector institutions in promoting growth and shared prosperity.
- **Focus Area 2: Creating conditions for accelerated private sector growth.** This area will provide transformational support to Albania, through five CPF objectives, which corresponds to three of the top SCD priorities: i) establishing a high quality business environment; ii) providing clean, efficient and financially sustainable energy; and iii) formalizing and enhancing the inclusiveness and sustainability of the land market. The CPF objectives in this focus area support Government's reforms through interventions that promote growth and enhance inclusion of the poor and the bottom forty percent. The SCD empirically demonstrates serious shortcomings in the business environment by global standards, notwithstanding some recent progress. For this reason, improving the business environment is a CPF objective within this focus area. Central constraints include a heavy regulatory burden, inadequate framework for private investment, high informality, weak trade logistics and facilitation, barriers to labor market engagement, poor relevance of skills, and inadequate corporate governance and financial reporting practices which limit firms' access to financing and investment. Reforms to improve the business environment are critical for job creation, and can strengthen the link between economic growth and poverty reduction. The second CPF objective related to the business environment will support sustainable tourism development given its high potential as a key driver for growth, job creation and investments. Instability of electricity supply

is identified as a top constraint to doing business in Albania, and is a third CPF objective within this focus area. Moreover, Government subsidies are at a fiscally unsustainable level in a sector where technical and non-technical losses had risen to nearly half of supplied electricity by 2013. Ensuring a reliable and affordable power supply is one of the most important foundations for increased investment, growth, job creation and poverty reduction. Development of Albania's hydropower potential can serve as strong driver for economic growth to help disadvantaged regions overcome poverty disparities. The SCD priority related to land will be addressed through two more CPF objectives. The first focuses on resolving historic land and property ownership issues which are critical for stimulating both urban and rural investments, and for overcoming poverty as well as regional disparities in the levels of poverty. The second CPF objective on land will focus on strengthening the productivity and sustainability of land use to promote development. This involves making better use of Albania's abundant agro-forestry resources (which is an important element of inclusion in economic development). Securing property rights, formalizing land settlements and sustainable land management will have a positive impact on improving regional poverty disparities, reducing poverty and improving the welfare of the bottom forty percent by enabling more secure and productive use of assets. Economic regeneration of the coastal region through integrated tourism development will open a range of economic opportunities which will contribute towards overcoming poverty disparities. Overall in this focus area devoted to private sector growth, the WBG's operational and AAA engagement on skills, employment, and land and property rights will incorporate and address measures for reducing regional disparities and enhancing inclusion.

- **Focus Area 3: Strengthening public sector management and service delivery.** This area addresses the fundamental SCD priority of enhancing governance, transparency, and accountability of government. Within this SCD priority, the WBG program will selectively focus on interventions related to public sector management and service delivery, where the WBG has demonstrated comparative advantage. Civil service reforms, security and rule of law are being supported by the EU and other partners. WBG support is more directly aimed at building citizens' trust in government, strengthening service provision and improving service delivery and access to basic services. This includes support to attract the private sector through Public Private Partnerships (PPPs) to engage in service delivery. This program will support four CPF objectives. The first focuses on the general efficiency of public service delivery. A weak legal, regulatory and governance environment is seen as a key contributor to poor service quality, limited accountability to service users, and unequal service provision for the poor and vulnerable. The Albanian public sector is characterized by weak performance management systems and a lack of transparency and accountability in service delivery. Albania's public services are characterized by inefficiencies in spending, poor quality, weak institutional capacity, low levels of accountability, socio-economic inequalities, and a high degree of informal payments pointing to corruption. Greater trust between citizenry and government needs to be created through changes in citizens' interface with government. The remaining three CPF objectives focus on the quality and adequacy of service provision in social protection, health and water supply to the bottom forty percent of the population, citizenry in poorer regions of the country and to the vulnerable communities, including the Roma population. WBG engagement in this area will directly support government's efforts in better targeting while improving outreach and availability of public services.

Albania: Linkage between CPF Objectives and SCD Priorities



Cross cutting themes

xiii. The CPF will also have two cross cutting themes. The first is attention to gender throughout the CPF focus areas, in terms of gender-sensitive analysis, gender-disaggregated monitoring and interventions to narrow the economic opportunity gap for women whether related to asset ownership, access to the labor market or quality of public services. For example, the proposed land management interventions will facilitate female landholding, while the on-going social safety net intervention supports targeting of female beneficiaries.

xiv. The second cross-cutting theme is the EU accession process as a long-term policy anchor and popular aspiration. The entire CPF program is geared to promote reforms and investments that further Albania's accession agenda while bringing the country closer to achieving the WBG's twin goals. The EU has developed a 2014-2020 strategy for the second Instrument of Pre-Accession (IPA2)¹. The EU has turned to the WBG as a leading partner on the ground to provide much-needed implementation support for the ambitious reform agenda embraced by the Albanian Government. In some areas, the WBG will take the financial and technical lead where the WBG has a strong analytic base, relevant expertise and sizable financial resources. In other areas, the WBG will use smaller amounts of its resources to leverage larger IPA2 grant funding to deepen reforms, scale up interventions and maximize their impact. The EU roadmap requires Albania to make tangible progress on minority rights, including those of the Roma population, and on promoting socio-economic inclusion of the minorities.

Implementing the CPF

xv. Implementation of the proposed CPF program will draw lessons from implementation of the previous Country Partnership Strategy (CPS) as outlined in the CPS Completion and Learning Review, as well as lessons from client surveys and multi-stakeholder SCD and CPF consultations. Among the lessons of the past is the wisdom of using analytic and advisory work to maintain the policy dialogue in priority areas even if Government lacks the will or capacity to engage at that time. Political will evolves, champions emerge and capacity is developed over time. Having knowledge and clear recommendations to offer when the time is right can position the WBG to play a leading role in reforms and contribute to bigger results on the ground. Another important lesson is to maintain a manageable portfolio size through larger, more strategic interventions in areas with high potential and strong client ownership.

xvi. In terms of program size, the CPF proposes indicative **IBRD lending of about US\$ 1.2 billion** over the five year period if reform commitment remains exceptionally strong and depending on country demand and IBRD's financial capacity. Under this assumption, up to 40 percent of the indicative lending will be in the form of budget support if performance under the agreed medium-term macro-fiscal framework remains satisfactory. In FY14, reflecting the ambitious Government reform agenda, new IBRD commitments rose above US\$300 million, a record amount for Albania, including two development policy loans (DPLs) to support macro-fiscal sustainability and financial stabilization. FY15 will also be a peak year, with new commitments of more than US\$400 million, including a Policy Based Guarantee (PBG). IFC investments are expected to be on the order of **US\$ 150-200 million**, and **MIGA**, which

¹ The EC's mechanism for providing technical and financial support to candidate and pre-candidate countries

has gross exposure of around US\$143 million in Albania (mostly in the energy sector), will continue to explore guarantee opportunities.

xvii. The ongoing IBRD portfolio in FY15 consists of only eight operations totaling US\$450 million. Increased lending volumes linked to a substantially deeper reform agenda will focus on larger and more transformative interventions for bigger impact. The move from an average project size of US\$10 million a decade ago to the present US\$50 million or more will be continued throughout the CPF period. The indicative IBRD lending program envisages 15 new operations, for an average of **three new operations per annum** and an average size of new operations of around US\$70 million. The total number of operations in the portfolio will rise as planned from 8 to a **steady state of around 12-13 ongoing operations**² to reflect IBRD's ramped up support for the ambitious reform agenda. In opting for larger, more strategic interventions, the WBG will also provide more concentrated **technical and capacity support to key counterpart institutions**. The WBG will systematically support capacity enhancement measures in new operations, complementing the ongoing support provided through other partners, especially the EU. This technical and capacity support in new operations will focus especially on strategy development, fiduciary management, data systems and monitoring and evaluation.

xviii. The CPF Results Framework, built around three focus areas with **twelve CPF objectives** and clear outcome indicators for each objectives, will serve as a management tool throughout implementation. Progress in CPF milestones will be annually monitored with the client and at mid-term under the Performance and Learning Review (PLR). The CPF Results Framework has been prepared by multi-sectoral results teams created around each focus area. These results teams will remain active during CPF implementation, and will allow joint monitoring of progress by the Global Practices (GPs) and the Country Management Unit (CMU).

Risks to CPF Implementation

xix. The key risk to successful implementation of the CPF relates to Government's overriding objective to restore equitable growth in Albania. This objective—and the WBG program support for it—face the risk of prolonged stagnation in the Eurozone, and in particular in neighboring Greece and Italy. Substantial macroeconomic risks exist linked to a slower than projected recovery in the Eurozone which could lead to slower than expected growth, revenue collection and fiscal consolidation. This risk could have implications for the DPLs if macroeconomic framework goes off track. This risk will be mitigated by encouraging more diverse linkages to regional and global markets beyond Albania's traditional investment, trade and migration partners.

xx. Delayed fiscal consolidation including from delayed structural reforms in the energy sector could have an effect on rebuilding investor confidence and medium-term growth prospects. This could impact the results anticipated under the energy sector CPF objective. Continued Government commitment in pursuing energy sector and public finance management reforms would result in significant efficiency gains and reduce the cost of reforms. Strong WBG engagement in these areas will be an

² The number of on-going operations varies even within an FY due to the relatively rapid approval and implementation of development policy loans

important strategy to mitigate this risk.

xxi. Weak governance and fiduciary environment and institutional capacity are the other substantial risks that can have an impact on the CPF objectives in areas such as land, tourism development, energy and water. These risks to the accomplishment of CPF objectives will be mitigated through engagement in areas where there is strong commitment to reform, by careful sequencing of projects recognizing and addressing the country's institutional weaknesses, and providing targeted capacity support. The WBG programming also takes into account the next election cycle, mid-way during the CPF period, which may temporarily slow program delivery. Mitigating measures include some front loading of the program to take advantage of the current reform orientation, and conducting the mid-term PLR after elections to make modifications to strategy as warranted to ensure Government ownership and continued commitment to reform. A strong communication and public outreach campaign, by both Government and by the WBG, will also be an important strategy to mitigate risks.

INTRODUCTION



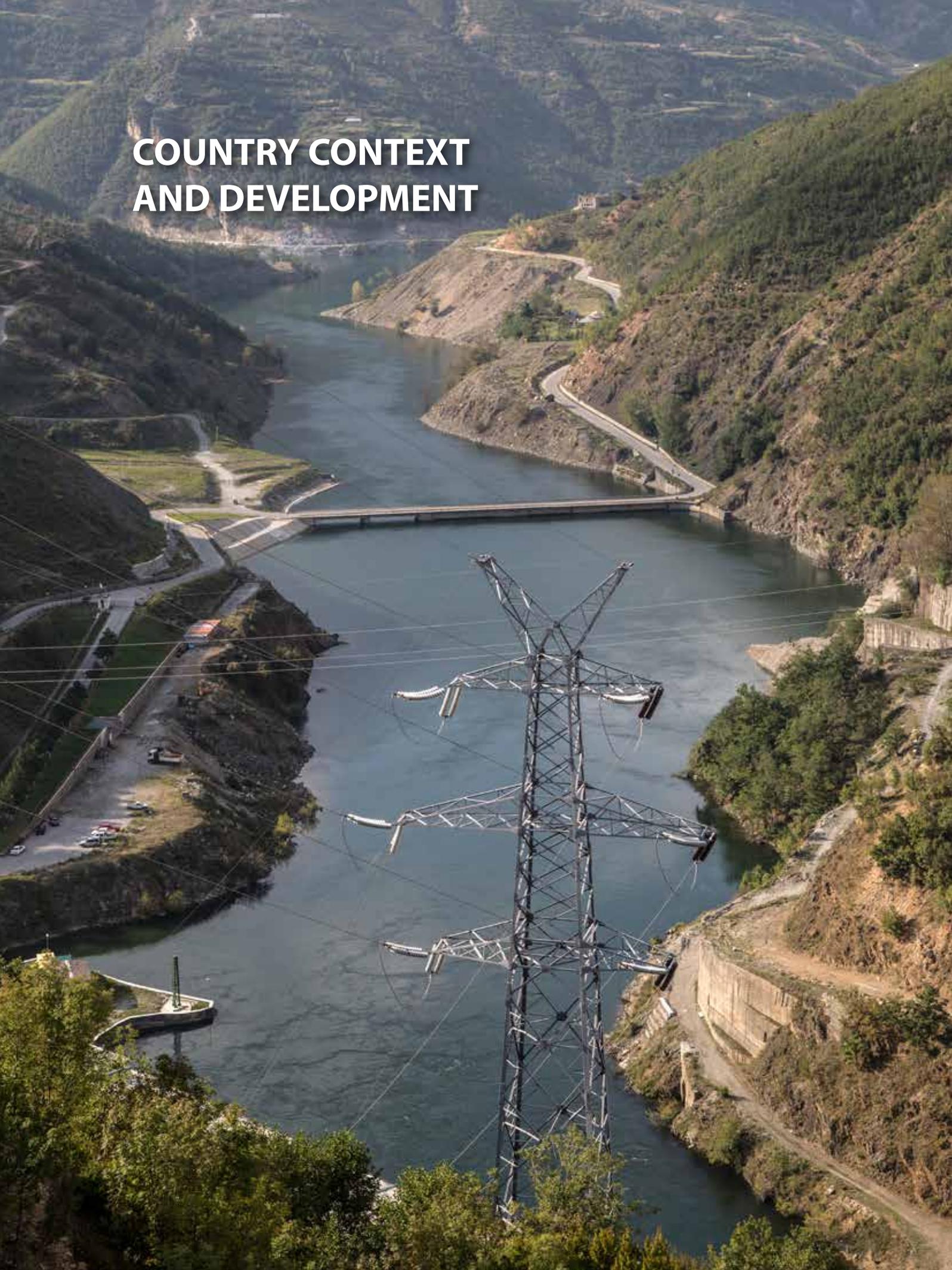
I. INTRODUCTION

1. This Albania Country Partnership Framework for FY15-FY19 presents the WBG program and the associated results framework. Albania's last Country Partnership Strategy covered the period FY11- FY14, with the CPS Progress Report delivered on April 18, 2013. The CPF has been sequenced after the preparation of the SCD, with the program of technical and financial support selectively designed around the *top five fundamental* priorities identified by the SCD for Albania to make progress toward achieving the WBG's twin goals.

2. The new CPF comes at an opportune moment to ramp up the WBG's engagement in support of reforms by the Government elected in 2013 for a four year mandate. During its first year in office, the government has embarked on major reforms to address long standing macro-economic, fiscal, and structural issues (especially in energy and pensions). The progress in these areas also contributed to Albania's becoming an EU candidate country in June 2014 which is seen as a major milestone in the country's aspirations for EU accession. Initial progress and results are encouraging, with the Government committed to sustaining the momentum by deepening and broadening the reforms to unlock Albania's macro-economic and structural constraints.

3. The CPF benefited from the extensive consultations first conducted during the preparation and finalization of the SCD followed by CPF consultations, and from the Bank's technical engagement with the Government on its priority setting exercise. Extensive SCD and CPF consultations were conducted with over a dozen stakeholders groups across the country backed by series of country team meetings involving the IFC, MIGA and IBRD teams. Using available evidence, the Bank provided technical support to Government in its own initial priority setting exercise. The priorities arising from this exercise are now reflected in Albania's draft NSDI, spanning a five year period from 2015-2020. The final NSDI will be available by mid-2015.

COUNTRY CONTEXT AND DEVELOPMENT



II. COUNTRY CONTEXT AND DEVELOPMENT

| 2.1 | Social and Political Context

4. Albania, with a population of 2.8 million, is situated in the Western Balkans in Southeastern Europe and possesses abundant natural resources and natural beauty. Its close proximity to two large European economies – Greece and Italy – worked to its advantage as these countries hosted large number of Albanian immigrants and served as key economic partners in terms of trade, capital and technology transfer. After the fall of communism, rapid economic growth also led to social change through a rise in income levels, steep drop in poverty, internal rural to urban migration as well as large scale migration to neighboring countries for employment opportunities.

5. Albania is making progress toward a fully functioning market economy and becoming economically more prosperous. After the fall of communism in 1991, progress during the early transition years was rapid. From 1993 to 1995, GDP growth was at an impressive 10 percent per year, while inflation fell back to single digits. Governance shortcomings, most notoriously the pyramid schemes, wrecked the economy from 1995-1997. The country was further impacted by the war in neighboring Kosovo at the end of the decade, which resulted in almost 430,000 Kosovar refugees. Albania demonstrated resilience by bouncing back to establish a steady growth path with poverty rate reduced by half in 2008.

6. After an initial period of high fragility, the political process demonstrated signs of emerging stability. The 2005 parliamentary elections resulted in a smooth handover of power from one governing party (Socialist Party, SP) to another (Democratic Party, DP). The DP retained a fragile majority until June 2013 when the SP-led coalition secured a clear victory in national parliamentary elections. These elections were viewed as generally free and fair by the EU, Organization for Security and Cooperation in Europe (OSCE) and other regional and international observers.

7. The June 2013 elections opened a new opportunity for engagement in Albania on its medium-term macro-economic and structural reforms. The new coalition government with a strong parliamentary majority assumed office in September 2013. This reform-minded Government moved energetically to tackle a long overdue reform agenda, beginning with fiscal consolidation and public financial management, including eliminating arrears over time, as well as addressing structural challenges in pensions and energy sectors. Next national elections are scheduled in mid-2017, giving the government time to build a foundation for renewed growth and benefit from a gradual recovery in global markets, particularly in the EU which is Albania's main trading partner.

8. EU integration is a national goal for Albania. Albanians have long been pro-European. Several public opinion polls over the past two decades confirm that Albanians foremost desire their country's integration in the EU. According to a survey organized by the Centre for European Studies, approximately 68 percent of Albanians consider relations with the EU as most important for Albanian Foreign Policy direction in the coming ten years, while 85 percent of Albanians desire Albania's membership in the EU.

| 2.2 | Recent Economic Developments

9. Albania was the fastest growing non-oil economy in Europe in the decade prior to the 2008 global financial crisis. Non-tradable sectors such as construction and services led both output and employment expansion prior to 2008, contributing nearly three-quarters to output growth and 32 percent to employment growth. The reallocation of resources from rural agriculture to rapidly growing urban sectors such as construction and services contributed close to 60 percent of real GDP growth.

10. Strong domestic demand drove economic growth until the 2008 global financial crisis. During 2000-2008, total consumption (public and private) accounted for almost 64 percent of growth in total aggregate demand. High import content of domestic consumption coupled with high rates of public investment led to not only a large trade deficit (averaging 24.5 of GDP in the period 2000-08), but also widening current account deficits. The rapid expansion of consumption was fueled by: 1) remittances (peaking at US\$1.5 billion in 2008); and 2) domestic sources such as wages, other nonwage income, strong growth in credit, and the expanding fiscal deficit. Real wages grew at an average of close to 10 percent per annum, experiencing upward pressure from the sizeable flow of remittances and unrecorded flows from undocumented activities. Domestic demand was further fueled by lax fiscal policy and a boom in credit growth. The average annual fiscal deficit stood at 5.2 percent of GDP between 2000 and 2008. The credit to the private sector grew an average of 180 percent a year.

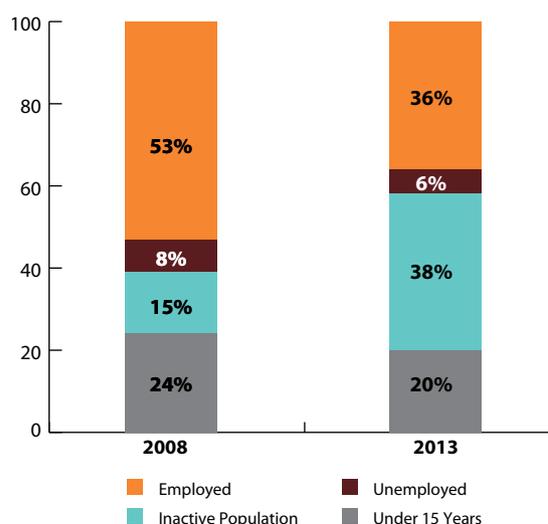
11. The eurozone crisis slammed the brakes on Albania's economic expansion. Economic growth started to slow in 2009, hitting bottom in 2012-13. In 2009-12, GDP growth halved to less than 3 percent, declining to around 1.4 percent in 2013. Because of Albania's close links to the Greek and Italian economies, which were among the most affected in Europe, exports, remittances, and financial flows declined. While exports drove the limited expansion of the economy post-2008, they remained highly market- and product- concentrated, with significant (and increasing) physical capital content in non-labor intensive sectors such as minerals and unrefined oil. FDI inflows, which, in 2000-08, had accelerated at an annual average of 3.8 percent, slowed to 1.7 percent per annum between 2009 and 2013. Investment ratios (around 25 percent of GDP) remained much higher than gross national savings (around 15 percent of GDP). While FDI continued to finance most of the current account deficit, external debt increased since 2009, albeit remaining at a manageable 36.7 percent of GDP in 2014. Remittances declined from 10.8 percent to GDP in 2009 to 6.6 percent in 2014, and their cover of the trade deficit declined from an average of 52 percent prior to the crisis, to 42 percent in the period after.

12. The sharp slowdown in the economy post-2008 caused the demand for labor to fall. Employment declined across the economy, leading to contraction in household incomes and a rise in poverty.

The poverty increase from 10.2 to 13.6 in urban areas in 2008-12 was primarily driven by the shock to the labor market. Till 2008, poverty decline was mainly associated with wages and pension, with marginal contribution of remittances. In 2009-13, employment and labor participation rates fell, reaching 44.5 and 52.7 percent, respectively. Low-skilled workers, previously employed in non-tradable sectors, were particularly affected by the weakening of labor demand. Labor-intensive sectors were hit the most. For example, between 2008 and 2013, output and employment in the construction sector contracted at an annual average rate of 3.5 and 4.4, respectively. However, output per worker grew post-2008 (albeit at a significantly slower pace than pre-crisis), primarily thanks to increasing capital spending under a loose fiscal stance.

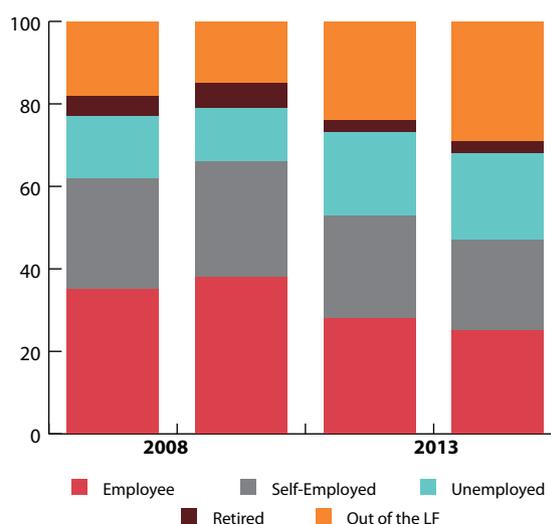
13. Post-2008, unemployment and economic inactivity were also associated with lower socio-economic status. Not only did inactivity rates double post-2008, but poverty rates were also significantly higher among the inactive. From 15 percent in 2008, inactivity rates reached 38 percent in 2013. Inactivity among women increased significantly during the crisis period. The decline was largest among young women (15-34 years age), with around 7 percent decline in labor force participation rate between 2007-2010. Individuals living in households in which the heads were active (either employed or self-employed) or retired were less likely to be poor than individuals living in households in which the heads were unemployed or inactive (see Figure 1 below). Among households in the bottom 40, for instance, 20 percent of working-age members were in unemployment, and 24 percent were out of the labor force, compared with 13 percent and 15 percent, respectively, in the top 60 percent of the income distribution (the top 60). In 2012, the incidence of poverty was 11 percent among households headed by employed persons, 13 percent among households headed by retired persons, 22 percent among households headed by unemployed persons, and 24 percent among households headed by inactive persons. The profile of the less well-off thus shows a higher share of household heads in unemployment and inactivity among the bottom 20 and bottom 40 (see Figure 2 below).

Figure 1: Population Structure by labor status (2008 and 2013)



Source: INSTAT

Figure 2: Labor force status, household heads (2012)



Source: World Bank analysis based on LSMS 2012 data

14. Albania avoided recession post-2008 largely because of a high level of government spending, and its substantial and growing public debt has become a key source of macro-economic vulnerability since the crisis. As economic growth slowed after 2008, fiscal deficits and public debt increased. Inability to boost fiscal revenues because of low tax revenue collection and large tax evasion, and structural burdens on the public expenditures led to an increase in the fiscal deficit. The public debt increased from about 55 percent of GDP in 2008 to about 71 percent in 2014. The high public debt level poses the risk of elevated interest expenditures, presenting a major vulnerability to the budget and risking crowding out other more productive spending. Over 55 percent of domestic debt (almost 30 percent of GDP) is subject to considerable rollover risk, and needs to be rolled over within a year. Fiscal pressures related to electricity shortages required transfers from the budget or state guarantees on the debt to the state-owned energy company. Poor budget planning and lack of control on investment commitments led to a failure of the government to honor its contracts and to an accumulated stock of government's arrears to the private sector at about 5.3 percent of GDP by end-2013. These arrears also contributed to a rise in non-performing loans (NPLs), reaching nearly a quarter of total loans in 2014.

15. In 2014, Albania's Government started to implement an ambitious program of policy measures aimed at fiscal consolidation. The combined measures on the revenue side are estimated at 2.1 percent of GDP. The corporate income tax (CIT) rate was increased from 10 to 15 percent. To limit the impact of the tax increase on lower income Albanians and businesses, the government has introduced a progressive income tax system, abolished the tax for small businesses, and reduced the profit tax rate for small businesses to half of the corporate tax rate. On the expenditure side, growth of the public wage bill was frozen in 2014, except for the police, while increases in pensions have been indexed to inflation. In the framework of fiscal consolidation important steps have been taken to improve public financial management, in particular with reference to arrears repayment and prevention. Measures have been taken to avoid over-commitments in public spending, as well as producing more realistic scenarios of future growth and revenue collection. The government has signed a 3 year Extended Fund Facility (EFF) agreement with the IMF, which aims at putting debt on a declining path after the government clears all arrears to the private sector in 2016.

16. Continuing consolidation measures on both revenue and expenditure side, are expected to significantly improve fiscal balances over the medium term. Increases in government revenues (namely, increases in the excise tax on cigarettes, the circulation tax, the withholding tax for income from interest, rent, dividends and capital gains) in the newly implemented budget of 2015, together with improvement in tax administration, are expected to increase the revenue to GDP ratio. The government foresees further revenue measures for 2016 in its medium-term fiscal framework as it relies strongly on revenue measures to achieve the fiscal consolidation. On the expenditure side, the budget foresees a decline in social spending, resulting from a reform of the disability assistance system and a reduction in the unconditional transfers to local governments. The government also aims at gradually reducing government guarantees to the energy sector as a result of the ongoing energy sector reforms. The government has also implemented a new pension law which is expected to reduce government spending on pensions over the medium-term, while implementing a social pension. Sustained fiscal consolidation combined with an increase of GDP growth are expected to put public debt on a steep downward trajectory in the medium term.

17. Putting the energy sector on a financially stable path is crucial to growth and fiscal consolidation. Albania's power generation is entirely dependent on water resources, while the sector's financial problems impede continuous supply without resorting to government support. High distribution losses (about 44 percent in 2013) and regulated tariffs that are below production costs are at the root of the financial weaknesses in the electricity generation company KESH. In the distribution sector, the low collection rates from households, businesses and public institutions have contributed to the financial woes of the publicly owned distribution company (OSHEE) which faces a large unfunded deficit of US\$550 million. The government's recently approved Power Sector Financial Recovery Plan focuses on: i) changes in legislation through a New Power Sector Law; ii) improving management of the energy sector companies and bill collection; and iii) technical improvements in sub-transmission, distribution, system metering and the billing system.

18. The financial sector has remained largely resilient post-2008, but risks to its stability are present. The financial sector, which strongly supported high consumption growth before the crisis, was hit with rapidly rising NPLs post-2008. Problems of portfolio quality, stemming from easing of credit standards and overexposure towards sectors such as construction, came to the fore in the years after the global crisis and the NPL ratio climbed from 6.5 percent in 2008 to 25 percent by end-2014. The continued rise in NPLs is driven by a number of factors, including large government arrears of over 5 percent of GDP in 2013 (see above) which impacted corporate liquidity and borrowers' ability to repay loans; loans in foreign currency to unhedged borrowers; judiciary weaknesses which prolong the collateral execution process and deleveraging pressures from foreign banks as they reduce their local exposure. Credit supply to the economy slowed from an annual average of 57 percent immediately prior to the crisis (Q1 2005-Q2 2008) to 10 percent in the period Q3 2008-Q1 2014, further suppressing growth.

19. The Bank of Albania (BoA) has been vigilant in mitigating the financial sector risks through instituting capital adequacy and solvency ratios that are above international norms, and putting in place stringent provisioning rules. Credit growth returned to positive in the second half of 2014, pushed by somewhat higher demand resulting from improved business confidence and liquidity conditions of the private sector. However, the financial sector remains vulnerable to further declines in profitability (for example, return on assets stood at 0.91 percent in November 2014). Moreover, the Albanian financial sector is exposed to risks related to a relatively high degree of euroization (some 60 percent of outstanding loans are in forex) and potential further deleveraging in a system dominated by subsidiaries of foreign banks, based in Austria, Greece, Italy and Turkey. In particular, there could be potential downsizing pressures on account of the Greek-owned banks in Albania (accounting for 18 percent of sector assets). The credit to GDP ratio of 39.8 percent remains much lower than other countries in the region. Access to finance for SMEs is limited and long term finance is not easily available. Stress tests show that some banks still remain vulnerable to shocks.

20. The crisis in the Eurozone exposed vulnerabilities of the Albanian economy. With about 40 percent of the population living abroad (mainly in Greece and Italy), Albania has been among the top remittance receiving nations in the world. Remittances have trended downward since 2009 as migrant jobs were cut in the light of recession in Greece and Italy. The current account deficit corrected mainly through a decline in imports, due to lower than pre-2008 consumption and in-

vestment. Despite maintaining a positive contribution to growth, exports post-2008 remained unsophisticated and far from reaching the country's potential. The real effective exchange rate index has remained broadly aligned with fundamentals and has been fluctuating around a stable band since 2009.

21. Over the medium term, the economy is expected to gradually shift away from domestic-demand driven sources, and expand at an annual pace of 3 percent. The current account deficit is expected to widen primarily due to FDI-related imports (accounting to about 3 percent of GDP annually) related to the construction of a gas pipeline and a power plant. The current account deficit without these projects is expected to decline as the economy rebalances and export growth and share of exports in GDP continue to increase, while imports in terms of GDP are projected to decline slightly. As Albania's growth model slowly shifts in the medium term, the contribution of consumption to growth is expected to decline from more than three-fourths in 2008 to about one-half by 2019 due to slower expansion of private consumption as growth in remittances moderates (see Table 1). At the same time, private investment is expected to grow thanks to improved confidence, increased inflows of FDI, and an improvement in financial intermediation.

22. As the economy reestablishes growth over the medium term, it has to address the prevalent constraints to productive and competitive private sector which will facilitate export diversification and gains in global market shares, and ultimately boost household incomes. Overall, reforms to improve the efficiency of resource allocation in the economy, promote well-functioning markets, improve governance and strengthen institutions, improve access and equity in basic services, and ensure adequate protection for vulnerable and poor households are expected to affect household incomes positively across the distribution. For example, a strong institutional and business environment, the efficient provision of public services, and the availability of institutions to protect the poor and vulnerable have the potential to promote the accumulation and use of Albania's assets and endowments. Reforms to improve the business environment and the functioning of markets in Albania are critical for job creation, and can strengthen the link between economic growth and poverty reduction. Private sector led job creation can contribute to increasing the quality of employment which is currently low, particularly among the less well off. Similarly, securing property rights and making the land market more inclusive is expected to have a positive impact on poverty reduction and the welfare of the bottom 40 by unleashing the productive use of land assets, particularly among population groups such as the bottom 40 and women.

Table 1: Key Economic Indicators 2009 – 2017

	Actual			2013	Est.		Forecast			
	2010	2011	2012		2014	2015	2016	2017	2018	2019
Annual percentage change unless otherwise indicated										
Real GDP	3.7	2.5	1.6	1.4	2.1	3.0	3.5	3.5	3.5	3.5
Contributions										
Consumption	1.9	1.6	0.9	0.0	1.9	2.2	1.0	1.3	2.0	2.2
Private consumption	1.5	1.5	0.8	0.0	1.1	2.3	0.9	1.2	1.9	2.3
Public consumption	0.4	0.1	0.1	0.0	0.9	-0.1	0.1	0.1	0.1	-0.1
Public investments	-3.0	-0.1	-1.0	0.5	0.3	-0.1	0.9	0.2	-0.1	-0.1
Private investments	0.2	1.8	-2.0	0.3	0.7	1.3	1.8	2.2	1.7	1.6
Net exports	4.6	-0.8	3.7	0.6	-0.8	-0.4	-0.2	-0.2	-0.1	0.1
Exports	5.0	2.4	-0.2	2.0	4.3	2.3	1.9	2.9	2.5	2.5
Imports	-0.3	-3.3	3.7	-1.4	-5.1	-2.7	-2.1	-3.1	-2.6	-2.4
Unemployment rate*	14.2	14.3	13.9	16.1	17.2					
CPI (period average)	3.6	3.4	2.0	1.9	1.7	2.1	2.6	2.9	3.0	3.0
Fiscal accounts										
Percent of GDP unless otherwise indicated										
Expenditures	29.3	28.9	28.2	28.9	31.7	32.4	30.8	28.7	28.6	28.1
of which: arrears clearance					2.5	1.3	1.0			
Revenues	26.2	25.4	24.7	23.7	25.9	27.6	28.2	28.2	28.2	28.2
General government balance**	-3.1	-3.5	-3.4	-5.2	-5.6	-4.8	-2.6	-0.5	-0.4	0.1
Primary balance	0.3	-0.4	-0.3	-2.0	-2.8	-1.5	0.6	2.6	2.5	3.0
PPG (eop)	57.7	59.4	62.0	70.0	71.0	70.7	68.1	64.4	60.9	57.1
Selected monetary indicators										
Annual percentage change unless otherwise indicated										
Broad money growth	12.5	9.2	5.0	2.3	3.8	5.5	7.0	7.6	7.5	7.3
Credit to non-government	10.1	10.4	1.4	-1.4	3.3	4.9	6.6	7.4	7.7	8.0
Balance of payments										
Percent of GDP unless otherwise indicated										
Current account balance	-11.3	-13.2	-10.2	-10.6	-13.9	-15.1	-14.9	-13.2	-10.5	-8.7
Imports of G&S**	53.2	56.8	52.1	52.9	56.1	56.6	56.5	55.2	52.9	51.6
Exports of G&S**	32.5	34.0	33.4	35.0	36.3	36.0	35.9	36.3	36.9	37.4
Foreign direct investment (net)	8.8	6.6	6.8	9.5	8.3	10.1	11.2	10.3	8.1	7.1
Gross reserves in months of imports of G&S**	4.4	4.5	4.6	4.3	4.1	4.1	4.1	4.1	4.1	4.1
*Labor force survey data										
**G&S refers to goods and services										

| 2.3 | Poverty Profile

23. Despite a long period of sustained growth resulting in GDP per capita of US\$8,123, Albania is still one of the poorest countries in Europe. The strong economic growth lifted a significant number of people out of poverty. Between 2002 and 2008, poverty declined from 25.4 percent to 12.5 percent. Economic growth was inclusive, with consumption among the bottom 40 percent of the distribution growing more quickly than the average for the country. Evidence suggests that positive consumption growth disproportionately benefited the less well off, with poverty falling by half in both rural and urban areas.



Box 1: Roma Population: Constrained Socio-Economic Opportunities

According to the official 2012 census, the Roma population represents 0.3 percent of the population or about 9000, but this may reflect underreporting due to fears of discrimination. Others estimate the size of the Roma population in Albania to be 3% (Council of Europe) 3.2 percent of the Albanian population in 2010³. Roma tend to belong to the poorest quintiles in Albania. Overall, poverty rates are higher among the Roma than among the non-Roma: controlling for other factors, Roma ethnicity was associated with a 170 percent increased likelihood of being poor.^{4,5}

The Roma population in Albania has a lower stock and utilization of assets than the non-Roma. Across indicators, Roma have poorer outcomes. While literacy rates are around 95 percent among non-Roma neighbors, they reach only 65 percent among the Roma⁶. Malnutrition among Roma children is as high 65 percent compared to 24 percent for non-Roma neighbors, with lifelong implications for health and cognitive development. In 2011, only a third of Roma children were enrolled in preschool. The 2011 UNDP/EC/WB Regional Roma Survey reports young Roma adults (aged 16-24) had completed only 3.9 years of schooling on average, compared to 10 years average of their non-Roma neighbors.

The Roma population in Albania has relatively lower access to basic social services. The share of the Roma population without access to improved water sources (i.e. piped water in dwelling) is 30 percent, compared to 18 percent in non-Roma households. Similarly, large inequalities exist in access to improved sanitation, with 61 percent of the Roma having no access to household sanitation facilities, compared to 34 percent for the non-Roma.

Roma population tend to have less access to economic opportunities, thus excluding them from contributing to and benefitting from economic growth. While small differences are found in employment and unemployment rates, differences are large in terms of the quality of employment. For instance, the Roma are more likely than the non-Roma to be in informal work (90 percent versus 71 percent, respectively). High rates of poverty and low rates of education perpetuate the cycle of poverty and increase the risks of exclusion.

³. European Commission. 2011. Annex of the 2011 EU Roma Framework. Brussels.

⁴. EU Agency for Fundamental Rights, United Nations Development Programme, and UNDP/EC/WB. 2011. "Regional Roma Survey." www.eurasia.undp.org.

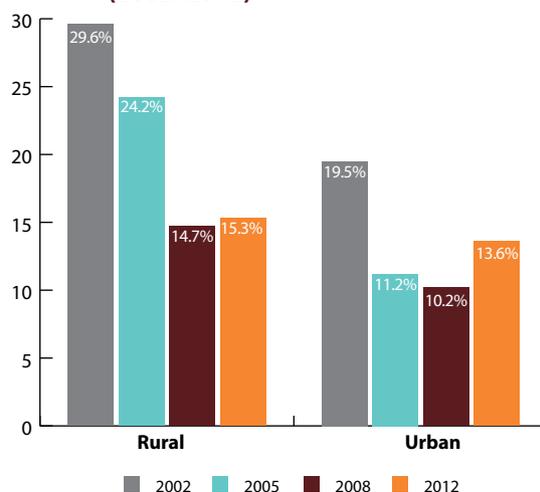
⁵. World Bank analysis using LSMS data from 2005, 2008, and 2012.

⁶. UNDP/EC/WB Regional Roma Survey, 2011. www.eurasia.undp.org

The global financial crisis eroded these gains in poverty reduction, and poverty headcount, measured as the fraction of the population with incomes below US\$ 60 per person per month, increased to 14.3 percent in 2012. Overall, poverty rates are higher among the Roma population than among the non Roma population. The Roma population tends to belong to the lowest quintile as described in Box 1. Albania continues to have one of the highest poverty rates in Europe. However, despite slowdown in the economy and increase in poverty, inequality measured by the Gini index shows a marginal decline from 28.2 in 2008 to 26.9 in 2012.

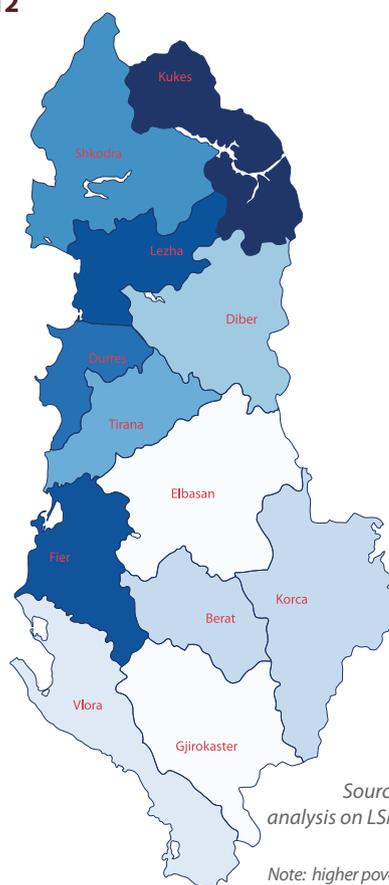
24. The profile of the poor and the bottom 40 percent of population shows disparities across groups and along several dimensions. The poor and the bottom 40 percent of population are not concentrated in either urban or rural areas (see Figure 3 below). In 2012, around 51 percent of the poor were living in urban and 49 percent in rural areas. A similar pattern is evident among the bottom 40 percent of the population, 48 percent of whom were living in rural areas, compared with 45 percent of the top 60 percent of the income distribution. Regional differences in poverty are significant. Among the 12 prefectures, Kukes is the poorest with 22 percent of population living below the poverty line, followed by Fier and Lezhe, both with 18 percent of the poor (see Figure 4 below). There is strong correlation between the level of education and poverty. The incidence of poverty is highest in households in which individuals have not completed primary education, at 15 percent, while only 3 percent among households with individuals who have attained some level of tertiary education. Similarly, the bottom 40 percent of the population are less well educated than the rest of the population. Inequalities in education are high among the Roma population: while literacy

Figure 3: Poverty headcount urban and rural areas (2002–2012)



Source: World Bank analysis based on LSMS data

Figure 4: Incidence of poverty, by prefectures, 2012



Source: World Bank analysis on LSMS 2012 data.

Note: higher poverty - darker blue

rate for the non Roma population is around 95 percent, it is only 65 percent among the Roma population. Similarly, significant gaps in living standards are also observed for the Roma population with their much lower human capital and economic opportunities as described in Box 1. Finally, poverty rates are higher among households with unemployed or inactive heads. In 2012, the incidence of poverty was 11 percent among households headed by employed persons; 13 percent among households headed by retired persons; 22 percent among households headed by unemployed persons; and 24 percent among households headed by inactive persons.

| 2.4 | Development Challenges

25. This section discusses the key development challenges in Albania, and constraints to advancing progress toward the twin goals of reducing poverty and boosting shared prosperity. Restoring the macro-fiscal balance and financial stability is the key development challenge in Albania, followed by energy sector risks, and governance and institutional constraints that affect provision of basic public services. Land and property right issues and inefficiencies in management of natural resources are among the key constraints that affect Albania's ability to take advantage of its rich natural endowments. These development challenges are critical for poverty reduction and thus motivate the WBG engagement outlined in this CPF.

26. The key development challenge for Albania is to restore macro-fiscal balance and maintain financial stability. The macroeconomic imbalances will continue to exert downward pressure on the economic gains of households and create disincentives for accumulation and productive use of factors of production. Restoring a sustainable macro-fiscal framework is, therefore, a high-order requirement for reigniting growth and increasing prosperity. Fiscal consolidation efforts by the authorities (see paragraph 15) represent an important step toward improving macro-fiscal stability. It is supported by structural reforms aimed at reducing explicit and implicit contingent liabilities (such as in the energy sector and the pension system) to ensure that the consolidation process is not undermined because of inefficient ad hoc expenditures and is in line with the medium-term fiscal framework. Furthermore, efforts will be required to strengthen capacity of the local governments to mobilize revenues which are currently insufficient to allow local governments to provide quality public services. Finally, while the financial sector is with solid liquidity ratios and strong provisioning requirements, it remains exposed to a number of potential vulnerabilities, including low and declining commercial bank profitability, large stock of NPLs, substantial levels of euro-based lending, deleveraging pressures (see paragraph 18). These are risks, which, if realized, could negatively affect economic growth.

27. Fiscal stability is further undermined by significant risks from the energy sector. Electricity is almost entirely dependent on hydro-sources, variability of which inevitably translates into output variability. Historically, the sector has been overwhelmed by significant losses of electricity distribution, leading to annual power imports of €120 million to €160 million to cover these losses, thus making the distribution entity the worst performing company among the Southeast European countries. The biggest cause of losses is theft, which suggests that metering, billing, and enforcement are weak. The financial distress of the sector translated into fiscal distress because the budget ultimately covered these losses.

28. On the governance side, the weak rule of law, due to discretionary enforcement of laws and regulations, represents the key governance risks. With the exception of political stability, recent surveys suggest stagnation or even reversal against the relevant governance indicators in the last two years.⁷ The recent trend in governance indicators is mostly related to areas that require strong administration and judiciary to enforce the rule of law. In this context, Albania's EU candidate status is an opportunity to strengthen public administration and judiciary, and the fight against corruption.

29. In spite of recent improvements, institutional and governance barriers and prevalence of corruption negatively affect private sector businesses and employment growth. The country made significant improvement in its latest Doing Business ranking and moved from 90th to 68th position globally. This reflects recent progress in streamlining procedures for obtaining construction permits, starting a business, registering property and paying taxes. Nevertheless, the latest Business Environment and Enterprise Performance Survey (2013) shows that it is still more burdensome to deal with construction permits, trade logistics, inspections, and property and land registration in Albania than in neighboring countries. Corruption was identified as the single largest obstacle to entrepreneurship by 56 percent of businesses surveyed in 2013 IFC "Tax Compliance Cost Survey". The latest IFC's Enterprise Survey 2013 found that 85.9 percent among medium and 100 percent among large enterprises pay bribes to secure government contracts. The prevalence of corruption also encourages widespread informality.⁸ Informality is widespread in the labor market taking up an estimated 36 percent of GDP. Estimates suggest that close to half of total employment outside agriculture corresponds to informal employment, and nearly three-quarters of the labor in construction is informal. Informality affects growth of formal businesses, decreases tax revenues, and distorts labor market incentives⁹. Moreover, as noted in the SCD, the vulnerable segments of the population are predominantly engaged in the informal sector which impedes them from taking advantage of economic opportunities.

30. Employment growth is further undermined by low labor participation, low employment rates, and inadequate skills. These features are prevalent particularly among youth, women, and the bottom 40 percent of the population. The latest Quarterly Labor Force Survey (LFS Q2 2014) suggests that 61.3 percent of the population 15–64 years old is active in the labor market, either employed or actively looking for a job. Labor force participation is particularly low among women – 50.1 percent, while male labor force participation rate is 73.2 percent. Unemployment rate increased to 17.7 percent in the second quarter of 2014, compared with 16.4 percent in the same quarter in 2013, and with 13.7 percent in the same quarter in 2012. Unemployment is particularly prevalent among youth (aged 15 – 29), 33.5 percent of whom were unemployed in the second quarter of 2014. Relevance of skills for jobs is considered weak which creates further constraints. These constraints are greater for the vulnerable communities who have lower educational attainment levels than the general population. Firms cite inadequate skills as a constraint to business development, signaling labor market demands inconsistent with education and training outcomes. As per the latest Enterprise Survey, among the Southeast European countries Albania has the largest share (36 percent) of firms reporting that the workforce does not possess the skills they require, highlighting a potentially important skills mismatch in the country.

⁷ Transparency International – Corruption Perception Index; World Economic Forum – Global Competitiveness Index and Judicial Independence Index; Economist Intelligence Unit – Democracy Index.

⁸ World Bank estimates informality around 47 percent (2010-11). This estimate is in line with the 43 percent reported by INSTAT in 2013.

⁹ 2013 The Enterprise Survey identified informality as the top obstacle particularly for small and medium businesses, with 19 and 25 percent respectively claiming that informality is the top obstacle in the business environment.

With weak labor market engagement and declining remittances, it is necessary to strengthen the capacity of Albanian households to generate labor market income. This will require long-term commitment to policies such as the alignment of labor supply with the needs of the labor market for the creation of (formal) jobs and the development of the skills needed to boost firm-level productivity, attract investment, and expand access to higher productivity and better paying employment opportunities among the population.

31. Quality and equity in access to basic public services disproportionately affects the poor and the less well-off. In the health sector, 98 percent of poor women reported barriers to access, including among the vulnerable groups (such as the Roma population), compared with two thirds among the wealthiest quintile. Health care delivery in Albania is characterized by the poor quality of care, inadequate primary care and preventive services, the excessive use of tertiary hospital care, and persistent unofficial payments. Education outcomes are inadequate with the latest PISA survey (2012) showing that more than 60 percent of 15-year-olds are functionally illiterate in mathematics. The poor, including Roma population, and those in the bottom 40 percent of the population have lower enrollment rates in pre-primary, upper-secondary, and tertiary education. In the water sector, twenty percent of the poorest have no in-house sanitation facilities. Seventy-five percent of the households in Fier, the second-poorest prefecture in the country, report that the water provided there is not safe for drinking. About 50 percent of the population has access to a sewerage connection, while the rest use on-site sanitation facilities. In the transport sector, road quality is undermined by poor maintenance. The country needs €40 million to €45 million per annum to maintain the country's primary and secondary roads, while there is a large stock of unfinished road construction.

32. The main poverty-focused program requires better targeting and enhanced coverage. Moreover, the benefits received by the poorest quintile are among the lowest in Europe. As of 2012, the share of the poor covered by the program was 24 percent, but the coverage of the non-poor had risen from 5.2 percent in 2008 to 7.4 percent in 2012. Meanwhile, the spending on disability assistance has increased because of growth in the number of beneficiaries and the overly generous indexation and ad hoc expansion in benefits. In 2007–13, the number of beneficiaries rose from 108,000 to 165,000. The disability assistance program does not effectively target and support the truly disabled. As a result, social safety nets do not effectively address the needs of the poor and are inadequate in protecting the vulnerable and the disadvantaged from household or systemic shocks.

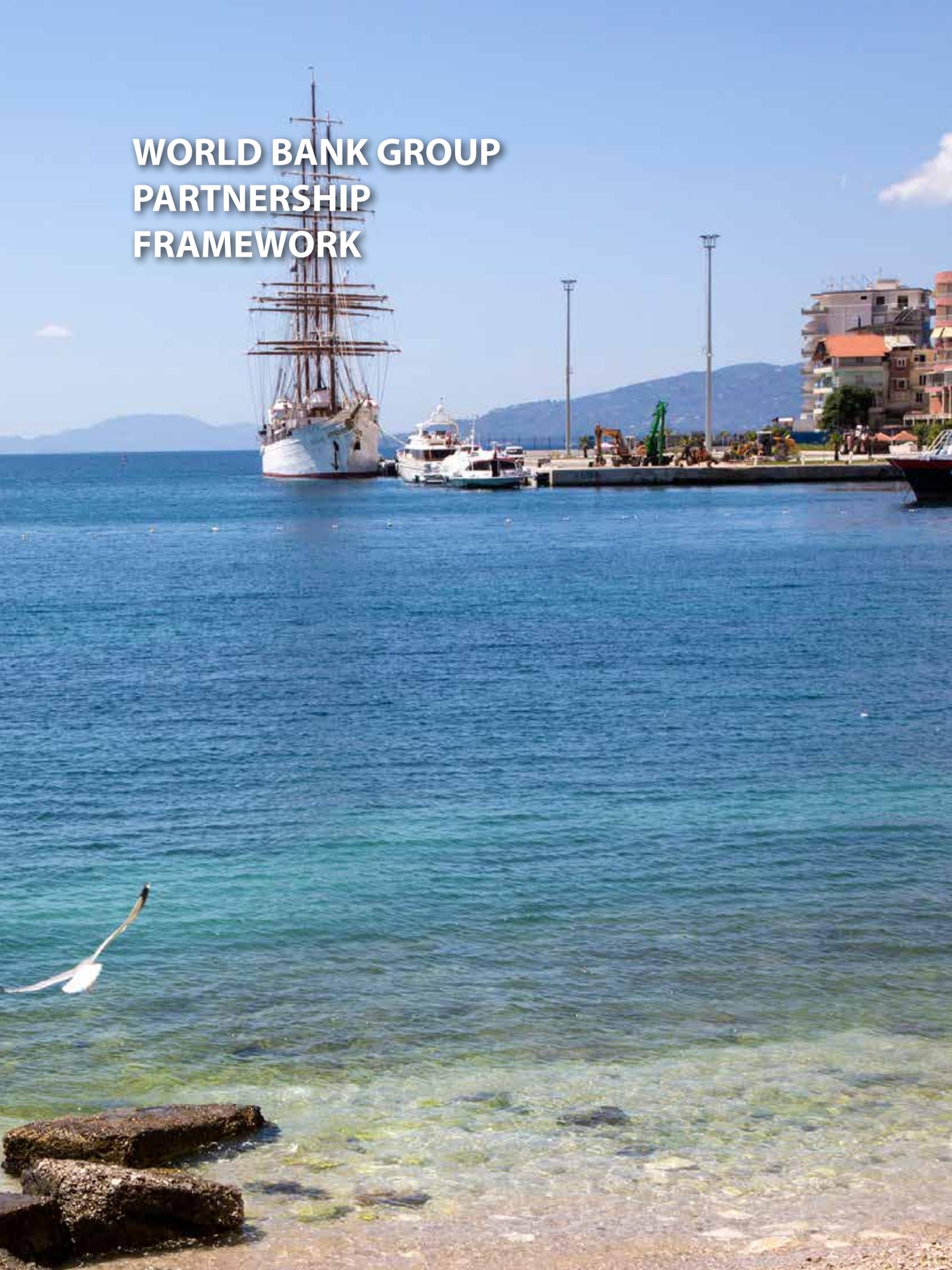
33. Rich natural diversity and abundant natural resources are not sufficiently contributing to growth. The beautiful coastline holds potential for tourism and economic development as one of the key drivers of growth. To realize this potential, the country requires a major upgrade of its environmental infrastructure, and the protection of coastal assets which would also promote sustainable tourism. Tourism has the potential as one of the key drivers for growth, job creation and investments – both foreign and domestic. During the past three years, the tourism sector has experienced a rapid increase in annual tourist arrivals but it still needs to convert this to a sustainable increase in value added and employment. Albania has a high proportion of forest cover and fertile soils, but most of the forest and pastureland are in poor condition. Fragile soils, combined with unsustainable forestry and agricultural practices have led to severe erosion, particularly in remote uphill areas where rural poverty is concentrated and persists. The delivery of public environmental services is also characterized by large inefficiencies. Of an estimated 360,000 hectares that have been equipped for irrigation in the country,

only 80,000 hectares were irrigated (2009), and many canals and pumping stations are no longer operational. Moreover, Albania has high vulnerability to natural disasters, especially floods, on account of weather variability and climate change.

34. Another reason for missing the opportunity to take advantage of natural endowments is related to insecurity in property rights which seriously affects the productive use of land. Albania has one of the lowest scores (137 of 148 countries) in the world in terms of overall property rights, particularly physical property rights. The lack of well-functioning land markets is having broad negative impacts on rural development (for example, substantial farm fragmentation) and urban development (the uncontrolled growth of urban settlements). Lack of urban planning, reflected in the rapid informal growth of urban areas, has undermined the growth potential of Albanian cities. With respect to rural areas, the land privatization process has resulted in a large number of tiny and scattered farms, holding back the development of the agricultural sector. As of 2012, there were 350,916 agricultural holdings in Albania, averaging 1.02 ha. Most farmers remain locked in low-income, subsistence structures, unable to utilize their land assets to generate economic gains. Overall, unsustainable land management and poor enforcement of property rights represents the key obstacle preventing firms, farms and households from entering the land market. This has direct consequences not only on landownership, but also on income generation and the incidence of poverty. Some groups, such as women and the less well-off are at an additional disadvantage because they are excluded from landownership.

35. Finally, while Albania has a rather positive gender inequality index, gender gaps exist in certain areas. As per the UNDP Human Development Index 2013, Albania's Gender Inequality Index was positive with a ranking of 41 out of 148 countries. However, there are still considerable inequalities in the participation of women in the labor market, and property rights. There are almost twice as many men landowners than women landowners, and most women landowners have a property share of less than 25 percent. Moreover, women working in agriculture are especially disadvantaged. According to a recent World Bank study using data till 2012, the overall gender gap in poverty had disappeared (for women to 14.51 percent and for men to 14.34 percent). Although women have educational parity with men, female labor force participation lags far behind male participation rates for those with less than a college education. Women's participation in the labor force dropped dramatically between 2008 and 2012, increasing the gap. Women's wage rates lag behind those for men. For women 25 - 64 years old, hourly wage rate is 84.8 percent of the rate for men. There is also a gender gap in hourly pay in some industries, including agriculture and education.

WORLD BANK GROUP PARTNERSHIP FRAMEWORK



III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

36. This section begins with a summary of the Government's program as reflected in the draft Strategy for National Integration and Development. It then highlights the fundamental priorities identified through the SCD which drive selectivity in the CPF. It then draws lesson learned from the implementation of the previous CPS program before outlining the structure of the CPF, the proposed WBG program and its implementation.

37. The WBG provided support to Government in its initial priority-setting exercise drawing on available evidence to identify the constraints and opportunities for economic growth. This work with the Government on its priority setting was followed by the preparation of the SCD drawing largely on the same evidence base and undertaking complementary analyses in areas such as inclusion and shared prosperity. Based on this analysis, the SCD identified twelve broad priority areas divided into three distinct groups: fundamental priorities, supporting priorities and sustaining priorities. The CPF structure reflects selectivity based on the five fundamental priorities of the SCD, and outlines a program around three *focus areas* encompassing these five fundamental priorities. The CPF takes into consideration the lessons from the implementation of the previous CPS, as well as recommendations from previous IEG evaluations, and feedback received during stakeholder consultations. An indicative IBRD lending of US\$1.2 billion is proposed, and IFC investments are expected to reach US\$150-200 million over the period FY15-FY19. Focus on results has been a guiding principle during the preparation of the CPF, and will be maintained throughout its implementation.

| A | Government Program and Medium-Term Strategy

38. Government engaged in an initial priority-setting exercise which is now being codified in the National Strategy for Development and Integration for 2015-2020. The WBG contributed to Government's priority-setting exercise. In mid-2013, the WBG prepared a set of policy briefs for the newly elected Government which was a precursor to the SCD. These briefs assessed the constraints and opportunities to restore economic growth and reduce poverty in Albania. They served as an input into an international advisory conference called *Next Generation Albania: Shaping a New Model for Economic Growth* which was convened by the incoming Government. The Prime Minister has introduced a science-of-delivery approach to governing, and this was reflected in his participation as a founding member of the WBG's *Global Network of Delivery Leaders*. In late 2013, the Government requested WBG support for an immediate priority-setting exercise using available evidence and data. The WBG supported the Government to define the top three priorities for each Ministry and for the Government as a whole. The cross-cutting priorities would then be closely monitored by the Prime Minister through a newly-established Delivery Unit, so that high level political attention could be brought to bear in un-

locking implementation constraints. The Government has codified its initial priorities in its draft NSDI which considers progress towards EU integration as an overarching national goal and outlines a vision to promote inclusive and sustainable economic growth. The Government's priorities to accomplish this vision include: *ensuring macroeconomic and fiscal substantiality; enhancing competitiveness; making public services transparent and accountable; promoting efficient and sustainable use of natural resources, and in particular water, energy and land sector development and management.*

39. In pursuit of its aspirations for EU accession, Albania also adopted a roadmap for planned reforms in the EU priority areas: public administration, judicial system, organized crime, corruption and human rights. The roadmap includes monitoring of Albania's progress in promoting inclusion and equal economic opportunities for the minorities, including the Roma population. The EU promotes integration and improved living standards of the Roma population including improved access to education, employment, health care and housing. The decision of the European Council of June 2014 to grant Albania a candidate status is recognition of the reform efforts taken by the Albanian authorities. It also creates further encouragement to accelerate reforms in the five EU priority areas. The EU is heightening its engagement under its 2014-2020 strategy for the second instrument of Pre-Accession (IPA2), the European Commission's instrument for providing technical and financial support to candidate and pre candidate countries.

40. Government's recent reform track record in implementing its priorities has been encouraging. Reform progress is visible in the areas of public financial management, business environment, energy sector, pensions, and public service delivery. With the support of the WBG and the IMF, the Government has prepared a new public financial management strategy for bringing transparency and quality in management of public resources. It initiated investment climate reforms to promote private sector and business growth which contributed to its significantly improved performance in Doing Business ranking. Recognizing that reforms in the energy sector are important for increased investments, growth and jobs, the Government took bold steps aimed at clamping down on abuses of the system and instilling a culture of accountability. New law on pensions was approved in July 2014 introducing more fairness to the system as well as reducing the fiscal impact on the budget. The Government has launched a set of innovative reforms to promote good governance, accountability and transparency in management and delivery of public services. Work on all these areas demonstrates Government's commitment on implementing the priorities codified in the draft NSDI.

SYSTEMATIC COUNTRY DIAGNOSTICS: ALBANIA'S FUNDAMENTAL PRIORITIES

41. The WBG engagement with the Government on its priority setting was followed in mid-2014 by the preparation of the SCD to formalize and expand on the earlier assessment of analytic work and available evidence. The SCD added value by distilling and evaluating the same evidence through the lens of the WBG's twin goals of eliminating extreme poverty and boosting shared prosperity. The evidence base was complemented with additional analysis, particularly on inclusion and shared prosperity. The SCD highlighted that the consumption-fueled growth model of the pre-crisis period is now exhausted and cannot be counted on to restore rapid growth, reduce poverty and improve prosperity among the bottom forty percent of households. It also noted equity concerns for population groups that have less access to economic opportunities. Restoring rapid economic growth is essential, as *the line of sight to the twin goals is clear: aggregate growth in Albania has been strongly and reliably associated with both poverty reduction and increased welfare of the bottom 40.*

42. Thus, in the medium to long run, a new model is needed, based on restoring macro-fiscal sustainability and increasing domestic productivity and export-oriented growth. While this process of rebalancing the economy is gradual, it will require immediate and persistent efforts in macroeconomic management and structural reforms. Accelerated growth is the *sine qua non* of resuming poverty reduction and increasing shared prosperity, but the inclusiveness of growth also matters. Such a model of accelerated, inclusive and sustainable growth requires deep structural reforms to release binding constraints to growth and to take advantage of Albania’s many endowments and opportunities. Overall, sound fiscal policies and strong commitment to pursue further reforms in the business environment, the energy sector, and land and property rights are expected to support growth over the medium term.

43. The SCD identified twelve priority areas for action in order to restore growth and make it inclusive for progressing towards the twin goals in a sustainable manner. These twelve priorities were then ranked on the basis of their impact on the twin goals. A prioritization exercise led to three distinct groups of priorities: *fundamental priorities, supporting priorities and sustaining priorities* (See Table 2). Five priorities were considered *fundamental*; the remainder was considered *supporting* and *sustaining* for enhancing the impact and sustainability of the fundamental priorities. The five *fundamental priorities* with the greatest impact on growth, poverty reduction and inclusion formed the basis for selectivity in defining the WBG program within the CPF. The five fundamental SCD priorities are: **i) restoring fiscal sustainability, financial stability and macroeconomic balances; ii) establishing a high-quality business environment that promotes firm growth and job creation; iii) providing clean energy efficiently, equitably sustainably; iv) formalizing and enhancing the inclusiveness and sustainability of the land market; and v) enhancing governance, transparency and accountability of government.** Given the reliance on a similar evidence base and WBG’s engagement in Government’s initial priority setting exercise, the fundamental priorities emerging from the SCD with most impact on inclusive and sustainable growth are considerably aligned with Government priorities allowing for ramped up support from the WBG.

Table 2: Overall Impact Assessment of SCD Policy Priorities on the Twin Goals

Policy Priorities	Overall Impact
Restoring fiscal sustainability and maintaining financial stability	Fundamental
Establishing a high quality business environment	Fundamental
Providing clean, efficient, equitable and financially sustainable energy	Fundamental
Formalizing and enhancing inclusiveness and sustainability of land markets	Fundamental
Enhancing governance, transparency and accountability of government	Fundamental
Increasing the quality and inclusiveness of labor market engagement	Supporting
Improving quality, access and relevance of education and training systems	Supporting
Improving efficiency, access and quality of public services delivery	Supporting
Improving inclusiveness of access to financial markets	Supporting
Enhancing effectiveness and efficiency of social protection systems	Sustaining
Ensuring sustainable use of natural resources and stewardship of the environment	Sustaining
Improving quality, efficiency and equity of health services	Sustaining

| B | Proposed World Bank Group Country Partnership Framework

LESSONS FROM CPS COMPLETION REPORT, IEG EVALUATIONS, AND STAKEHOLDER CONSULTATIONS

44. Overall performance of the previous CPS program (FY11-FY14) was assessed as moderately satisfactory. The CPS was designed to support the NSDI by prioritizing three strategic country objectives: i) accelerating recovery in Albania's economic growth through improved competitiveness; ii) broadening and sustaining Albania's social gains; and iii) reducing Albania's vulnerabilities to climate change. Good results emerged towards the end of the CPS period with the initiation of key reforms for fiscal consolidation, maintaining financial sector stability (supported by two DPLs), and commencement of pension reforms. There was also some progress in strengthening private sector competitiveness. Service delivery outcomes were strongest in the transport sector, followed by consolidation of gains in education and health sectors, and strengthening efficiency of social assistance spending. WBG support also contributed to addressing the effects of climate change, and to improved natural resource management. However, progress in the energy sector outcomes remained weak with rising sector deficits.

45. Implementation of the previous CPS program presents important lessons for the WBG program going forward:

- It is important to stay engaged and continue the policy dialogue with the Government counterparts even during periods when there is insufficient drive for reform, as continuity of engagement supports the Government in articulating future policies.
- Open dialogue with a broad spectrum of stakeholders increases the ownership of the program.
- Project design should be adjusted to the commitment for reforms and institutional capacity of the counterparts.
- Proliferation of small and thinly spread interventions, particularly in a small country, should be avoided as it challenges client capacities and is difficult to monitor.
- The CPF results framework with fewer outcomes and measurable indicators helps to evaluate performance.
- High quality, demand driven, and relevant AAA strengthens the WBG overall engagement.

46. Lessons were also learned from the WBG's extensive prior engagement in the energy sector. A failed privatization of the electricity distribution company and a non-operational new power plant were two visible symbols of inadequate reform and poor performance in the energy sector. The lessons learned include: i) the need to tackle the sector holistically rather than focusing on particular institutions or investments; ii) the importance of combatting rampant corruption in order to bring about sustainable improvements in sector performance; iii) the need to strengthen governmental policy-making and regulatory bodies in parallel with private sector engagement; and iv) the need for extensive post-privatization "after care" to ensure that the terms and conditions of privatization are fully met on a timely basis. The WBG support to Government's energy program during this proposed CPF period reflects these critical lessons.

47. In addition to lessons learned, the Albania CPF preparation benefited from consultations conducted during the preparation of the SCD. Four consultative meetings were organized in the capital and different regions during the SCD preparation to present the findings and obtain feedback from a broad group of stakeholders on the challenges and opportunities that the country was facing. The stakeholders also provided their recommendations on priority areas for future WBG intervention focusing on accelerated growth, job creation, and careful management of natural resources. In the final round of the CPF consultations, the proposed WBG CPF program was presented to obtain feedback from the stakeholders, both in the capital and regions. The SCD and CPF consultations drew participants representing diverse constituencies, including representatives of vulnerable communities.

48. Country Survey 2014 has been another important document that informed the preparation of this CPF. The FY14 Albania Country Survey results showed highly positive perception of the role of the WBG in Albania. The WBG is seen as a long term partner, responsive and an excellent collaborator with the government and other development partners. Finally, the WBG program was viewed as relevant and aligned with country priorities. In terms of future partnership, respondents welcomed WBG engagement in almost all areas, with some recommending more focus on growth acceleration, public sector governance, and agriculture.

49. IEG evaluations underline the importance of project ownership, and political economy analysis. IEG reviews of ICRs and Project Performance Assessment Reports for the projects in the social sector (health, education and the social expenditure DPL) provided a number of recommendations that were taken into considerations during the preparation of this CPF. These recommendations could be summarized as follows: i) high quality Bank analytic work and technical assistance is necessary but not a sufficient ingredient for achievement of project objectives - ownership by the Government and key stakeholders is equally important; ii) political economy analysis is critical to assess the likelihood for successful implementation of reforms; iii) the design and implementation of well-functioning management information systems, and monitoring and evaluation systems is critical for results; and iv) DPLs and sector specific investment projects provide important complementary support to help government implement challenging reforms.

OVERVIEW OF WORLD BANK GROUP STRATEGY

50. The overarching goal of the CPF is to support Albania's aspiration for achieving equitable growth and integration into the EU. This goal will be pursued with a focus on advancing progress towards the twin goals of reducing poverty and increasing shared prosperity. In doing so, the CPF will take forward the SCD's direction for a new economic strategy which will contribute to rebalancing of the economy toward equitable, inclusive and export driven growth, which is appropriate and relevant in the Albanian context as historically growth in Albania has been associated with increases in real income gains.

51. The structure of the CPF reflects selectivity based on the fundamental priorities of the SCD that allows for ramping up support from the World Bank Group. Given the reliance on a similar evidence base and WBG's prior engagement in Government's initial priority setting exercise, the fundamental priorities emerging from the SCD show a considerable alignment with Government priorities. *The CPF selectively chooses only five of the twelve SCD priorities, and builds a program of support around this*

subset of priorities on the basis of additional selectivity filters. Within the SCD fundamental priorities, the CPF exercises *further selectivity* by engaging on a sub-set of areas where WBG engagement is expected to have the highest impact and where WBG financing leverages or complements EU engagement. For instance, the CPF program selectively focuses on specific public sector services under focus area 3 where the WBG has demonstrated comparative advantage. Consequently, the CPF program will focus on systems improvement, sector governance, and enhancing citizens' trust in public services including through e-governance and development of management information systems. Within the governance area, rule of law and broader civil service reforms will not be a part of this focus area as these are being addressed by the EU.

52. In addition to the SCD driven selectivity, the CPF is based on the following selectivity filters:

- **Country ownership and championship.** Focusing on areas which have both high impact and strong government reform championship.
- **Comparative advantage.** Carefully examining WBG's comparative advantage vis-a-vis other partners, and especially the EU.
- **Strategic programming.** Moving away from proliferation of small spread out interventions, and shifting to larger and more transformative interventions, which, in several cases, require cross-sectoral synergies.

53. The rationale to build the CPF around five fundamental SCD priorities out of total of twelve SCD priorities is based on these additional selectivity filters as follows:

- **Restoring fiscal sustainability and maintaining financial stability** – this is an area of WBG comparative advantage and long-standing engagement, where WBG brings established macro-fiscal analysis and a well-defined division of labor with the IMF. With championship from the highest level of Government to tackle longstanding imbalances, the WBG has an unprecedented opportunity to support reform in this area.
- **Establishing a high quality business environment** – the WBG engagement in Albania reflects a global comparative advantage in this area (most visible through the Doing Business Report) as well successful WBG engagement in neighboring Balkan countries. WBG engagement exploits complementarity of the IBRD and IFC, building on an ongoing Trade and Competitiveness advisory engagement. It brings WBG expertise in assisting the Government to pursue legal and regulatory reforms aimed at improving the business environment and investment climate. The IFC engagement will also provide technical assistance in legal and regulatory reform in investment policy aiming to increase FDIs and investment in agribusiness given the sector's contribution to GDP and impact on employment. The Ministry of Economic Development has been given a leadership role in this cross-cutting area, and is an effective champion and focal point for deepening reform in this area.
- **Providing clean, efficient, equitable and financially sustainable energy** – the WBG will maintain a high level of engagement while applying lessons learned from its past engagement in the energy sector in Albania. WBG will engage in large operations expected to support a transformative turnaround in energy sector performance. The Government has already begun waging a high-profile campaign to improve power sector performance. IFC will support indirect finance through the banking sector for smaller renewable energy projects and through advisory work to

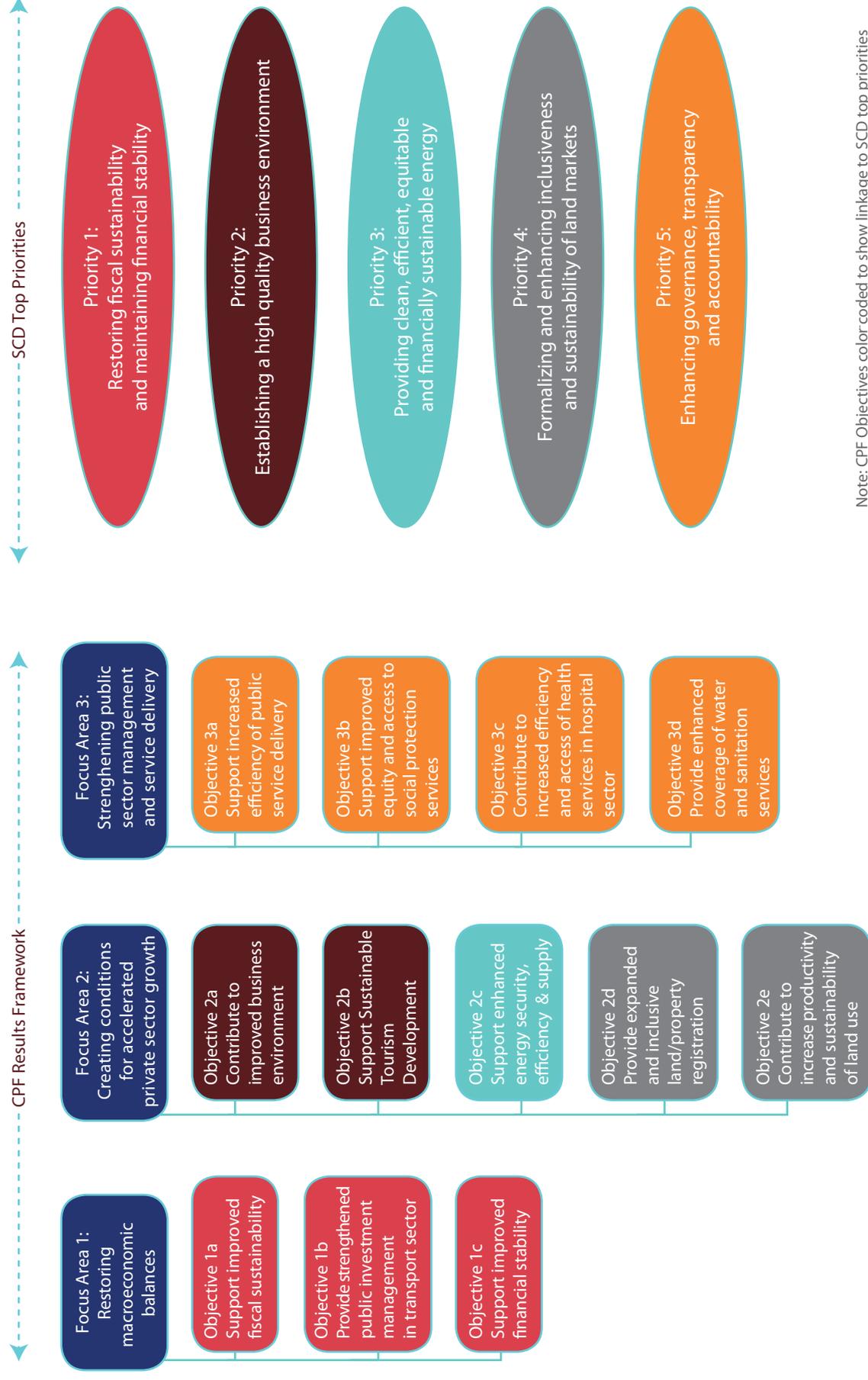
government, financial institutions and companies working in renewable energy. The full combined force of IBRD, IFC and MIGA will be brought to bear on the reform and investment needs of the sector. WBG engagement also leverages resources from other partners such as the EBRD and EU.

- **Formalizing and enhancing inclusiveness and sustainability of land markets** – the WBG is generally recognized as the lead partner for land administration reforms in the Western Balkans, including Albania, where the WBG’s earlier engagement has produced improved regulatory regimes and measurable results on land registration and management. The WBG also has a successful track record in supporting environmental clean-up and land management in Albania, with important linkages to sustainable coastal tourism.
- **Enhancing governance, transparency and accountability of government** – the WBG has a comparative advantage among international partners in supporting social services and public services’ governance reforms related to public service delivery, and has a strong body of analytic work including Public Finance Reviews to underpin such efforts. Government has made the strongest commitment at its highest levels to transform the relationship between citizens and Government, and has adopted a “science of delivery” approach. The WBG has the ability to support this science of delivery approach as it applies to deep reforms in public service delivery.

54. The above rationale for engaging in these five priorities implies that other SCD priorities will not be addressed through WBG support. Among the areas where the WBG will not commit new financial resources are: primary and secondary education, security and the rule of law, climate change, mining and agricultural production. While development challenges remain in these areas, the WBG will not engage here as the country will use its own resources or engage other partners to tackle these issues. On climate change, 20 percent of the EU’s Second Instrument of Pre-Accession financing is earmarked for climate change activities. In transport, the WBG will restrict engagement to road sector. In some areas (e.g. security and rule of law) the WBG has limited comparative advantage. In other areas (climate change, agriculture), other international partners, especially the EU, will be supporting Government reform and investment needs.

55. CPF Results Framework and Core CPF Indicators. The WBG strategy outlined above gives rise to a result framework of CPF objectives grouped into three broad focus areas that also correspond to the top SCD priorities (see Figure 5 below). The twelve CPF objectives will be supported by a manageable set of core indicators which will be met through the proposed WBG interventions (see Figure 5 below). Results will be realized through achievement of targets for these core indicators which will form the basis for evaluating performance at the end of the CPF period. Annex 1 presents the CPF Results Matrix which includes new interventions as well as ongoing/legacy activities. Results of on-going operations contribute to the achievement of many of the CPF objectives, which are themselves aligned to top SCD priorities. Annex 2 presents the World Bank-IFC’s existing and indicative program, advisory services, trust funds and AAA to support the focus areas and objectives outlined in the Results Matrix. The CPF focus areas and objectives are described in the following section.

Albania: Linkage between CPF Objectives and SCD Priorities



56. The three CPF Focus Areas are described below:

Focus Area 1: Restoring macroeconomic balances.

This focus area includes three CPF objectives that aim to support Albania's efforts to improve fiscal sustainability, strengthen public investment management and improve financial stability that are necessary for fiscal stability. The SCD considers macro-fiscal sustainability and financial sector stability to be the highest priority, having a fundamental impact on the country's ability to move to an accelerated and sustainable growth model. Albania's economic vulnerabilities are exacerbated by its high public debt and arrears, unsustainable fiscal deficits, inadequate planning and management of public investments especially in transport infrastructure, and financial sector imbalances, including a large volume of NPLs. In the short term and beyond, these vulnerabilities can affect the generation of welfare gains and their distribution among households and firms, the capacity of households and firms to accumulate assets, and the returns households and firms receive. For instance, clearing public sector arrears is resulting in increased financial flows to the private sector, which is likely to raise domestic demand and contribute directly to growth. Measures for growth acceleration will support income growth thereby contributing to the twin goals. Wages and pensions were main drivers of Albania's sharp poverty reduction prior to 2008. Pension reforms include social pensions targeted to protect the poor and the vulnerable population. Better expenditure management and reduction of inefficient spending will open space for investments in social services and public infrastructure which will contribute to increased welfare of the poor and the bottom forty percent of the population through greater access to services and greater potential for job creation. Addressing the macro-fiscal and financial challenge is a pre-requisite for the country to transition to a new growth model. The strategy proposes three inter-related CPF objectives supported by a strong program of technical and financial interventions to implement the agreed medium-term macro-fiscal framework. One CPF objective in this area will focus on fiscal consolidation, reforming areas with unsustainable fiscal liabilities, such as pensions. Another will focus on enhancing transparency and predictability in financing and managing public investments, particularly in infrastructure. The third CPF objective will address financial sector weaknesses that jeopardize stability and undermine the role of financial institutions in promoting growth and shared prosperity.

Focus Area 2: Creating conditions for accelerated private sector growth.

This focus area will provide transformational support to Albania which corresponds to three of the top SCD priorities: i) establishing a high quality business environment; ii) providing clean, efficient and financially sustainable energy; and, iii) formalizing and enhancing the inclusiveness and sustainability of the land market. The CPF objectives in this focus area support Government's reforms through interventions that promote growth and enhance inclusion of the poor and the bottom forty percent. The SCD empirically demonstrates serious shortcomings in the business environment by global standards, notwithstanding some recent progress. For this reason, improving the business climate is a CPF objective within this focus area. Central constraints include a heavy regulatory burden, inadequate framework for private investment, high informality, weak trade logistics and facilitation, barriers to labor market engagement, poor relevance of skills, inadequate reporting practices of the real sector companies and lack of quality corporate governance of both real and financial sector which limit firms' access to financing and investment. Reforms to improve the business environment are critical for job creation, and can strengthen the link between economic growth and poverty reduction. The second CPF objective related to the business environment will support sustainable tourism development given its high potential as a key driver for growth, job creation and investments. Instability of energy supply is identified as a top constraint to doing business in Albania, and is a third CPF objective

within this focus area. Moreover, Government subsidies are at a fiscally unsustainable level in a sector where technical and non-technical losses had risen to nearly half of supplied electricity by 2013. Ensuring a reliable and affordable power supply is one of the most important foundations for increased investment, growth, job creation and poverty reduction. Development of Albania's hydropower potential can serve as a strong driver for economic growth to help disadvantaged regions overcome poverty disparities. The SCD priority related to land will be addressed through two more CPF objectives. The first focuses on resolving historic land ownership issues which are considered critical for stimulating both rural and urban investment, and for overcoming poverty as well as regional differences in the level of poverty. The second CPF objective on land will focus on strengthening the productivity and sustainability of land use to promote development. This involves making better use of Albania's abundant agro-forestry resources (which is an important element of inclusion in economic development). Economic regeneration of the coastal region through integrated tourism development will open a range of economic opportunities which will contribute towards overcoming poverty disparities. Securing property rights, formalizing land settlements and sustainable land management will have a positive impact on improving regional poverty disparities, reducing poverty and improving the welfare of the bottom forty percent by enabling more secure and productive use of assets. Overall in this focus area devoted to private sector growth, WBG operational and analytic engagement on skills, employment, sustainable tourism and land and property rights will incorporate and address measures for reducing regional disparities and enhancing inclusion.

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

This focus area includes four CPF objectives related to increased efficiency of public service delivery and improved equity and access to basic social services. This area addresses the fundamental SCD priority of enhancing governance, transparency and accountability of government. As noted in paragraph 51, further selectivity is exercised in this focus area by directing assistance towards areas of WBG comparative advantage. The WBG will focus selectively on public sector management and service delivery to improve the efficiency in public service delivery, while civil service reforms, security and rule of law are being addressed with support from the EU and other partners. WBG support is more directly aimed at building citizens' trust in government, strengthening service provision, and improving service delivery and access to basic social services. This includes support to the private sector through Public Private Partnerships to engage in service delivery. This program will support four CPF objectives. The first focuses on general efficiency of public service delivery. A weak legal, regulatory and governance environment is seen as key a contributor to poor service quality and limited accountability to service users. The Albanian public sector is characterized by weak performance management systems and a lack of transparency and accountability in service delivery. Albania's public services are characterized by inefficiencies in spending, low quality, weak institutional capacity, low levels of accountability, high degree of informal payments pointing to corruption, and socio-economic inequalities. Greater trust between citizenry and government needs to be created through changes in citizens' interface with government. The remaining three CPF objectives focus on the quality, equity and adequacy of service provision in social protection, health and water supply services to the bottom forty percent of the population, citizenry in the poorer regions of the country, including the Roma population. While the poor in general have inequitable access to services, vulnerable communities are particularly excluded from essential services. WBG engagement in this area will directly support government's efforts at better targeting while improving outreach and availability of public services.

57. The CPF activities under each of the three focus areas will be underpinned by two cross cutting themes. Gender, as the first cross cutting theme, is well integrated in the CPF results framework as it cuts across the objectives and several interventions. Gender dimensions will continue to be integrated in opera-

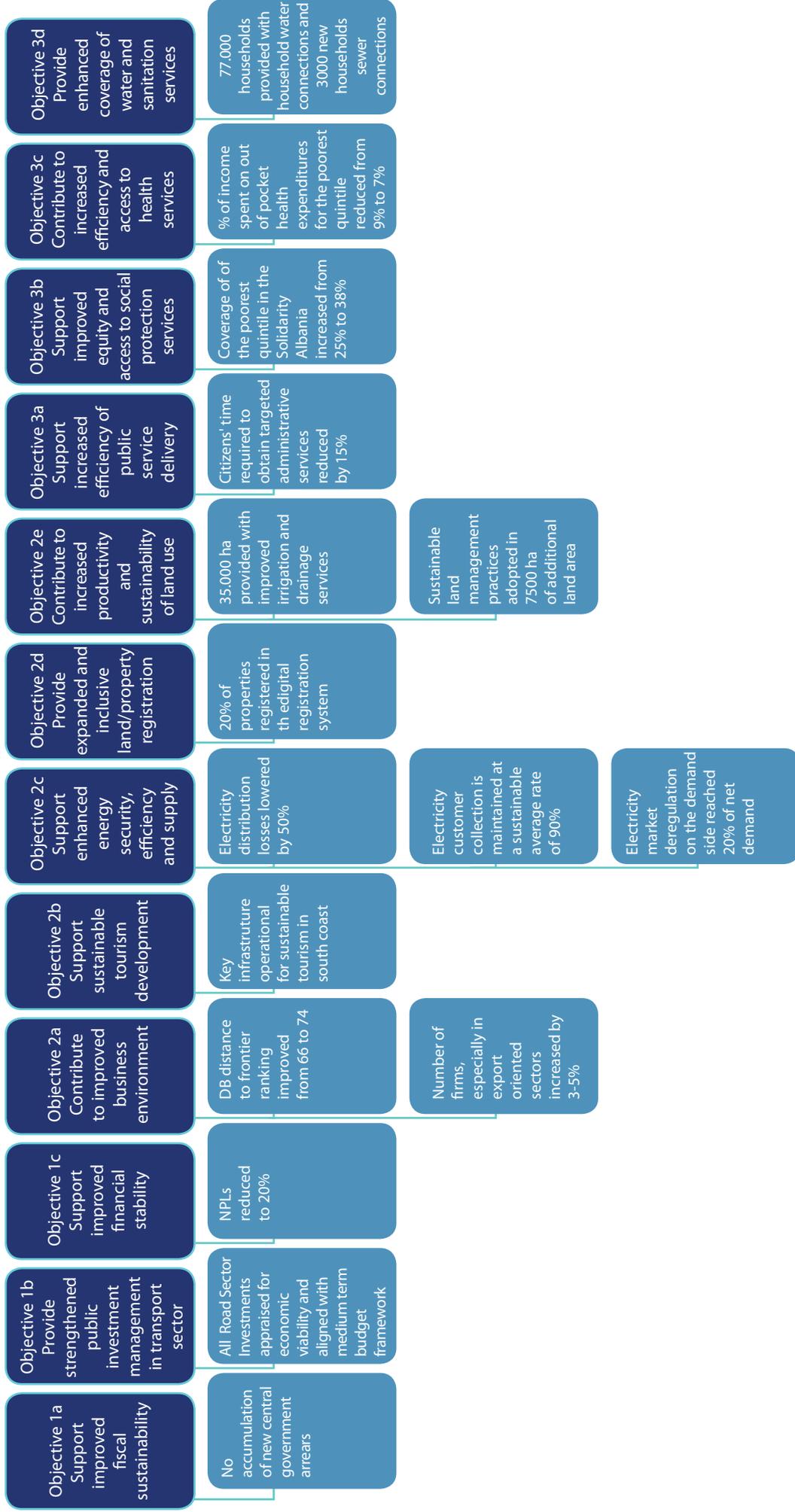
tions and analytic work. Gender disaggregated data and monitoring backed by gender-sensitive analysis will be systematically utilized during project preparation and implementation to ensure interventions are appropriately developed and monitored. The current portfolio retains a strong focus on female beneficiaries such as under the ongoing Social Assistance and Modernization Project, while the upcoming Integrated Land Management Project includes facilitating female landholding. The ongoing Environment Services Project aims to fully mainstream gender considerations across all project components including promoting women's involvement in associated environmental income streams. Although Albania fares relatively well on gender parity index, a large gender gap exists in labor participation rate. The proposed AAA on Skills, Employment and Labor Market will especially focus on this.

58. The second cross-cutting theme is the EU accession process as a long term policy anchor. The CPF program is geared to promote reforms and investments that further Albania's accession agenda while bringing the country closer to achieving the WBG's twin goals. In the context of the IPA2 strategy, the EU has turned to the WBG as a leading partner on the ground to provide much-needed implementation support for the ambitious reform agenda embraced by the Albanian Government. In some areas, the WBG will take the financial and technical lead with its strong analytic base, relevant expertise and sizable financial resources. In other areas, smaller amounts of WBG resources would leverage larger IPA2 grant funding to deepen reforms, scale up interventions and maximize impact through joint efforts. The EU roadmap also requires Albania to make tangible progress on minority rights, including those of the Roma population, and on promoting socio-economic inclusion of the minority communities. The CPF program will provide complementary support in the relevant and appropriate areas.

59. The strategy envisages addressing the needs of the bottom 40, the poor and vulnerable population through technical and financial interventions. While the ongoing Social Assistance Project seeks to better target the bottom forty percent – including the Roma population – the new Health System Improvement Project includes measures to reduce the burden of health expenditures on the poor. Going forward, issues of equity and inclusion will be addressed under the proposed areas of engagement such as local government finance and governance, land and property rights, skills and employment, and sustainable tourism. The engagement on local finance and governance will be underpinned by analytic work which will include policy recommendations using evidence-based assessment on the existing constraints to accessing equitable and quality services by citizens in the poorer and more deprived regions. The operational engagement in this area will build on this evidence to develop appropriately targeted interventions to improve governance and access to services for the poor, the bottom forty percent, including the Roma population. The bottom forty percent and the poor depend on small land holdings with limited ability to use land for market income, often with insecure land titles. Efforts to improve land formalization and property registration will promote inclusion and land security among these more vulnerable groups. WBG support for sustainable tourism in the southern coast will incorporate initiatives to boost growth, local entrepreneurship and job creation, specially promoting measures to enhance the participation of the vulnerable population. The analytical work, such as on Skills and Employment, will provide the opportunity for evidence-based analysis to better target the subsequent financial intervention. It will strengthen the evidence base and present appropriate policy incentives for: i) reducing the barriers to formal employment for the bottom forty percent, youth and women; ii) strengthening labor market information systems; and iii) strengthening active labor market programs to promote activation of youth, women and the Roma population.

60. The proposed new activities during the program period are designed to contribute directly to the CPF objectives (see Annex 1). The WBG program described in paragraphs 61-77 presents the importance and relevance of the proposed interventions for accomplishing the CPF objectives that support the twin goals. Legacy operations in the portfolio are included where these contribute to the new CPF objectives and are also included in Annex 1 results matrix.

Figure 6: CPF Results Framework: Core CPF Indicators



OBJECTIVES SUPPORTED BY THE WORLD BANK GROUP PROGRAM

COUNTRY GOAL: Restructured public finances to ensure fiscal and macroeconomic stability

FOCUS AREA 1: Restoring macroeconomic balances

CPF OBJECTIVES:

1a. Support improved fiscal sustainability

1b. Provide strengthened public investment management in transport sector

1c. Support improved financial stability

61. This focus area responds to the country goal of restructuring public finances to ensure fiscal and macroeconomic stability. Reducing macro-fiscal and financial sector vulnerabilities is a pre-requisite for accelerating Albania's growth. The SCD provides evidence that macroeconomic imbalances related to high public debt, high structural fiscal deficits, public sector arrears, large potential external imbalances and a chronic, high volume of NPLs in the financial sector provide significant constraints for Albania's ability to make progress toward reducing poverty and promoting shared prosperity. These imbalances reduce the expected returns on investment for households and firms, discouraging investment in human and physical capital and constraining further improvements, and increasing the likelihood of poverty and exclusion. The accumulation of arrears, for example, has contributed to the buildup of non-performing loans (NPLs), which in turn has limited the ability of productive firms to raise financing. High public debt contains the government's ability to open fiscal space to strengthen social programs for the poor and - if unaddressed - could lead to a crowding out of productive government spending. The government is committed to lowering public debt from 71 percent in 2014 of GDP to 69 percent by end 2016 and to well below 60 percent by 2019.

CPF Objective 1a: Support improved fiscal sustainability

62. Fiscal consolidation and sound public financial management are important steps towards improving macro-fiscal stability. Central government consolidation would need to be supported by improvements in monitoring and a reduction in explicit and implicit contingent liabilities in order to ensure that the consolidation process is not undermined through in-efficient ad hoc expenditures. Cutting inefficient spending will create fiscal space for social services and welfare programs for the poorest, while strengthening fiscal policy will contribute to efficiency gains - critical in a fiscally constrained environment - in public service delivery, especially social services that directly benefit the poor and the bottom forty percent of the population. Strengthening the growth and shared prosperity stance of fiscal policy is therefore particularly important in the context of sustained fiscal consolidation. The CPF foresees a series of budget support operations aimed at improving fiscal sustainability. On the broader public financial management (PFM) front, the World Bank - together with the EU and the IMF - is supporting the clearance of central government arrears of around 5.2 percent of GDP and the implementation of measures that will prevent the re-occurrence of central government arrears. The EU is also currently preparing a budget support operation that focuses on strengthening Albania's PFM. Trust-funded TA projects include Strengthening the Capacity of Financial Supervisory Authority and REPARIS which are aimed at developing public sector accounting and financial reporting capacities for Albania. The PFM reform agenda has been closely coordinated among the EU, the IMF and other European development partners.

63. Improvements in fiscal sustainability also require strengthening of sub-national financing and governance. The local government and territorial reforms initiated by the Government provide an opportunity to support the fiscal and administrative decentralization agenda focusing on sub-national financing and associated local governance reforms. The CPF foresees a Subnational Public Finance Review which could form the basis for a multi-sectoral result based operation on sub-national financing and governance focusing on fiscal and service delivery areas. This analytical engagement at the sub national level will provide an important basis for subsequently addressing issues of regional disparities and equitable provision of services for the bottom forty percent and the vulnerable segments of the population including the Roma population. The analytical work will also provide an opportunity to conduct an initial assessment of service delivery arrangements under the new local governments that are expected to be in place after the June 2015 local elections. WBG proposed interventions in this area will be closely coordinated with international partners providing technical support to the Government on local government reforms.

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

64. Improving public investment management in the infrastructure sector, and specifically in the transport sector, is important to scale up public investment in a way that supports the country goals of macro-fiscal stability and inclusive growth. Weak and poorly planned public investments in the transport infrastructure contributed to the mounting government arrears and incomplete physical assets. This sector has been responsible for almost all capital investment arrears and addressing this challenge is essential to promote fiscal discipline through systematic planning and budgeting. These arrears have been a major source of financial distress, leading to the consequent slowdown in infrastructure projects, halting employment opportunities for a large part of the non-agricultural low skilled labor. Better planning and budgeting, with predictable financing of technically viable infrastructure, will create more stable employment opportunities for the poor and the bottom forty percent. Fiscally sound and transparent management of public investments is being supported in the transport sector through a Results Based Roads Maintenance Project leveraging enhanced engagement of other IFIs. A follow up transport reform operation will be considered at a later stage in the CPF to rebalance the public expenditure program towards maintenance of assets, support better planning and management and safeguard against future arrears. IFC support to develop PPPs in the road sector will contribute to efficiency gains through private sector involvement. Through this investment and PPP advisory support, the IFC expects to facilitate US\$45 million in financing of highways aimed at improving access for 100,000 people. Other partners active in the sector include the EBRD, EIB and the EU.

CPF Objective 1c: Support improved financial stability

65. Reducing NPLs, reviving credit growth, and strengthening bank and non-bank prudential authorities are essential for spurring growth, protecting the income of economic agents and increasing financial inclusion. The high level of NPLs is both a potential source of macroeconomic instability and a key impediment to improving access to financing and promoting financial stability. While the authorities have adopted a number of measures to strengthen key aspects of the NPL resolution framework, further judicial reforms are essential improve the insolvency regime and collateral execution processes. Overall, strengthening the independence and capacities of financial regulators is the *sine qua non* for the maintenance of financial stability and further development of financial sector

intermediation. It also creates the preconditions for financial inclusion in areas with a low financial penetration such as rural areas, paving the way for welfare gains among the bottom 40. Strengthening the capacities of the financial regulators, improving the insolvency regime, collateral execution and private bailiff structure are examples of additional steps that could support future credit growth. Supporting the banking and nonbanking sectors with advice on risk management and NPL resolution as well as corporate governance will optimize NPL portfolio management and the value of distressed assets. It will also address the issues of transparency, functioning of boards, and decision making by the boards of Albanian banks, and further enhance the performance of financial sector operators. Policy reforms in this area will be supported by a second Financial Sector Modernization DPL which would continue to implement the reform agenda started under the DPL in the series. This engagement provides complementarity with the IMF program.

COUNTRY GOAL: Increased competitiveness to ensure economic growth

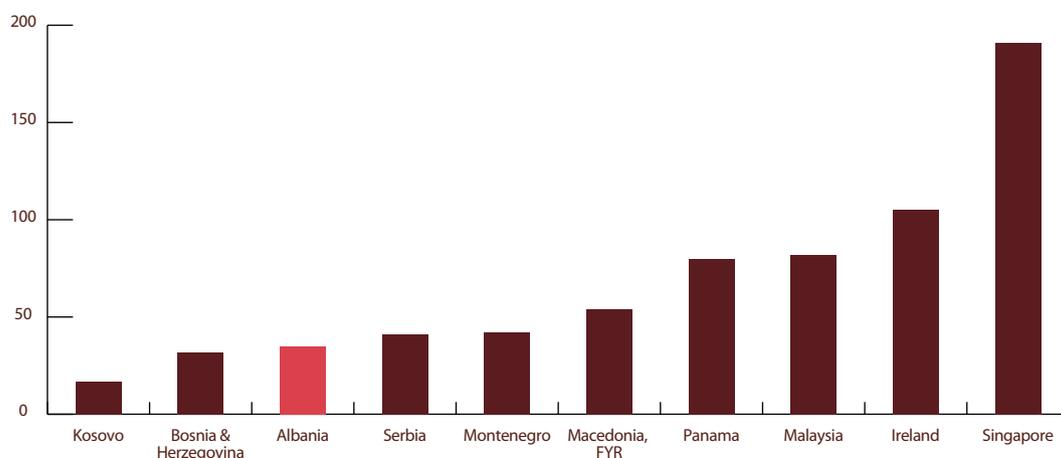
FOCUS AREA 2: Creating conditions for accelerated private sector growth

CPF OBJECTIVES:

- 2a. Contribute to improved business environment
- 2b. Support sustainable tourism development
- 2c. Support enhanced energy security, efficiency and supply
- 2d. Provide expanded and inclusive land/property registration
- 2e. Contribute to increased productivity and sustainability of land use

66. The five objectives under this Focus Area directly correspond to several top SCD priorities, and support the country goal to increase competitiveness for growth and shared prosperity. Albania remains poorly integrated with the world and exports amount to only 30 percent of GDP (see Figure 7 below). As a small open middle-income economy, Albania’s main path to prosperity is through more successful international integration, especially with Europe. Albania needs to address the fundamental constraints across multiple dimensions to integrate successfully with Europe and the world. A country the size of Albania needs an exceptionally strong business environment to attract investors and connect to international supply chains. However, companies have not been investing and creating jobs because doing business has been too cumbersome. First, the operating environment for businesses remains weak which also gives rise to high unemployment and inactivity with barriers to labor market engagement, in particular for vulnerable groups and women. Relevance of skills for jobs is considered weak which creates further constraints contributing to low labor engagement especially for the bottom forty percent. Second, Albania faces a number of infrastructure constraints, especially in the energy sector which create additional uncertainty and cost to investors, particularly in manufacturing. Third, land management and land market in Albania require further development to contribute their full potential to a strong investment climate, social stability and inclusive growth.

Figure 7: Albania's exports: the economy's Achilles heel¹⁰ (Exports as share of GDP)



Unsustainable natural resource management, inefficient environmental services, unsustainable forestry and agriculture practices undermine the potential for economic development, rural and urban investments and tourism growth, and increase inequalities in poverty and income. Recognizing these multiple constraints, the WBG will seek to contribute to this focus area through five CPF objectives which have strong cross-sectoral and cross-cutting dimensions.

CPF Objective 2a: Contribute to improved business environment

67. The Albanian government, private sector, the WBG, and the donor community have identified a subset of business environment constraints which are seen as a barrier to economic growth and job creation. Business constraints include: inefficiencies in cross border trade; a costly and burdensome construction permits process; unreliable enforcement of commercial disputes; burdensome tax administration; poorly defined business exit and insolvency framework; and a fragmented and unpredictable FDI (Foreign Direct Investment) framework. Another critical constraint is the limited access to finance for firms and households, especially for women, rural populations, and the less well off. Firms in Albania currently have limited access to finance because of the heightened risk in banking sector due to high level of NPLs, low penetration of financial services and low financial inclusion. The proposed Financial Sector DPL will help support financial intermediation while a proposed Competitiveness and Jobs DPL will provide support for improving the investment climate, expanding access to finance and may also integrate and leverage ICT opportunities such as ICT enabled jobs. Other development partners active in this area include the EU which focuses on competitiveness and innovation. EBRD supports the development of a more competitive private sector through an active investment policy and technical assistance in key sectors. USAID is currently supporting agribusiness competitiveness in Albania through technical assistance.

¹⁰. World Development Indicators (2014).

68. A paucity of adequately skilled labor force is also a growing constraint to the business environment. Evidence from firm and labor surveys show that about 3 out of 10 firms in Albania reported skills as a major or very severe constraint, just behind infrastructure and corruption. The skills supply, nurtured by education and training systems, has not adapted well to changes in skills demand¹¹. This demonstrates gaps in how education and training systems achieve quality and relevance and translate these into market-valued skills. This market failure involves the lack of strong quality assurance and of information on the returns to different careers and postsecondary vocational training offered by institutions to guide students' choices. These have two main consequences: high variation in the quality of provision and misguided career choices that result in imbalances in the skills supply of graduates. The impact of improvements likely will be felt in the medium to longer term, but policy actions and interventions are needed in the short to medium term. The CPF will also support an analytic program that will seek an evidence-based understanding of the labor market and the constraints faced by women and the bottom forty percent to labor force participation. Further policy support for job creation, including on labor market reforms, will be provided under the proposed Competitiveness and Jobs DPL and associated analytic work. The proposed Skills and Employment Project will focus on strengthening the relevance of the training system and active labor market programs, including creating enhanced linkages between the training system and employers. Other development partners engaged in the area of vocational education and labor issues include the EU, Germany and ILO.

CPF Objective 2b: Support sustainable tourism development

69. Albania's rich land endowments and pristine natural beauty are yet to be fully tapped for sustainable tourism development. The country's natural and land resources are poorly planned and developed especially in the coastal region. Issues such as uncontrolled urban growth, lack of adherence to building standards and stressed municipal infrastructure in key coastal towns have increased pressure on the pristine and fragile nature and habitats and land resources threatening the asset base that is the foundation of this tourism potential. Government is committed to developing tourism as a key source of growth and employment and is promoting sustainable tourism as a strategic sector that will provide opportunities for generating regional growth and jobs for the local population including the bottom forty percent. A more focused regional approach can also help build institutional capacity for sustainable tourism development through improved coordination, better management and sustainable use of cultural and natural heritage. Building on the results of a recently closed IBRD project in the coastal region, the sustainable development of natural and cultural assets will be integrated in a cross cutting way with urban and environmental infrastructure to boost tourism development and economic growth in Albania's coastal region under a proposed Coastal Zone Regeneration and Sustainable Tourism operation. The proposed operational and analytical engagement will take into consideration regional disparities, and the needs of excluded communities and the bottom 40 including through potential employment opportunities generated through tourism growth. WBG's engagement in this area is expected to leverage other partners' assistance.

¹¹ Source: Growing with Jobs in ECA report.

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

70. Security of electricity supply and a financially efficient energy network are essential to support economic growth. The power sector suffers from significant inefficiencies related to the speed and reliability of power supply. An unreliable and expensive power supply dissuades large firms looking to enter emerging markets, and existing firms ranked electricity constraints as one of the main constraints (BEEPS 2014). Efficient management of electricity distribution and diversification of electricity generation potential is required to ensure security of supply and financial sustainability. Recurrent energy shortages because of fluctuations in rainfall, persistently high distribution losses (about 44 percent in 2013), and regulated tariffs below recovery costs, have resulted in unsustainable fiscal support from the government. In the distribution sector, low collection rates among households, businesses, and public institutions (78 percent in 2013) have contributed to rising fiscal costs. In response to these challenges, the Power Sector Recovery Project supports Government's ambitious reform program in the energy sector. It aims to improve reliability of power supply and financial viability of the power sector. While clamping down on illicit energy use by households, firms and public agencies, Government is also improving targeting and coverage of the energy safety net for poor households, with WBG support. The World Bank funded Dam Safety project is rehabilitating existing hydropower dams to enhance security and safety of operations. Development of Albania's hydropower potential for domestic and export use is a high-potential driver of growth for some of Albania's poorer and more remote regions, helping to overcome geographic poverty disparities. Ongoing WBG assistance would be complemented by a proposed energy development operation supporting further market reform and diversification of energy sources. IFC investments and advisory services will contribute to the installation of additional 110 MW of renewable energy. Moreover, the IFC's ongoing Balkan Renewable Energy Project aims to improve the regulatory framework for renewable energy, by assisting private companies and banks to assess renewable energy proposals, and by providing dedicated lending instruments to commercial banks. The WBG is working in close collaboration with other active partners in this sector including the EU, EBRD, EIB and KfW.

CPF Objective 2d: Provide expanded and inclusive land/property registration

71. Land and property markets require further development to contribute their full potential to economic growth. The country suffers from historic land restitution issues which pose a significant judicial and fiscal burden and undermine growth, as well as considerable informal settlements and other types of land insecurity. Albania lacks a modern system for registering, recording and transferring land and property, and suffers from an incoherent legal framework and divided institutional responsibilities in this area. Securing property rights and formalizing land settlements will create a more enabling environment for investments that will also benefit women and the bottom forty percent of the population. The government has recognized the large challenges in this area and has requested the Bank to assist in developing a comprehensive, integrated land management approach for the sector and provide continued support in property registration. Results achieved under an earlier Bank financed operation aimed at establishing a modern cadaster and initiating property registration will be complemented by the existing Land Administration and Data Improvement (LADI) Trust Fund focusing on digitalization of property maps, and by a proposed Integrated Land Management Project that would support digitized property registration, and an integrated land management policy. This would support urban planning and management, and contribute to stimulate urban and rural investments. The WBG will be the key partner to support movement toward the **EU *acquis communautaire*** as the changes in land policies

and institutional responsibilities are required per the EU directives. The WBG and the EU are currently the main development partners engaged in the area of land and property registration. The Council of Europe is providing support on the legal and restitution framework.

CPF Objective 2e: Contribute to increased productivity and sustainability of land use

72. Strengthening the productivity and sustainability of land use to promote development is a key government priority supported under this CPF objective. This reflects Albania's abundant natural resource endowment as a main driver of future growth. Engagement in this area is also expected to address regional disparities in poverty (see paragraph 23, and Figure 2). Critical land usage challenges include low farm productivity, non-inclusiveness of land markets, lack of urban planning and enforcement, unsustainable land management practices and poor use of natural resources. Enhancing land productivity and maximizing sustainable use of Albania's natural endowments will boost farming income thereby generating regional growth and job opportunities for the bottom forty percent of the population. Existing engagement in this area includes support for enhancing sustainable land management practices through the recently approved Environmental Services Project, and improving agricultural land productivity through the ongoing Water Resources and Irrigation Project that will close towards the end of the CPF period. While new IBRD investment in agriculture is not foreseen in the CPF, IFC could support agribusiness as part of its broader work on the business environment if the opportunity arises. The WBG operational and analytical engagement take into consideration regional disparities and incorporate measures for enhancing gender dimensions in the interventions, and the bottom 40 including potential employment opportunities generated through tourism growth. WBG's engagement in this area is expected to leverage other partners' assistance.

COUNTRY GOAL: Governance and modernization of public services for transparency and accountability

FOCUS AREA 3: Strengthening public sector management and service delivery

CPF OBJECTIVES:

3a. Support increased efficiency of public service delivery

3b. Support improved equity and access to social protection services

3c. Contribute to increased efficiency and access of health services in hospital sector

3d. Provide enhanced coverage of water and sanitation services

73. This CPF focus area corresponds to a top SCD priority and supports the country goal of enhancing governance and improving service delivery to the citizens. The SCD identified "enhancing governance, transparency and accountability of government" as among the top five priorities to stimulate growth, reduce poverty and enhance prosperity. The CPF will focus selectively within this broad priority on four related CPF objectives where the Bank has comparative advantage and a track record of engagement and results. Government reform program for increasing the efficiency of public service delivery will be supported through the first CPF objective in this focus area and improving equity, efficiency and access to basic social services will be supported through three CPF objectives. WBG engagement in these areas will build on its comparative advantage by supporting systems improvement and reforms across key public services, while some broader governance areas, such as the rule of law and civil service reforms, are being addressed through EU engagement.

CPF Objective 3a: Support increased efficiency of public service delivery

74. Improving service delivery, increasing transparency, reducing scope for corruption and enhancing the accountability of government underpin this CPF objective. This will improve management and use of scarce public resources. The quality of public service delivery and government accountability to citizens are undermined by corruption, fragmented institutional arrangements and weak planning and implementation. Government recognizes the lack of trust that citizens have in public services delivery, and wishes to transform the interface between citizens and the state. Government has initiated a bold reform of public service delivery, entitled “Innovation against Corruption,” in June 2014. The goal is for citizens to benefit from improved access to administrative services, greater efficiency in the delivery of these services, reduced transactions costs and a reduction in petty corruption. This will translate into time and cost savings for service users with special efforts taken to identify the needs of vulnerable groups, the poor and the bottom forty percent of the population and improve their access to administrative services. The CPF will support Government’s program through the Citizen Centric Service Delivery Project. The project will support innovative citizen-centric design of administrative service delivery and help develop a new service culture. Development of proactive feedback mechanisms will allow beneficiaries to suggest improvements in services to better address their needs. In addition, benefits to government agencies will be in the form of streamlined business processes, digitization, and improved efficiency. Other development partners engaged in this area are the EU (deeply engaged in public sector reforms, including digitization), UNDP, and Italian cooperation. Those engaged in the broader and parallel domain of civil service reforms, rule of law and security, and anti-corruption efforts include the EU, Swedish Cooperation, USAID and Swiss Cooperation. Strong coordination with development partners will be maintained to ensure complementarity.

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

75. Government is implementing reforms in social protection programs that focus on improved equity and access for poor, excluded and the bottom forty percent of the population. Weak governance, poor targeting and inefficiency are at the root of poor access to social protection services by poor, remote and excluded population. Only a quarter of the poorest households receive targeted last-resort social assistance, whereas spending on disability payments has been growing wildly due to inadequate screening and targeting. Benefits administration for Solidarity Albania, the social assistance program, and disability programs is undergoing improvements to enhance capacity, simplify the complex application processes and establish systems for managing information. Establishment of effective management information system (MIS) will improve efficiencies in applying for and awarding benefits. Government is committed to improving the effectiveness of social assistance benefits and has initiated an ambitious reform program to strengthen the design, administration and governance of these transfers. The reform program focuses on improving the equity and efficiency of the social assistance program and disability assistance benefits. The new pension law approved in 2014 opened the way for significant and long-overdue pension reforms that are now under implementation. The Bank-funded Social Assistance Modernization Project (SAMP) supports the Government in implementing these reforms that aim to reduce poverty and vulnerability. It also supports improvements in transparency through proactive communications, and modernized information systems. Additional financing for SAMP is envisaged in the CPF.

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

76. Albania's health system performance shows improvements in several areas yet progress is mixed in other areas requiring significant effort to improve efficiency and access. While health outcomes are relatively strong by regional standards, financial protection of households against high out-of-pocket payments (OOP) is weak, and quality of care in hospitals is a serious concern. Average life expectancy is relatively good but the burden of non-communicable disease is high and health service quality is low. Public spending in health sector suffers from inefficiencies and inequities. The poor and those with chronic diseases face a high and growing burden of out of pocket health expenditures which currently represent 10 percent of income among the poorest households. The health sector requires reforms in governance and performance management in public hospitals to better plan and adapt service capacity to needs, strengthen management and governance, and improve efficiency and quality of care. Government has demonstrated strong commitment to undertaking reforms in key areas including improving health financing systems and hospital services, pharmaceutical reforms and moving toward universal coverage through expanding social health insurance. The Government program includes policy interventions to improve health care services, enhance public accountability and structural reforms to improve service delivery. The newly approved IBRD Health Systems Improvement Project and IFC PPP in health are directly aligned with Government's health sector reform strategy and support the achievement of reform objectives. Reforming the hospital sector by creating a more accountable management structure, improving monitoring and management of service quality and enhancing financial access through social health insurance are some elements of IBRD support. A PPP in hospitals is being supported by the IFC. Other development partners engaged in the health sector include the Swiss Cooperation, Italian Cooperation, and the Council of Europe Development Bank (CEB).

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

77. Albania's public investments in water and wastewater services are poorly governed and performing below optimum levels requiring significant support to maintain both quality and sustainability of services. Service delivery in the water sector has historically lacked a transparent and well governed planning process leading to unreliable services to citizens, weak utility performance and poor management of the existing asset stock. The existing utilities require efficient and transparent management and a medium-term incentive framework that is currently lacking. Water services are provided at local government level and are fragmented through 57 utility companies which make it challenging to provide efficient management, good access and quality services. Adequate access to water and sanitation services is particularly important for the bottom 40 who are disproportionately affected by poor access and limited services. Better governance and transparent management of public service delivery investments will continue to be supported through the existing project in the water sector and associated analytic work. The legacy operation, Water Sector Investment Project (WSIP), is included in this objective as it aims to improve the utilities' services and expand citizen's access to services. A proposed analytic work as well as the Regional Danube Water Program will provide policy support for a medium term sector financing strategy to support sustainable service delivery. The WBG interventions in this area are coordinated with development partners active in the water network and services including the KfW, GIZ, ADA, USAID and the EU.

| C | Implementing the Country Partnership Framework

78. The Albania CPF for FY15-19 builds on the ongoing portfolio which broadly aligns with the proposed objectives of the new CPF. There are currently 8 projects with commitments totaling US\$450 million. These projects are supporting investments in energy, irrigation, water supply, environment, health and social protection. Albania's portfolio performance has been at par with ECA (Europe and Central Asia) region performance, with disbursement rate averaging about 21 percent over the last ten years.

79. IBRD indicative financing up to US\$1.2 billion is proposed in support of the FY15-FY19 CPF program with significant front loading in the initial period keeping pace with Government reform and subject to exceptional progress on the reform program, country demand and IBRD's financial capacity. Under this assumption, up to forty percent of the indicative lending is expected to take the form of budget support subject to continued satisfactory performance on the agreed macro-fiscal framework (See Table 3). IFC investments are expected to reach US\$150 – US\$200 million during the CPF period. In FY14, reflecting the ambitious Government reform agenda, new IBRD commitments rose above US\$300 million, a record amount for Albania, including two DPLs to support macro-fiscal sustainability and financial stabilization. FY15 will also be a peak year, with new commitments of over US\$400 million including a PBG. For IBRD, FY15 serves as a bridging period between the previous CPS and this CPF, reflecting an investment lending program outlined in the CPS Progress Report. The proposed WBG FY15-FY19 lending, analytic and technical assistance program is outlined in Annex 2. The PLR at mid-term will assess progress in delivering the program, and will make necessary adjustments for the remaining CPF period to incorporate possible shifts based on actual performance, progress in reforms and emerging country developments.

80. The CPF brings a greater focus on results. The choice of instruments in the indicative program includes IPFs, in several instances with incorporation of Disbursement Linked Indicators (DLIs), Additional Financing for well performing operations, and policy-based lending in support of macro-fiscal and structural reforms. The CPF proposes several IPF operations adopting a results-based approach in diverse sectors such as transport, local governance, and public service delivery, opening the way for a more programmatic engagement in the latter years using a sector wide approach.

81. In line with the selectivity filter of strategic programming, the shift to larger more transformative operations will be maintained. The move from an average project size of US\$10 million a decade ago to the present US\$50 million will be continued with average project size expected to reach US\$70 million by the end of the CPF period. This would help in avoiding proliferation of too many small operations with high transaction costs that can be unmanageable in a small country context and overburden government capacity. The IBRD indicative lending program envisages 15 new operations with the number of projects in the portfolio rising to between 12-13 operations by the end of the CPF period (see Annex 3).

Table 3: CPF Indicative IBRD Lending Program FY15-19

FY	PROJECT	IBRD (US\$ million)
FY15	Albania Health System Improvement	40
	Road Safety and Maintenance	80
	Policy Based Guarantee (PBG)	220
	Power Sector Recovery Project	150
	Sub-total FY15	490
FY16	Citizen Centric Service Delivery	32
	Integrated Land Management	45
	Coastal Regeneration & Sustainable Tourism	53
	Financial Sector Development Policy Loan	100
	Sub-total FY16	230
FY17	Sub-National Finance and Governance	
	Competitiveness and Jobs DPL	
	SAMP Additional Financing	
	Sub-total FY17	180
FY18	Energy Sector Development	
	Skills & Employment	
	Development Policy Loan	
	Sub-total FY18	200
FY19	Transport Reform	
	Development Policy Loan	
	Sub-total FY19	120
	TOTAL	1,220¹²

¹² This includes the PBG in the amount of US\$220 million.

82. The CPF seeks to maximize the synergies among the IBRD, IFC and MIGA. There is currently a strong collaboration between the IBRD and IFC in the area of business environment where the teams work jointly. Active collaboration in transport, competitiveness, skills development and health is foreseen during the CPF period. Further deepening of this collaboration will be considered in the context of the relevant Joint Implementation Plan (JIP). IFC will strengthen its current investments and advisory services in energy and banking sector, and will further lend support to export oriented businesses, renewable energy SMEs, transport, health and waste management. All three agencies are providing mutually reinforcing assistance in the energy and financial sectors. MIGA is involved in three projects in the energy, financial, and tourism sectors. MIGA's involvement in the energy sector dominates the exposure, with US\$ 143 million in gross, and US\$ 71 million in net exposure to one project. Supporting foreign investment through political risk guarantees, in close coordination with the IFC and IBRD, will remain a strategic priority for MIGA's activities in Albania. Current payment arrears affecting Albania's energy sector are a concern and pose a challenge for MIGA. Areas for potential further MIGA involvement include the manufacturing, agribusiness, and services sectors.

83. More operationally relevant analytical work and knowledge support will be part of the CPF program. The analytic work will contribute to the CPF objectives by filling the knowledge gap in important growth promoting areas such as municipal public finance, labor market, jobs and growth and sustainable tourism in the coastal region. Country specific analytics will be backed by regional AAA in the areas of poverty assessment, energy efficiency, gender diagnostics, education and innovation. While gender specific AAA is proposed, gender and inclusion will also be addressed in a cross cutting manner in all relevant analytic work. The IFC will continue to provide advisory services in financial sector, climate change, improving business environment, and waste management at municipal level. It will expand its engagement to support PPP transactions and privatizations in extractive industries, waste management at municipal level, and to financial institutions to help launch highly differentiated supply chain finance programs.

84. The scaled up Bank engagement during the CPF period will require Government's strong implementation performance as well as the Bank's regular technical and implementation support. The shift of the CPF to larger and more transformative operations, while easing the administrative burden on government institutions, will also present capacity challenges particularly in fiduciary areas and on overall program monitoring. Recognizing the existing capacity constraints, the WBG program will systematically incorporate capacity enhancement measures in all new operations, complementing the support provided by other partners. In addition, technical assistance will be provided to the Supreme Audit Institution to strengthen its capacity for audit and associated functions. These broader areas will be complemented by ongoing capacity enhancement measures in sectoral line ministries, especially for strengthening monitoring and establishing management information systems, such as envisaged in the Citizen-Centric Service Delivery, Social Assistance Modernization, Roads Maintenance and Health Systems projects. These monitoring systems will be strengthened to adequately assess performance and impact across gender and inclusion dimensions. Broader support for establishing Integrated Planning Systems is under implementation through a Trust Fund managed by the World Bank.

85. The good integration of the Trust Fund portfolio, as seen in the previous CPS, will be further deepened. Currently there are 7 active Recipient Executed Trust Funds amounting to US\$12.5 million focused on natural resources, integrated planning system, public sector accounting and extractive

industries. A set of important Trust Funds are in the pipeline to support accounting standards and strengthen supervision capacities of the financial supervisory authority.

86. The results focus initiated during CPF preparation will be maintained throughout its implementation. The joint WBG preparation process initiated during the SCD preparation has been further strengthened during CPF preparation through the establishment of multi-GP results teams centered on each focus area which have cross cutting objectives. This process contributed to developing a shared vision and alignment first around the SCD priorities and then around a set of focused CPF objectives. These multi-GP results teams, under the leadership of the Program Leaders/Lead Specialists, will remain active during CPF implementation. The teams will take responsibility for monitoring progress towards results and provide guidance for modifications, as needed, during the PLR. This results based approach also complements the Albanian Government's focus on results.

87. Regular portfolio performance reviews at the country level contribute to a high level oversight of program performance and allow for timely resolution of emerging bottlenecks. The portfolio performance reviews will be conducted at three levels: i) bi-annual portfolio reviews initiated during FY14 will continue under the leadership of the Ministry of Finance; ii) quarterly reviews will be conducted with relevant ministries to seek resolution of emerging issues related to problem or high risk projects; and iii) an annual review will be conducted with a particular focus on assessing progress on the CPF supplementary indicators. The CMU will work with the GPs to encourage teams towards a more results oriented supervision which will underpin portfolio reviews and CPF monitoring, and will also encourage greater proactivity for poorly-performing operations, including options such as restructuring at any point and not only at mid-term review.

Review of Government Procurement and Financial Management systems

88. Albania has made progress in public procurement reform yet significant challenges remain. Public procurement legislation in Albania substantially complies with the EC Procurement Directive 2004/18. There are two high level entities involved in Public Procurement: the Public Procurement Agency (PPA) which has regulatory functions, and the Procurement Review Commission (PRC) which is responsible for review of procurement complaints. While there have been improvements in the public procurement review system, public procurement in Albania faces serious challenges regarding significant undervaluation of bids which often lead to poor quality of works. Another challenge is the high number of unpublished negotiated contracts. Notwithstanding the moderately high rate of complaints addressed to the contracting authorities and to the PRC in particular, the perceived lack of trust in the review mechanism is another challenge for public procurement. Currently, the PPA with the support of the EU funded SIGMA project is in the final stages of developing a general strategy for public procurement system in Albania. The PPA is also in the process of consultations for introducing amendments to the law on public procurement to address issues and shortcomings identified during the implementation of the current law.

89. The World Bank will continue to provide technical support with the aim of increasing opportunities for the use of the country systems in Albania. The Bank support for strengthening public procurement in Albania will be threefold. First, it will provide technical assistance to increase compli-

ance monitoring and transparency in public procurement, strengthen efficiency and transparency in public procurement, and improve external audit carried out by the State Audit Institution. Second, Albania is the first country in the region to pilot e-procurement for the World Bank financed projects with the first contract procured through the e-procurement system in 2012. The e-procurement system has been certified by the World Bank for the use of International Competitive Bidding (ICB) and National Competitive Bidding (NCB). The pilot has given positive results and it has been used by implementing agencies also for other donor funded projects (such as EIB, and EBRD). Following good results and feedback from the pilot, the use of government's e-procurement system will be applied to at least one part of Albania's portfolio during this CPF cycle. Third, Government decision to streamline project management of donor-financed projects into the line ministries will require that each new World Bank financed investment operation to include necessary procurement capacity building support in the relevant ministries.

90. Albania benefited from a number of detailed reviews¹³ of its Public Financial Management system that have paved the way for progress in this area. The last 2011 PEFA assessment concluded that Albania has an adequately functioning fiscal and budget management system enabling the government to finance and execute a budget that delivers public services to the general population. Albania scores relatively well on comprehensiveness and classification of the budget, basic treasury operations (including budget, and payroll controls), financial reporting/transparency and public access to government budget and financial information. The most notable steps to improve core public financial management system over recent years encompass the implementation of the Treasury Single Account and the development of the Albania Financial Management Information System (AFMIS) which will be expanded to all participating entities¹⁴(budget institutions and a limited number of municipalities) to enable direct expenditure prioritization, management, commitment and contract registration. Further enhancements to the system are planned including implementation of new modules on budget preparation, external assistance and medium term budget planning, pre-commitment control and linkages to the tax collection system. These improvements have the potential to provide the Ministry of Finance with a fully functional financial management information system. For the Bank's lending operations, acceptable elements of the country financial management systems are expected to be used while concurrently supporting system strengthening.

Partnership and coordination

91. Collaboration and coordination with development partners will remain strong with WBG engagement leveraging other partners' assistance. The last decade witnessed a decrease in the number of development partners in Albania, with many bilateral partners increasingly channeling their support through the EU. Nevertheless, foreign assistance has been crucial in supporting Albania's capacity building and capital investments. With around US\$350-US\$400 million external annual support,

¹³ Two PEFA assessments (2006 and 2011), a Public Expenditure Review (2006), a Public Finance Review (2013), annual EU-SIG-MA reviews, and other analysis by the World Bank, the IMF, the EC, and other organizations.

¹⁴ Albania has a total of 429 budget institutions, including local institutions and special funds, which together have created 1548 spending units for the purpose of budget execution through the Treasury system. The five pilot institutions that are already connected include the General Directorate of Roads, the National Assembly, the National Agency of Natural Resources, the National Licensing Center and the Intelligence Service. Supported by SETS.

Albania still relies quite heavily on foreign financing which covers 40 – 50 percent of the capital expenditures in the budget. The WBG and the EU are the key strategic partners in Albania, and their programs cover multiple sectors. The complementarity with other development partners' programs is presented in the earlier discussion about the CPF objectives.

92. The Government is committed to enhance the effectiveness of development cooperation in support of national priorities. Leadership is provided by the Deputy Prime Minister, who is also leading the NSDI preparation, through the Department of Development Planning, Financing and Foreign Aid (DDPFFA). Albania has adhered to principles of aid effectiveness undertaken under the Paris Declaration, Accra Agenda for Action and Busan partnership for Effective Development Cooperation. Development partners' coordination takes place through the Donor Technical Secretariat. The secretariat facilitates stronger information exchange among development partners, and with Government to improve aid effectiveness. EU is leading the efforts to strengthen donor coordination mechanisms including streamlining the Sector Working Groups with the aim to work with Government on a sector wide approach for harmonization of development assistance.

MANAGING RISKS TO THE CPF PROGRAM



IV. MANAGING RISKS TO THE CPF PROGRAM

93. The overall risk to achievement of development objectives outlined in the CPF is assessed as moderate. The risks to the CPF development objectives are summarized in table 4. The Government is pursuing an ambitious program of structural reforms to bring the country back on an accelerated growth path. The partnership between the WBG and the Government of Albania is strong with the reform environment in the country lending itself to deeper WBG engagement. The following areas are assessed as the key risks for the achievement of the CPF development objectives.

Table 4: Risk Rating

Risk Categories	Rating (H, S, M, L)
1. Political and governance	M
2. Macroeconomic	S
3. Sector strategies and policies	M
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	S
7. Environment and social	M
8. Stakeholders	L
Overall	M

Note: H = High; S = Substantial; M = Moderate; L = Low

- The key risk to successful implementation of the CPF relates to the Government's overriding objective to restore growth. This objective, and the WBG program to support it, faces substantial macroeconomic risks. This could have implications for the DPLs if the macroeconomic framework goes off track. Albania has a relatively high exposure to developments in neighboring countries, especially Greece and Italy, through remittances, exports and foreign investments. Prolonged stagnation in the Eurozone, and a slower than projected pace of recovery in the Euro area could lead to lower than expected growth, revenue collection and fiscal consolidation. Moreover, given the large exposure of the financial sector to external regulatory shocks, there are risks of potential pressures from deleveraging of foreign banks. Significant efforts are underway by the Albanian authorities supported the EU, the IMF and the WBG to ensure macroeconomic stability. The government has

signed a 3 year Extended Fund Facility (EFF) with the IMF which aims at putting debt to a declining path after the government clears all arrears in 2016. The WBG has provided significant assistance to support government's reforms in the fiscal domain, and to address vulnerabilities of the financial sector. While these ongoing government efforts will mitigate the macroeconomic risk, Albanian economy remains vulnerable to external shocks and slower growth in the Eurozone could have an impact on the country's economic performance. This risk will be mitigated by encouraging more diverse linkages to regional and global markets beyond Albania's traditional investment, trade and migration partners. The WBG will continue to monitor performance in the Eurozone and be flexible to adjust its program in order to respond to possible emerging needs. While this risk affects the overall CPF program, it is greater for the objectives supported by DPLs under Focus Areas 1 and 2. The WBG will also provide specific support for crisis preparedness such as to the financial sector for conducting crisis simulation exercises. The WBG will maintain its strong coordination with the IMF and EU to ensure joint and timely support should deterioration occur in the macroeconomic outlook.

- Institutional weaknesses and capacity constraints in implementing agencies may undermine progress in spite of strong political commitment for reforms and could pose a substantial risk. These risks could be exacerbated with the implementation of territorial and administrative reforms and shift of greater responsibilities to local government units which currently have weak institutional capacities. In addition the objectives pertaining to land and tourism development could face potentially higher social and environmental safeguard risks. The WBG program is designed to engage in areas where there is strong commitment for reforms and capacity for implementation. Some risks will be mitigated by incorporating stronger institutional reform elements, providing capacity support to line ministries and including targeted capacity support in all new IBRD lending. This risk will also be mitigated through careful sequencing of projects recognizing and addressing the institutional weaknesses. For example, the follow on operations in land management, energy, and coastal regeneration and sustainable tourism build on the institutional strengthening initiated under previous operations. Engagement in new areas will build on strong analytic work to inform the subsequent operations such as: skills and employment, jobs and competitiveness, and sub-national financing and governance. In order to promote sustainability, there will be increased use of government structures during implementation with strong M&E arrangements and inclusion of measures to strengthen government monitoring systems.
- The fiduciary environment and weak governance represent substantial risk to the achievement of CPF objectives. Some weaknesses are identified in the overall fiduciary environment, characterized by low and moderate scores in key diagnostic indicators. Despite improvements, lagging areas, as identified in the 2011 PEFA assessment include: i) multi-year perspective in fiscal planning and policy formulation; ii) internal audit; iii) implementation of the integrated planning system; and iv) scope and nature of the external audit function. The Public Finance Review in 2013 emphasized the need of further technical assistance to strengthen and modernize cash management and pre-commitment control over expenditures. Significant efforts are underway with support from the EU, IMF and the WBG for strengthening public financial management. The Ministry of Finance has recently approved a comprehensive PFM strategy which provides the basis for further support. Recurring procurement and contract management problems have been observed in the Bank portfolio during the previous CPS period, and support (such as through hiring of IT procurement experts) has

been provided in projects with complex design components. Increasing use of e-procurement and Bank guidelines in the procurement process allows for greater oversight thereby mitigating some risks. The fiduciary and governance risk is system-wide with potential impact on CPF objectives supported by investment lending in areas such as land, energy, tourism development and water. Mitigation measures include systemic improvements while benefiting from the ongoing support being provided by WBG and other partners.

- Stakeholder risk is considered relatively low given: i) the World Bank's track record of positive results in Albania; ii) strong public support for the Government's medium-term reform program and iii) renewed dynamism of the EU accession process, which further strengthens public support for reforms. Overall, stakeholder risk is considered low, although some of the more controversial reforms (such as clamping down on illicit energy use) generates some public opposition. The WBG program takes into account the next election cycle midway during the CPF period which may slow program delivery. Mitigating measures include some front loading of the program to take advantage of the current reform orientation, and conducting the mid-term PLR after elections to make modifications to strategy as warranted to ensure Government ownership and continued commitment to reform. A strong communication and public outreach campaign, by both Government and by the WBG, will also be an important strategy to mitigate risks.

ANNEXES

Annex 1: CPF Results Matrix

Annex 2: World Bank-IFC Indicative Lending and AAA Program

Annex 3: Indicative Sequencing of IBRD Lending

Map of Albania

ANNEX 1: CPF RESULTS MATRIX 2015 – 2019

FOCUS AREA 1: RESTORING MACROECONOMIC BALANCES

The Government considers reducing the country's macro-fiscal and financial vulnerabilities as pre-requisites for economic growth and poverty reduction. Albania's strong growth and sharp decline in poverty halted in the aftermath of the 2008 global financial crisis. The country's economic vulnerabilities have been heightened by high public debt and arrears, inadequate planning and management of public investments, unsustainable fiscal deficits, and mounting non-performing loans (NPLs). The Government is implementing a strong medium-term reform program to restructure public finances for macro-economic stability, and reforms for financial sector stability. Progress in this focus area is expected to contribute to economic growth and poverty reduction. This Focus Area encompasses three inter-related CPF objectives supported by a strong program of technical and financial interventions.

CPF Objective 1a: Support improved fiscal sustainability

Intervention logic:

This CPF objective will directly contribute to Government's reform program that seeks to promote macro-economic stability and restore growth. Sustained implementation of fiscal policies is required to improve efficiency of public spending at the central government level, enhance revenue measures, tackle outstanding public arrears, address sustainability of pensions, and strengthen public debt management. Interventions with development policy operations allows the financing of an orderly medium-term fiscal consolidation which nurtures growth rather than forcing an ad hoc adjustment which would either undermine growth or require further unsustainable government borrowing on domestic markets. Analytical and operational engagement - through DPLs - has contributed to Government's public financial management reforms, with encouraging results. The recently approved Policy Based Guarantee (a conversion of the second DPL operation), the proposed Public Finance and Growth DPLs and analytic and advisory interventions will continue to support Government efforts towards building a much needed transparency and planning in budgeting and fiscal discipline. The newly initiated administrative and territorial reforms provide an opportunity to extend the fiscal engagement to the sub-national level to, the critical mass for service delivery. The proposed intervention at the sub national level, underpinned by a sub-national public finance and governance review, will contribute to inclusive growth and will address issues of regional disparities. The overall advisory and technical interventions benefit from a close coordination among the EC, the IMF and the World Bank. In the local finance and governance area where the proposed operation is not yet fully developed, appropriate adjustment will be made at the time of the PLR to incorporate relevant CPF indicators.

CPF Objective Indicators

Indicator 1:
No accumulation of new central government arrears and arrears backlog cleared
Baseline: 2.6% of GDP - 2014
Target: No central government arrears - 2018

Supplementary Progress Indicators

Reduce public and publicly guaranteed debt to GDP ratio to 65 percent by 2017; 61 percent by 2018; and 60 percent by 2019
(Baseline: 71%)
Percentage deviation between actual and budgeted expenditure not more than 5 percent in 2015, 2016 and 2017
Central government arrears stock as of end 2015 is smaller than 1 percent of GDP
Revised Organic Budget Law has been approved by Parliament (2015)
50 % and 70% of municipalities prepare annual municipal development plans 2018, 2019 respectively

WBG Program

Current Portfolio:

Albania PBG (approved March 27, 2015)

Proposed:

Sub-national Finance and Governance (FY17)
Public Finance and Growth DPLs (FY18, FY19)

Ongoing TA:

Public Debt Management
Macro-economic monitoring
Public Financial Management Grant for Albania, and IPS 2 TF
Developing Public Sector Accounting, and Financial Report Grant for Albania

Proposed AAA:

Sub-national Public Finance Review
ESW on Growth and Shared Prosperity

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

Intervention logic:

The infrastructure network in Albania is a key asset in support of growth, development initiatives and job creation. The transport sector has a predominant share in public infrastructure investments. It has been responsible for accruing the largest share of arrears owed by Government on capital projects reflecting ad hoc planning and budgeting of capital projects. Addressing this issue is thus critical for supporting fiscal consolidation and PFM reforms. Prioritization of investments in road sector, with appropriate technical feasibility and available financial resources, is necessary to ensure that economically viable investments are selected that contribute to economic growth. Progress has been made by Government in developing a Medium Term Budget Plan (MTBP) 2015-17 that prioritizes new transport sector investments. The recently approved Results Based Road Safety and Maintenance Project particularly addresses this issue and aims at supporting Government efforts towards bringing fiscal discipline in transport sector investments and rebalancing the resources between new investments and asset maintenance. The IFC Advisory and investments for Public Private Partnerships in Albania Highways complement WB engagement. Accomplishment of progress in the core indicator will contribute to enhancing transparency and predictability in managing public investments in the transport infrastructure. A proposed Transport Reform Project will further deepen support for fiscally sustainable public investment programs.

CPF Objective Indicators

Supplementary Progress Indicators

WBG Program

Indicator 1:

All road sector investments are appraised for economic viability and aligned with medium term budget framework

Baseline: Ad hoc planning and budgeting of capital investments - 2015
Target: All road sector investments aligned with the medium term budget framework - 2018

Development of sustainable PPP for improving road conditions through PPP advisory services and investment
 Facilitation of investments in financing for highways to improve access to transportation for 100,000 people

Road investment program prepared with feasibility, economic analysis, prioritization, and resource requirements for implementation. Draft prepared (2016) and approved (2017)
 Multi-year road maintenance plans prepared (annual basis 2016 onwards) from a zero baseline in 2015

Length of project road under performance based maintenance: (annual monitoring in line with maintenance plan) 1335 km of national roads under implementation from 2016 onwards from the current zero baseline

Current Portfolio:

Results Based Roads Maintenance Project (Approved March 27, 2015)

Proposed:

Transport Sector Reform (FY19)

IFC advisory and investment for PPP Albania Highways

CPF Objective 1c: Support improved financial stability

Intervention logic:

The financial sector, which strongly supported high growth before the crisis, was hit with deleveraging by foreign banks and rapidly rising NPLs post-2008. It has remained largely resilient post-2008, but both internal and external risks to its stability are present. If risks materialize, a crisis in the financial sector would likely reverse economic recovery and increase poverty. Even in the absence of a crisis, constraints in accessing finance reduce business investments that lead to growth and jobs. Strengthening the capacities of the financial regulators, improving the insolvency regime, collateral execution and private bailiff structure are examples of additional steps to support future credit growth. WBG interventions to support Government reforms in these areas, and especially in reducing the high level of NPLs, are critical to improve access to finance, and promote financial stability. A first phase of reforms was supported under the Financial Sector Modernization DPL in 2014. A second Financial Sector Modernization DPL will further deepen support for financial sector reforms focusing on reduction of NPLs and on actions for improving the resilience of the financial sector. A strong technical assistance program including through Trust-funded TA projects complements the policy engagement under the DPL.

CPF Objective Indicators

WBG Program

Supplementary Progress Indicators

Indicator 1:

Reduce NPLs to 20 percent or below

NPL Reduction:

Baseline: 24,9% - 2014

Target: 20% - 2018

NPLs have declined (from 24.9 percent in 2014) by 2 percent points in 2016 and another 2 percent points by 2018

Pipeline:

Financial Sector Modernization DPL 2 (FY16)

Ongoing TA:

FIRST: Strengthening the supervision and regulation of the insurance sector

FIRST: Strengthening the supervision and regulation of private pensions

SECO TF to strengthen capacity of AFSA to regulate and supervise investment fund and capital markets;

Risk Management and NPL Resolution and Corporate Governance

Proposed AAA:

SECO TF to Enhance Quality of Financial Reporting

FOCUS AREA 2: CREATING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH

As a small, open middle-income economy, Albania's main path to prosperity is through successful international integration, especially with Europe, with increase in investments and jobs created. For this, the business environment and supporting infrastructure must be improved considerably. Progress under this area is expected to directly contribute to inclusive growth, boost shared prosperity and reduce poverty. The Government has accorded a high priority to improving the business climate and increasing Albania's competitiveness. While there has been some recent progress, serious shortcomings remain in the business environment. These include heavy regulatory burden, high informality, inadequate framework for private investment and barriers to labor market engagement, poor relevance of skills and inadequate corporate governance and financial reporting practices. These shortcomings are exacerbated by infrastructure constraints, especially in the energy sector, and weaknesses in the land sector including in property registration and in the sustainable and productive use of land for investments. Due to its cross and multi-sectoral dimensions, this focus area will be supported by four inter-related CPF objectives.

CPF Objective 2a: Contribute to improved business environment

Intervention logic:

Albania's business environment remains unattractive by global standards (about middle of the global rankings, with excessive bureaucracy, widespread corruption and lack of contract enforcement), and needs to improve in order to stimulate the higher level of investment needed to accelerate growth and create jobs. Albania's current business environment is a serious constraint to growth. Key areas requiring improvement include cutting the regulatory burden, strengthening the policy, legal and institutional framework for domestic and foreign investment and improving trade logistics and facilitation. Progress in these areas is necessary for Albania's shift towards a new growth model and for improving the business environment. A proposed Competitiveness and Jobs DPL will support Government's medium term reforms for improving the investment climate and expanding access to finance, and will provide policy support for labor market reforms and job creation. The joint IFC and World Bank program incorporates investments, advisory services and analytic work. IFC Debt resolution program will improve the insolvency framework to strengthen loan recovery, and enable viable businesses to rehabilitate and have further access to credit. Low quality of labor market engagement, especially among the bottom forty percent, youth and women, is also a key constraint to inclusive growth. Firms report a mismatch between job requirements and available skills. Analytic and advisory program will build the currently inadequate evidence base on labor market issues and provide advice on priority reforms. It will also underpin a proposed Skills and Employment Project that will enter late in the CPF period and will focus on strengthening the relevance of the training systems and active labor market programs, including enhancing linkages with employers. Albania's performance on the Doing Business DTF measure will be used to assess progress as it reflects improvements across multiple dimensions of the business environment. Some of the indicators for measuring the achievement of this objective will be further elaborated at the PLR stage, in line with the preparation cycle of the proposed DPL and other interventions.

CPF Objective Indicators

Indicator 1:
 Improve *Doing Business Distance to Frontier* (DTF)
Baseline: DB2015:66
Target: DB2018: 74

Indicator 2:
 Increase number of firms, especially in export-oriented sectors; Target 3-5% increase in number of firms
Baseline: 1 11,000 firms - 2013
Target: additional 4400 - 2018

2016 DTF: 69
 2017 DTF: 72
 Special focus on:
 - Construction Permits DTF:
 Baseline: DB2015 - 56
 Target: DB2017 - 70
 - Trading across Borders DTF:
 Baseline: DB 2015 - 72
 Target: DB2017 - 82

Reduced costs to companies for operating businesses (measured through compliance cost savings)
 Baseline: 2013

WBG Program

Proposed:
 Competitiveness and Jobs DPL (FY16)
 Skills and Employment Project (FY18)
 IFC Western Balkans Trade and Competitiveness Program
 IFC Investment to finance underserved segments including SMEs and women

Ongoing TA:

IFC Indicator Based Reform Advisory in ECA
 IFC Tax and Transparency Project
 IFC SEE Regional Debt Resolution Project
 IFC Regional Corporate Governance Project
 CFRR regional EU-REPARIS⁶ program, and EQ-FINREP⁷ country Project

Proposed TA:

Strengthening ICT sector for investments and jobs

Proposed AAA:

Skills, employment and labor markets

CPF Objective 2b. Support sustainable tourism development

Intervention logic:

This CPF objective related to the business environment will support sustainable tourism development given its high potential as a key driver for growth, job creation, and investment. Much of Albania's growth and export potential has been linked to nature based sectors. The country needs to take full advantage of its natural resources balancing this with sustainable development of the high potential tourism sector as a key driver for economic growth. Tourism development has largely been unplanned lacking a strategic focus to develop the high tourism potential regions of the country in an integrated and sustainable manner. The Government has given a high priority to development of sustainable tourism in the coastal region and has requested WBG assistance. A proposed Coastal Regeneration and Sustainable Tourism Project, with cross GP collaboration, is an appropriate intervention as it has the potential to support promotion of sustainable tourism and economic growth in the coastal region, while preserving the physical beauty of Albania's southern landscape. This operation builds upon the experience and lessons learned from a recently closed IBRD project in the coastal region. As the proposed new operation is at an early stage of preparation, its associated indicators and targets will be incorporated at PLR time.

CPF Objective Indicators

Indicator 1:
Key infrastructure (port, water supply, landfill) operational in south coast for sustainable tourism
Baseline: Absence of key operational infrastructure - 2012

Target: Key infrastructure operational - 2015

Supplementary Progress Indicators

Saranda Port, landfill and water supply functional (2015)
Integrated development plan for sustainable development of tourism circuit in coastal region finalized (2016)

WBG Program

Proposed:
Coastal Regeneration/Sustainable Tourism Project (FY16)

Proposed AAA:
Growth/tourism and sustainable development in coastal region

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

Intervention logic:

Inefficiency in the energy sector is a major brake on investment and expansion of businesses in Albania. Energy sector reforms are fundamental for sustaining growth, improving fiscal sustainability and promoting private sector growth. Existing firms rank electricity constraints as one of the main burden of their operations (BEEPS 2013). Reliability of power supply is essential for large firms to enter the emerging market. World Bank's existing portfolio (Dam Safety Project and the Power Sector Recovery Project) is designed to directly respond to the CPF objective as it seeks to optimize generation performance, increase and diversify domestic power generation, improve distribution efficiency and collection rates and improve management of hydro resources. The IFC will work with Government to enhance the regulatory framework for renewable energy through the Balkan Renewable Energy Project, while concurrently providing indirect finance to small hydropower producers through the banking sector and coordinating advisory work with the banks and companies involved in renewable energy projects. WBG interventions address the key bottlenecks in the sector and will support creation of the necessary conditions for businesses to establish, grow and export more through: i) diversified domestic power generation and increased energy efficiency; and ii) improved management of hydro resources (through integrated approaches to watershed management). The core and supplementary indicators are designed to evaluate performance in these areas. A proposed IBRD operation for Energy Sector Development, during the latter CPF period, will support further market reform and diversification and improvement of energy sources, possibly including gas diversification.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Electricity distribution losses are 19% Baseline: 38% - 2014</p>	<p>No further accumulation of SOE and budgetary institutions payables/arrears to energy Companies by end-2016 (annual) Private sector participation in management of Distribution Company under a management contract (2016)</p>	<p>Current portfolio: Power Recovery Project (FY15) ECSEE Dam Safety (FY09) Proposed: Energy Sector Development IFC investment in Renewable Energy IFC selective investment in energy, infrastructure and extractive industry Proposed AAA: Energy Sector Note Risk Mitigations Strategy Study Flood Management Study on the Drin River Social impact and energy Tariff Assessment Impact Assessment of Medium Voltage Customers' Deregulation</p>
<p><i>Indicator 2:</i> Electricity customer collection rate is maintained at a sustainable average rate of 90% between 2015-19 Baseline: 80% - 2014</p>	<p>New power market model approved (2015) and effective (2016) Upgraded infrastructure to facilitate electricity market liberalization (100% metering system for medium voltage customers and all IPPs) 2018 Implementation of enhanced Corporate Governance system for Power Utilities (2017)</p>	<p>On-going TA: Extractive Industries Transparency Initiative (EITI) IFC SEE Regional Renewable Energy Program (RE), Energy Efficiency (EE) and investment to revive credit growth</p>
<p><i>Indicator 3:</i> The electricity market deregulation on the demand side has reached 20% of total net demand Baseline: 9% - 2014</p>	<p>IFC contribution to additional 110 MW renewable energy through investment and advisory services</p>	
Target Year 2018		

CPF Objective 2d: Provide expanded and inclusive land/property registration

Intervention Logic:

Land and property right reforms are essential for ensuring transparent and efficient management of Albania's land to promote both rural and urban investments and economic growth. Lack of land access and an efficient land market are key obstacles for development and investment in the country. A clear legal framework to guide a long lasting solution to property issues is still missing. A key constraint is the incomplete registration of property and land. The first registration of property is still in an early stage with only 10 percent of properties registered supported through an earlier World Bank assisted project. The Government is preparing an integrated land management framework to address these constraints and has requested World Bank support. A proposed Integrated Land Management Project will further expand property registration/digitalization and support the development of an integrated land management policy and legal framework. It will also help in the development of Spatial Data Infrastructure (SDI) to create a comprehensive land information service to provide users, including investors, with access to a wide range of harmonized land –related information and services. Gender and inclusion dimensions will be given a special attention. Given the high gender gap in land ownership, administrative procedures for land formalization and property registration will incorporate measures to particularly address women's low landownership, and will be backed by public informational campaigns for greater outreach to women. The proposed IBRD project will work with the property registration authorities to include gender disaggregated data in the government MIS system. Progress in this area is especially critical for Albania's path to EU accession. EU is financing a World Bank managed Land Administration Trust Fund that supports the development of the national digital registration/cadaster data improvement methodology. As the IBRD pipeline operation is under preparation, the PLR will provide more detail on the targets and baselines.

CPF Objective Indicators

WBG Program

Supplementary Progress Indicators

Indicator 1:

Increase in percentage of properties registered in the digital registration system gender

Increase in the percentage of properties registered in the digital registration system 15% (2018) – gender disaggregated data

Pipeline:

Integrated Land Management Project (FY16)

Ongoing TA:

Land Administration and Data Improvement EU Trust Fund

Baseline: 10% - 2014

Target: 20% - 2019

Increase in the number of property transactions submitted on-line 10% (2017), 20% (2018)

CPF Objective 2e: Contribute to increased productivity and sustainability of land use

Intervention logic:

A modern Albanian economy requires productive and sustainable management of Albania's land resources. Low farm productivity, non-inclusiveness of land markets and unsustainable land use and management are key constraint to private investments and economic growth. Enhanced productivity and sustainability of land use is critical to promote development and investments. Albania needs to take full advantage of its land resources and enhance land productivity and increase farming income to contribute to economic growth. The core indicators arise from the Environment Services Project approved in 2014 and the legacy Water Resources Irrigation Project that has been included in the results matrix due to its contribution to enhancing land productivity. These interventions will contribute to sustainable land and forest management practices to maximize benefits from Albania's natural land endowments and also raise land productivity and farming incomes.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Additional land area (ha) where sustainable land management has been adopted Baseline: 0 - 2013 Target: 7500 ha - 2018</p> <p><i>Indicator 2:</i> Area (ha) provided with improved irrigation and drainage services in agricultural land benefiting water users. Baseline: 0 - 2012 Target: 35,000 (ha) - 2018</p>	<p>Sustainable land management practices adopted for 3000 hectares (2017), and 4000 hectares (2018)</p> <p>People in targeted forest and adjacent communities with increased monetary/non-monetary benefits from forests: 500 (2017), 1000 (2018); and from agricultural lands: 500 (2017), 800 (2018) – all data gender disaggregated</p> <p>Increase in recovery of irrigation O&M costs as percentage of O&M charges invoiced: 20% (2016), 50% (2017); and 50% (2018)</p>	<p>Current Portfolio: Environmental Services Project (FY15) Water Resources and Irrigation Project (FY13)</p>

FOCUS AREA 3: STRENGTHENING PUBLIC SECTOR MANAGEMENT AND SERVICE DELIVERY

A key Government priority is the modernization and improved governance of public services, and enhancing the quality and coverage of public sector services. The quality of public service delivery and its accountability is marred by corruption, a weak governance environment, poor service quality, and unequal service provision for the poor and vulnerable. This area supports Government reforms to increase efficiency of public services and improve equity and access to basic social services. The Government recognizes the citizens' lack of trust in public services and its reform program in this area seeks to bring about visible improvements in the citizenry's interface with public service delivery. This focus area, supported by four CPF objectives, directly reaches out to the bottom forty percent, the poor and the vulnerable communities including the Roma population.

CPF Objective 3a: Support increased efficiency of public service delivery

Intervention Logic:

Reestablishing a relationship of trust between citizens and their Government, and combatting widespread corruption in service delivery are essential for national cohesion and the higher investment needed to pursue Albania's growth and EU accession agenda. The public service delivery systems require transparency, process re-engineering and regulatory changes to enhance citizens' trust and facilitate their interface with Government. This entails re-engineering administrative services, digitization, and implementing performance management measures. The World Bank will support the Government public services reform program in these areas through a pipeline Citizen-Centric Public Service Delivery Project which will contribute to the innovative design of administrative services to improve governance and accountability in public services. This intervention has been selected as it directly responds to the Government's good governance priority and anti-corruption reforms through a combination of technical and financial support. As some of the indicators (including baselines and targets) of this pipeline project are under preparation, these will be updated at the time of the PLR. The baseline will be established through a citizen survey that is expected to be completed prior to Board. The complementarities with the interventions (under CPF objectives 3b-d) will further strengthen the achievement of this CPF objective.

CPF Objective Indicators

Supplementary Progress Indicators

WBG Program

Indicator 1:

Reduction in time required for citizens to obtain targeted administrative services : **Baseline:** 0% - 2014

Target: 15% reduction - 2019

Number of key services with business process re-engineered
Number of key services with level 2, 3 and 4 automation

Pipeline:

Citizen-Centric Service Delivery Project (FY16)

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

Intervention Logic:

Social protection services supported under this objective include the national social assistance program called Solidarity Albania, the disability benefits and pensions. The social assistance services have been operating in a weak governance environment requiring improvements in targeting and equitable access. Overall, greater focus on inclusion, improved coverage and targeting of social safety nets and implementation of pension reforms will contribute directly to the welfare of the poor and the vulnerable communities. It will allow better use of scarce public resources and allow excluded groups to more fully participate in economic opportunities and the labor market. Social assistance programs are undergoing reforms for greater transparency and equity though which targeting is also improving. The Social Assistance Modernization Project is improving targeting and governance in disability benefits and in Solidarity Albania, the largest social assistance program of the country. Implementation of the pension law being supported through technical assistance. The existing World Bank project is well positioned to support the CPF objective. The target dates for the indicators (during mid CPF period) are within the life span of this ongoing project. The proposed additional financing will further deepen WBG support in this area to further enhance monitoring systems, governance improvements and coverage for equitable access.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Coverage of the poorest income quintile by the Solidarity Albania (social assistance program) increases to 38% Baseline: 25% - 2012 Target: 38% - 2018</p>	<p>Pensions sub-laws developed to implement pension reforms (2015)</p> <p>Adoption of social model for Disability Assistance eligibility criteria (2017)</p> <p>Reduced share of disability beneficiaries that are functionally able (in %) (2017) Baseline: 14 % Target: 10%</p> <p>Establishment of MIS for Social Assistance programs (2016)</p> <p>Operations guidelines adopted for system based inspection for detection and remedy of fraud and error in social assistance programs (2016), and implementation (2017)</p> <p>Percentage of households receiving benefits for the Solidarity Albania program that have been screened for eligibility using the Unified Scoring Formula Baseline: 0 Target: 50% (2016) - 95% nationwide (2017)</p>	<p>Current Portfolio: Social Assistance Modernization Project (FY13)</p> <p>Proposed: SAMP Additional Financing (FY17)</p>

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

Intervention Logic:

Health outcomes in Albania are relatively strong by regional standards but efficiency and quality of care is poor and financial access to health services, especially of the poor and vulnerable, is a serious concern. Financial protection of households against high out-of-pocket payments (OOP) is weak. Government reforms in the hospital sector include creating a sound management structure, improving financial access and establishment of a health management information system to support improvement in monitoring and management for better health service quality and efficiency. It is anticipated that specific population groups, including those with chronic diseases, will benefit from improved health care and the reduced copayments for essential, low-cost medicines. The core indicator for measuring the achievement of this CPF objective supports the reduction of out-of-pocket payments for the poorest while the supplementary indicators will support the poor and vulnerable population through reduction in medicine prices. The performance management and governance reforms in selected public hospitals will create greater accountability and more efficient service provision for the population. The newly approved Health Systems Improvement Project and an IFC PPP project in health provide support in these areas, including strengthening management information systems, improving governance and financial access, and developing a PPP in the health sector. All these areas have been identified as critically important to support increased efficiency and access of health services in the hospital sector.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Reduced percentage of income spent on out of pocket health expenditures, for the poorest quintile Baseline: 9% - 2012 Target: 7% - 2018</p>	<p>Reduction in average prices for (a) 10 most common prescription medicines; and (b) 10 most expensive hospital medicines (2018) Proportion of cheapest generic copies dispensed for 10 most common off - patent drugs (2017) Number of public health sector laboratories operated through Public Private Partnerships Baseline: none Target: 9 regional and 2 tertiary care hospitals (2017)</p>	<p>Current Portfolio: Health Systems Improvement Project (FY15) IFC PPP Advisory Services Project Proposed AAA: Health Regional</p>
CPF Objective 3d: Provide enhanced coverage of water and sanitation services		

Intervention Logic:

In the water sector, public investments in water networks are poorly governed and performing below optimum levels with irregular service delivery to citizens. Water sector is one of the top Government priorities where an integrated water management approach is being developed to address issues of coverage and access as well as issues of financial and institutional sustainability. The IBRD legacy Water Sector Investment Project is well positioned to support this priority as it includes measures to enhance water and sanitation coverage as well as efficient and sustainable asset management. IBRD will support Government in its efforts towards providing additional supply capacities to address acute water shortages and to develop the proper network capacity to support this additional capacity. Aiming at longer term sustainability of investment, IBRD will support institutional strengthening and preparation of performance monitoring and performance improvement plans. The core indicators directly contribute to the CPF objective. A proposed analytic work as well as the Regional Danube Water Program will provide policy support for a medium term sector financing strategy to support sustainable service delivery.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Piped household water and sewer connections that are benefiting from rehabilitation works undertaken by the project Household water connections Baseline: 0 - 2013 Target: 77,000 – 2019</p> <p>Sewer connections Baseline: 0 - 2013 Target: 3000 sewer connections - 2019</p>	<p>10,000 piped water household connection and 1000 new sewer connections (2017) 45,000 piped water household connections and 2000 new sewer connections (2018)</p>	<p>Current Portfolio: Water Sector Investment Project (FY14) Proposed AAA: Water Supply & Sanitation Sector Policy Support</p>

ANNEX 2: WB - IFC INDICATIVE PROGRAM FY15-19

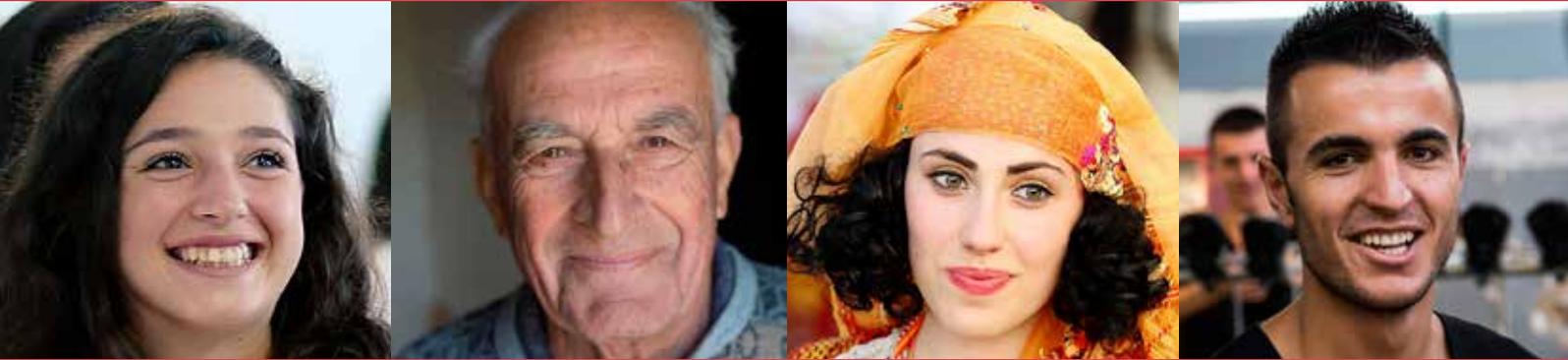
	CURRENT PORTFOLIO	PIPELINE/PROPOSED LENDING	AAA/TA
RESTORING MACROECONOMIC BALANCES	<p>Policy Based Guarantee (approved March 27, 2015)</p> <p>Results based Roads Maintenance and Improvement Project (approved March 27, 2015)</p>	<p>Pipeline: World Bank: Financial Sector Modernization DPL2</p> <p>Proposed: Sub-national Finance and Governance Public Finance and Growth DPLs Transport Sector Reform</p> <p>IFC: Investment for PPP Albania Highway</p>	<p>On-going TA: World Bank: FIRST: Strengthening the supervision and regulation of private pensions FIRST: Strengthening the supervision and regulation of the insurance sector Public Debt Management SECO TF to strengthening capacity of AFSA to regulate and supervise investment fund and capital markets Macro-economic monitoring Public Financial Management Grant for Albania, and IPS 2 TF Developing Public Sector Accounting, and Financial Report Grant for Albania IFC: Risk Management and NPL Resolution and Corporate Governance</p> <p>Proposed AAA: Sub-national Public Finance Review ESW on Growth and Shared Prosperity</p>
CREATING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH	<p>World Bank: ECSEE Dam Safety Power Recovery Project Water Resources and Irrigation Project Environmental Services Project</p> <p>IFC: Tax and Transparency Project (2012-2015) Regional Debt Resolution Project Investments in power generation, banking, oil and gas, and general manufacturing</p>	<p>Pipeline: World Bank: Integrated Land Management Project</p> <p>Proposed: Competitiveness and Jobs DPL Skills and Employment Project Coastal Regeneration/Sustainable Tourism Project Energy Sector Development</p> <p>IFC: Investment in Renewable Energy Western Balkans Trade and Competitiveness Program Investment to finance underserved segments including SMEs and women Selective Investments/Advisory in energy, infrastructure, extractive and export oriented industries</p>	<p>On-going TA: World Bank: Land Administration and Data Improvement EU TF Disaster Risk Management TF Extractive Industries Transparency Initiative (EITI) CFRR regional EU-REPARIS program, and EQ-FINREP country Project</p> <p>IFC: Indicator Based Reform Advisory in ECA Advisory Support on Risk management/NPL Investments and TA to FIs to revive credit growth in renewable energy (RE) and energy efficiency (EE) Regional Corporate Governance Project SEE Regional Debt Resolution Project Tax and Transparency Project</p> <p>Proposed TA: World Bank: Advisory support for Integrated Water Management Strategy Strengthening ICT sector for investments and jobs</p> <p>Proposed AAA: Skills, employment and labor markets Education Regional Energy Sector Note Risk Mitigation Strategy Study Flood Management Study on Drin River Social Impact and Energy Tariff Assessment Growth/Tourism and sustainable development in coastal region Impact Assessment of Medium Voltage Customers' Deregulation</p>
STRENGTHENING PUBLIC SECTOR MANAGEMENT AND SERVICES	<p>World Bank Social Assistance Modernization Project (SAMP) Water Sector Investment Project (WSIP) Health Systems Improvement Project (approved February 2015)</p> <p>IFC: PPP Advisory Services Project</p>	<p>Pipeline: World Bank: Citizen-Centric Service Delivery Project</p> <p>Proposed: SAMP Additional Financing</p>	<p>Proposed AAA: World Bank: Pension Regional Health Regional Water Supply and Sanitation Sector Policy Support</p>

ANNEX 3: INDICATIVE SEQUENCING OF IBRD LENDING (FY15-19)

	In Numbers				
	FY15	FY16	FY17	FY18	FY19
Portfolio	8	10	11	13	13
Closing Projects	1	0	1	1	1
New Projects (including DPLs)	4	4	3	2	2
Investment Projects end of FY (excluding DPLs)	8	10	11	13	13

MAP OF ALBANIA





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