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IMPLEMENTATION COMPLETION REPORT

REPUBLIC OF ALBANIA

**AGRICULTURE SECTOR ADJUSTMENT CREDIT
(Credit 25240 ALB)**

June 8, 1999

**Environmentally and Socially Sustainable Development
Europe and Central Asia Region**

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CURRENCY EQUIVALENTS

(as of May 20, 1999)

Currency Unit	=	Albanian Lek
1 Albanian Lek	=	0.0071 US Dollars
1 US Dollar	=	140.3 Albanian Lek

AVERAGE EXCHANGE RATE

<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
102.6	94.6	92.7	104.5	149.6	151.2

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1- December 31

ABBREVIATIONS AND ACRONYMS

APO	Agricultural Program Office
ASAC	Agriculture Sector Adjustment Credit
DCA	Development Credit Agreement
EFSAC	Enterprise And Financial Sector Adjustment Credit
ESW	Economic And Sector Works
EU	European Union
GDSR	General Directorate For State Reserves
GOA	Government Of Albania
ICR	Implementation Completion Report
IDA	International Development Agency
ILU	Independent Lending Unit
IMF	International Monetary Fund
MAF	Ministry Of Agriculture And Food (Albania)
OECD	Overseas Economic Cooperative Fund of Japan
RCB	Rural Commercial Bank
TA	Technical Assistance
USAID	United States Agency For International Development
WTO	World Trade Organization

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IMPLEMENTATION COMPLETION REPORT
REPUBLIC OF ALBANIA
AGRICULTURE SECTOR ADJUSTMENT CREDIT
(Credit 25240 ALB)

PREFACE

1. This is the Implementation Completion Report (ICR) for the Agriculture Sector Adjustment Credit (ASAC) for the Republic of Albania, for which Credit 25240 was approved by the Board on June 24, 1993, and made effective November 30, 1993. The credit amount of SDR 14.2 million (about US\$19.6 million) supported a hybrid operation at a total cost of around US\$45 million composed of (a) a quick-disbursing component of US\$36.4 million to support implementation of a program of sectoral reforms (US\$11.0 million from IDA, plus co-financing in the amounts of US\$20.0 million from Japan and US\$5.4 million from the Netherlands); (b) an investment component providing a line of credit to the Government for on-lending through a new Rural Commercial Bank (US\$5 million); and (c) a technical assistance component (US\$3.6 million from IDA plus parallel funding from co-financiers).
2. The closing date of the credit was December 31, 1998, the original closing date. The first tranche of US\$5.4 million was disbursed in June, 1994, and the second tranche of US\$5.6 million on January 8, 1998 (about 2½ years behind schedule), which was the final disbursement. The amount of US\$0.48 million was undisbursed at project closing and was cancelled.
3. The ICR was commissioned by Mr. Severin Kodderitzsch (agricultural economist, ECSSD), and was prepared by Mr. Elliott Hurwitz (agricultural policy analyst) and Ibrahim Hackaj (project officer). The ICR was reviewed by Ms. Arntraud Hartman, Country Director, ECC02, and Laura Tuck, Sector Leader, Agricultural Policy and Rural Finance (ECSSD). Preparation of the ICR was based on materials in the project file, including the President's Report, Letter of Sector Policy, supervision and Back-to-Office reports, and from data collected during the ICR mission on January 10-16, 1999 (in which Messrs. Hurwitz, Hackaj and Kodderitzsch participated). The draft report was sent to the Borrower and co-financing agencies on April 28, 1999; no comments have been received.

IMPLEMENTATION COMPLETION REPORT

REPUBLIC OF ALBANIA

AGRICULTURE SECTOR ADJUSTMENT CREDIT (Credit 25240 ALB)

EVALUATION SUMMARY

Introduction

1. Albania is predominantly agrarian, with about half its GDP and employment generated in agriculture. The country is mountainous, with only a third of its territory arable. About two thirds of the population lives in rural areas, with a high density of population to arable land (4.7 persons per ha). Albania has a very low land/worker ratio, about 1.5 ha per worker in Albania compared to, e.g., 10.5 in Bulgaria. After the radical change of regimes in 1991-92, economic conditions worsened, and GDP declined by 40 percent from 1990 to 1992. Agricultural production collapsed, and Albania, formerly a food exporter, had to rely on food aid. The fiscal deficit reached 60 percent of GDP in the first half of 1992, with inflation of 10-15 percent per month. With 1992 GDP per capita of US\$250, Albania was the poorest country in Europe.
2. In March, 1992, a reform-minded government was elected. Amid economic and social disorder, the Government of Albania (GOA) took decisive steps to restore order and macroeconomic stability. The GOA program, supported by external aid, included drastic stabilization measures and structural reforms. Sharp expenditure cuts halved the budget deficit, and subsidies to State-owned Enterprises were drastically curtailed. Strict monetary targets were adopted, most prices liberalized, the currency floated, and private transactions legalized.

The Agricultural Sector

3. Prior to identification of the ASAC, Albania had already undertaken substantial agricultural reforms although many were of an *ad hoc* nature and not part of a coherent overall program. A significant share of state-owned agriculture land was distributed in ownership to individual farmers (although in small parcels), and external trade and most agriculture product and input prices liberalized. However, constraints which continued to hamper agricultural growth included: absence of rural credit; collapse of state-owned marketing and processing enterprises; decrepit physical infrastructure; and an urgent need to extend and deepen agriculture sector reforms. In 1992, the GOA began to implement reforms based on the *Agricultural Strategy for Albania*, developed by the Government with IDA and the European Union (EU) support. This program addressed the above constraints, which were limiting production and marketed surplus, as well as preventing development of a market economy in rural areas.

Project Objectives

4. The objectives of the ASAC were to alleviate the constraints limiting production and, through technical assistance, bolster the capacity of key institutions including : (a) strengthen and extend reforms in the agricultural price and incentive framework; (b) privatize state farms and sell state farm assets; (c) finalize distribution of former state farm and cooperative land; (d) implement a Land Market Action Plan on titling, land registration, and land policy; develop lease market for agricultural land; and facilitate land consolidation; (e) liquidate the Bank for Agriculture and Development and transfer assets to create a new, sustainable Rural Commercial Bank to provide rural credit at market rates; (f) privatize processing and marketing enterprises, and improve the environment for private business in rural areas.
5. The objectives were appropriate for Albania's circumstances because they addressed the structural, institutional, and policy constraints that limited production and an increase in the marketed surplus. The objectives were clear, and developed in a participatory process with the GOA. They were somewhat unrealistic, however, with respect to: how long it would take to achieve some reforms (in particular, liberalizing wheat prices and enterprise privatization); and the extent to which social, cultural and institutional factors would inhibit the emergence of a functioning land market. ASAC was prepared in close cooperation with the GOA and IMF in accordance with a jointly-prepared policy framework. ASAC was complementary to—and designed to provide a favorable environment for—several subsequent IDA investment projects in the sector. ASAC was implemented through three components at a total cost of US\$45.5 million:
 - (a) a quick-disbursing component of US\$36.4 million (in 2 tranches) to support an ambitious policy reform program (US\$11 million from IDA, plus co-financing in the amounts of US\$20 million from Japan and US\$5.4 million from the Netherlands);
 - (b) an investment component (US\$5 million) providing a line of credit to the Government for on-lending through a new Rural Commercial Bank; and
 - (c) a technical assistance component (US\$3.6 million).
6. The ASAC's most important objectives were the policy goals supported by component (a), and it was intended that the technical assistance would facilitate achievement of the policy changes, and also bolster the new credit facility.
7. **Achievement of Objectives**--Overall achievement of objectives is judged to be *substantial*. Substantial progress was achieved in the most important areas supported by the Credit, including price and trade reform; privatization of state farms and sales of assets; distribution of ownership of state and cooperative farm land; and privatization or liquidation of assets of the vast majority of former state-owned agribusiness enterprises. In several areas, such as registration of new land ownership, developing a lease and sales market for agricultural land, and consolidation of land plots progress was only partial while negligible progress was made in creating a viable institution to provide credit to farmers and rural entrepreneurs. The track record for maintaining a sound macro-economic framework during the life of the

ASAC was mixed, with initial successes followed by setbacks, and subsequent improvement by end-1998. The technical assistance program was particularly valuable in supporting the formulation of land policies and the further development of a land market, as well as in assisting project management during the early years of implementation.

Implementation Experience and Results

8. **Major Factors Affecting the Project**—The first tranche of the quick-disbursing component (IDA US\$5.4 million, Japan US\$10 million, Netherlands US\$5.4 million) was disbursed in 3 payments in June, 1994. Although it had been expected that the second tranche would be disbursed about nine months after the first (March, 1995), in actuality the second tranche consisting of US\$16.6 million (IDA US\$5.6 million, Japan 10 million) disbursed in late December 1997 (contribution from Japan) and on January 8, 1998 (IDA contribution). Due to currency appreciation, the project's total expenditures amounted to about US\$ 45.0 million, or 7.1 percent more than expected at appraisal.
9. Progress under ASAC, although substantial in most areas, took much longer than expected. Part of the delay was caused by GOA fiscal backsliding in mid-1996. This was worsened by the civil unrest following collapse of the pyramid schemes (late 1996-early 1997). A factor delaying liberalization of bread prices (which occurred in July, 1996) was the large proportion that bread comprised of Albanian household budgets, and the "special place" that bread occupied in Albanians' minds.¹ A factor inhibiting development of a land market was the reluctance of many Albanians to sell their land—even if it had been possible to obtain clear title. This was due to high economic insecurity in the country, and the view that "land is always something you can go back to."
10. **Sustainability**—Overall sustainability is judged as *likely*, with all components likely to be sustained except creation of a new rural credit institution. Sustainability is likely because: there has been a clear shift in thinking, and most Albanian citizens and leaders plainly see the benefits of reform; private, individual land ownership has been very well accepted by the people; the country's strong desire to join the WTO provides an incentive to avoid backsliding in this area; and current discussions with IDA on a proposed Structural Adjustment Credit include conditionality which would continue and extend reform.
11. **IDA Performance**—Overall IDA performance was *satisfactory*. Objectives were clear and highly relevant to the circumstances of the Albanian agricultural sector. They were developed in a highly participative manner, and the sector strategy suggested by IDA was embraced by the Government. But the objectives were unrealistic with respect to how long it would take to achieve some reforms. Also, while most of the project design was sound, the effort to build the rural credit

¹ Counterbalancing this was the substantial increase in the world market price of wheat in 1996, which created fiscal strains that made the previous subsidized wheat policy unsustainable.

component within a state-owned bank was not. The IDA team was regarded by the borrower as highly competent, with particular note taken of the strong contribution of the Resident Mission.

12. Two specific actions taken by IDA during implementation merit attention. (1) In 1996, the Association delayed release of the second tranche after a March, 1996, supervision mission identified a growing budgetary deficit which further increased later in the year. This decision was solidly justified by subsequent macroeconomic deterioration and collapse of the pyramid schemes. (2) In 1998, IDA (and the IMF) deflected GOA tendencies toward renewed protectionism and subsidies. The GOA had developed a draft Green Strategy for the agricultural sector, which reflected an inclination toward protectionism and subsidies. In seminars and communications the Association and IMF made clear their concerns, and the GOA took these into consideration and modified the Green Strategy accordingly.
13. **Borrower Performance**—Borrower performance was *satisfactory*. Most reform goals were met and GOA was cooperative, but in some cases progress was slow. Macroeconomic performance was adequate. In the case of the Rural Commercial Bank (RCB), however, GOA moved slowly with respect to privatization and interfered with RCB personnel decisions and operations.

Summary of Findings, Future Operations, and Key Lessons Learned

14. **Project Outcome**—Outcome is *satisfactory*. The sector has been fundamentally transformed; significant policy reforms were achieved in most areas, and it is likely these reforms will be sustained and extended. Agricultural production and exports grew substantially, with production up about 40 percent 1992-98, and exports up 52 percent 1993-97. Albanian agricultural output in 1998 was 124 percent of 1989-91—*the highest such ratio of any country in Central or Eastern Europe or the former Soviet Union over that time period*. Activities of institutions which seriously impeded reform, such as the General Directorate for State Reserves, were significantly curtailed.
15. **Future Operations**—IDA is involved in an ongoing dialogue with the GOA on extending and deepening reforms achieved under ASAC. Much of this is in the context of current investment operations, as well as in discussions of a proposed Structural Adjustment Credit.

Key Lessons Learned—The following were the key lessons learned:

- **Adjustment Operations are Most Likely to Succeed Where Key Political Groups Favor Reform**—In Albania—early in the transition—there was a “meeting of the minds” of the Association and important political groups on how reform should proceed. Without such consensus, meaningful reform would have been much more difficult to achieve.

- **Economic and Sector Work (ESW) is an Important Element in Designing and Implementing a Sector Adjustment Operation.** The up-front analysis carried out in the framework of the *Agriculture Strategy for Albania* provided the conceptual basis both for GOA, IDA as well as for participating donors on which ASAC was designed. Subsequent sector analysis initiated by IDA towards the end of the ASAC period (*Reforms in Albanian Agriculture – Assessing a Sector in Transition*) helped sustain a sector policy dialogue over an extended period.
- **A Sector Adjustment Operation Can Provide a Favorable Policy Environment for Parallel Investment Operations—**Sector adjustment operations and investment operations are complementary. The ASAC supported establishment of a largely distortion-free policy environment within which it was possible to successfully implement parallel or follow-on investment operations. Without the policy progress achieved under ASAC, these investment operations would have been either infeasible or much less successful.
- **A Hybrid Operation Can More Easily Provide Technical Assistance to Facilitate Policy Reform—**In the ASAC, technical assistance was critical (i) for development of the Land Market Action Plan and preparation of key land tenure legislation, and (ii) for project implementation (procurement, disbursement, auditing). This was more easily provided in a hybrid than in a conventional operation. On the other hand, the complexity of a rural credit operation is best handled on a stand-alone basis (rather than as part of a hybrid).
- **It is Undesirable to Use a State-owned Bank to Provide Rural Credit—**ASAC attempted to provide credit to farmers and rural entrepreneurs by creating a separate Independent Lending Unit (ILU), utilizing substantial technical assistance to bolster RCB. However, these efforts were unable to overcome: the inability of government employees to carry out sound commercial banking practices; government interference with personnel selection and operations; a lack of understanding among borrowers of commercial banking practices; and, reportedly, corruption. The poor performance of the line of credit under the ASAC is also a reflection of a rudimentary financial sector.
- **Establishment of an Agricultural Program Office (APO) Can Increase the Effectiveness of Development Assistance—**Implementation of ASAC was facilitated by APO—located in the Ministry of Agriculture and Food—which coordinated, monitored and evaluated all multilateral and bilateral foreign assistance programs in the sector. APO enhanced effectiveness because staff could evaluate progress across the sector and identify areas where efforts were working well, where more emphasis was needed, etc. APO provided a sector-wide institutional memory, which guided new projects, permitting better focus and avoiding duplication. APO monitoring and evaluation also increased accountability. GOA is reportedly considering establishing APO-type offices in several other sectors.

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PART I: PROJECT IMPLEMENTATION ASSESSMENT

A. INTRODUCTION AND PROJECT OBJECTIVES

Introduction

1. Albania is predominantly agrarian, and the contribution of agriculture and forestry to GDP was about 35 percent in the 1980s and about 50 percent in 1992, with a comparable share of labor force involvement. The country is mountainous, with only a third of the territory arable. About two thirds of the population live in rural areas, and there is a high density of population to arable land (4.7 persons per ha). Prior to reforms in the early 1990s, agriculture—indeed all aspects of rural life—were subject to rigid state control: land was owned by the state or by cooperatives; inputs, production, and marketing were state-controlled; and prices and subsidies were set by the state. The result was self-sufficiency at a high cost—unsupportable after the end of communism.
2. While similar problems faced other transition economies, the transformation in Albania was very abrupt since no reforms at all—however tentative—had been implemented prior to the change of regimes. Another special circumstance in Albania was the very low land/worker ratio, about 1.5 ha per worker in Albania compared to 10.5 in Bulgaria, for example.
3. Economic conditions worsened dramatically after the radical change of regimes in 1991-92. The end of central planning led to a broad collapse in production, and GDP declined by 40 percent from 1990 to 1992. With the drastic decline of state enterprises, the GOA's ability to collect revenue fell precipitously. The fiscal deficit reached 60 percent of GDP in the first half of 1992, with inflation of 10-15 percent per month. With a 1992 GDP per capita of US\$250, Albania was by far the poorest country in Europe.
4. The high inflation and collapse of export earnings led to the virtual exhaustion of foreign exchange reserves. Agricultural production also collapsed, and Albania, formerly a net exporter of food, was forced to rely on food aid. The supply of farm products to Government collection centers fell 60 to 80 percent. The decline in agricultural production resulted from the dismantling of production cooperatives, the scarcity of inputs, breakdown of distribution channels, and work stoppages.

5. In the first democratic elections in March, 1992 the Democratic Party was elected, which in its early years was strongly committed to economic reform. In April, 1992, amid economic and social disorder, the Government took decisive steps to restore public order and macroeconomic stability. The GOA reform program, supported by external aid, included drastic stabilization measures and structural reforms to begin the transition to a market economy. Sharp expenditure cuts reduced the budget deficit by half, and subsidies to state enterprises were eliminated. Strict monetary targets were adopted, most prices liberalized, the currency floated, and private transactions legalized.

The Agricultural Sector

6. Prior to identification of the Agricultural Sector Adjustment Credit (ASAC), Albania had already undertaken substantial agricultural reforms—although they were of an *ad hoc*, spontaneous, and was not part of a coherent overall program. Poor economic conditions “pushed” people into agriculture for lack of other opportunities resulting in much of agriculture being carried out on a subsistence basis. Much of the land of former agricultural cooperatives and state farms was distributed to individual farmers (although in very small parcels), most agricultural output prices were liberalized, and external trade was liberalized. However, several critical factors continued to hamper growth of agricultural output: rural credit was severely lacking; marketing and processing enterprises, still state-owned, were in extreme distress; physical infrastructure (including irrigation) needed rehabilitation; and a broad range of policy and institutional reforms needed to be strengthened and extended.
7. In 1992, the Government approved and began to implement a program of reforms based on the framework presented in the *Agricultural Strategy for Albania*, developed by the Government in conjunction with IDA and the European Union (EU).² This program addressed the severe structural, institutional, and policy constraints that were limiting production and marketed surplus increases in the new smallholder sector, as well as preventing development of a market economy in rural areas.

Project Objectives and Evaluation of Objectives

8. The objectives of the ASAC were to alleviate the constraints described in para 6, and also bolster—through technical assistance--the capacity of key institutions involved in the agricultural sector. Specific objectives were to:
 - strengthen and extend reforms in the agricultural price and incentive framework to increase the marketed surplus and ensure that pricing of food aid did not distort incentives and discourage domestic production and marketing;
 - privatize and sell assets of state farms;
 - finalize the distribution of former state farm and cooperative land;

² IDA played the major role in developing the intellectual framework for the *Strategy*.

- implement a Land Market Action Plan on land titling and registration, and development of land policy; develop the lease market for agricultural land; and facilitate land consolidation;
 - liquidate the Bank for Agriculture and Development and transfer assets to create a new, sustainable Rural Commercial Bank to provide rural credit at market rates;
 - privatize processing and marketing enterprises, and improve the environment for private business in rural areas.
9. These objectives were appropriate for Albania's circumstances because they addressed the severe structural, institutional, and policy constraints that were limiting production and an increase in the marketed surplus. The creation of a distortion-free incentive structure in the price and trade regimes would stimulate productivity increases and exports.³ And making credit available to farmers and rural entrepreneurs would alleviate a key constraint to expanding production. At the same time, completing distribution of state and collective farm land finish this critical reform, and implementing a Land Market Action Plan would facilitate development of a lease market for agricultural land and consolidation of small plots—permitting more efficient operations. Privatizing state farms would put production decisions squarely into the realm of the private sector. Finally, privatization of agricultural processing enterprises would, in theory, strengthen these firms and facilitate the ability of the sector to process and sell marketed surplus production, and capture greater value added.
10. The objectives were clear, and developed in a participatory process with the GOA⁴ The objectives were somewhat unrealistic, however, with respect to (1) how long it would take to achieve some reforms; and (2) the extent to which social and institutional factors would inhibit emergence of a meaningful land market. (see paras 12 and 21)
11. The ASAC was based on the framework presented in the *Agricultural Strategy for Albania*, and was closely coordinated with the policy framework paper prepared by the government jointly with IDA and the IMF. The project was complementary to—and designed to provide a favorable environment for—IDA investment projects in the sector: the Irrigation Rehabilitation Project; Forestry and Natural Resource Management Projects; the Rural Poverty Alleviation and Rural Development Project; Agro-processing Development Project; and Enterprise Financial Sector Adjustment Credit. ASAC was implemented through three components:
- a quick-disbursing component of US\$36.4 million (in 2 tranches) to support an ambitious policy reform program (US\$11 million from IDA, plus co-financing in the amounts of US\$20 million from Japan and US\$5.4 million from the Netherlands);

³ "Maintenance of a stable macroeconomic framework...as well as a distortion-free incentive structure is the single key service governments can provide in support of agriculture and rural development. [This]...has been empirically documented in many countries." OECD Report on Albanian Agriculture, October, 1998.

⁴ IDA played a key role in convincing the GOA that the reforms under discussion were worthwhile.

- an investment component (US\$5 million) providing a line of credit to the Government for on-lending through a new Rural Commercial Bank; and
 - a technical assistance component (US\$3.6 million).
12. The ASAC's most important objectives were the policy goals supported by component (a), and it was intended that the technical assistance would facilitate achievement of the policy changes, and also bolster the new credit facility.

B. ACHIEVEMENT OF OBJECTIVES

13. **Overall Judgment**—Overall achievement of objectives is judged to be *substantial*. As shown in the following sections, substantial progress was achieved in the most important areas supported by the Credit, including price and trade reform; privatization of state farms and sales of assets; distribution of ownership of state and cooperative farm land; and privatization or liquidation of assets of the vast majority of former state-owned agribusiness enterprises. In several areas, such as registration of new land ownership, developing a lease and sales market for agricultural land, and consolidation of land plots progress was only partial while negligible progress was made in creating a viable institution to provide credit to farmers and rural entrepreneurs. The track record for maintaining a sound macro-economic framework during the life of the ASAC was mixed, with initial successes followed by setbacks, and subsequent improvement by end-1998. The technical assistance program was particularly valuable in supporting the formulation of land policies and the further development of a land market, as well as in assisting project management during the early years of implementation.
14. **Price and Trade Framework**—Excellent progress was made in the area of liberalizing the price and trade framework with virtually all output and input prices liberalized prior to the effectiveness of the ASAC. Albania received large quantities of food assistance in the early years of its transition, and there was a concern that physical distribution without adequate monetization would create a disincentive to farm production. While having served its purpose during the early years of the transition, after 1994, shipments of products other than wheat were insignificant, so conditionality regarding the sales of physical food-aid deliveries of these became essentially irrelevant.⁵ In a major decision in July, 1996, the GOA made prices of wheat, flour, and bread fully market-determined. The delay in implementing this latter reform was evidently due to the importance of bread in the budgets of most Albanian households, and hence the sensitivity to its price.⁶ Albania also has maintained relatively open trade regime for agricultural products, with moderate levels of protection.

⁵ The quantity of emergency food aid supplied in the aftermath of the 1997 turmoil was insignificant, so there was no issue of pricing. Sales of physical food aid deliveries has however become relevant again in the aftermath of the Kosovo crisis in mid-1999, and current GOA practice is to auction donor supplied commodities imports at the point of entry into the country.

⁶ The GOA implemented this reform during a period of large increase in the world market price of wheat that occurred at about the same time when it's policy of subsidized bread became fiscally unsustainable.

15. **Distribution of Former State Farm and Cooperative Land**—Excellent progress was made in finalizing the distribution of former state farm and cooperative land, and privatizing state farms. Albania has made more progress in this area than almost any other country in ECA. All state farms have been liquidated. Of around 702,000 ha of agricultural land before redistribution, 80 percent is now privately owned, 17 percent has been refused by private owners (due to factors such as salinity, remoteness, slope or poor soil quality), and 3 percent is in non-agricultural use, joint-ventures, etc. Farm size is small, however—an average of 1.1 ha, which is further subdivided into 4-5 plots (which resulted from an effort to achieve equity in the distribution process).
16. **State Farm Asset Divestiture**—Excellent progress was also made in selling the assets of state farms. There are no more state or cooperative farms in operation today, and all agriculture production now is in the realm of the private sector.
17. **Land Market Action Plan**—Partial success was achieved in implementing a Land Market Action Plan, developing a lease market for agricultural land, and consolidation of land plots. The GOA has adopted legislation permitting the leasing and sale of land, and has developed, a Land Market Action Plan which has been for several years and continues to be under implementation.⁷ While leasing of land is expanding in many areas and some sales have taken place, in general the land market has so far not developed as quickly as expected. This is because: the formal registration of land—though rising—has so far been limited (only around 30% of agriculture land fully titled and registered)⁸; the ownership of some land is under a cloud because of potential claims from previous owners; even when ownership is formally established, many Albanians prefer to hold onto land as a form of “social security,” believing they can always go back to the land if their current economic activities are unsuccessful. Overall the high institutional demands of managing a country-wide land registration program (with significant additional assistance from USAID and EU-Phare to support physical implementation of land surveying and registration) have been somewhat underestimated. In summary, progress was very good compared to (1) what could reasonably have been accomplished in this time period; (2) progress in other transition economies. However, the objectives were too ambitious for the time period envisaged.
18. **Rural Credit**—The effort to create a new agricultural bank did not succeed. A new entity—Rural Commercial Bank (RCB)—was created from the existing Agricultural Bank, received considerable technical assistance, and an Independent Lending Unit was created to handle ASAC loans. RCB disbursed about 50 sub-loans totaling US\$5.0 million,⁹ (see table below) averaging US\$100,000 and predominantly funding agro-processing enterprises in rural areas.¹⁰ However, only about 24 percent of the funds that were loaned has been repaid. The reasons for this failure include: the

⁷ In this regard, the contribution of the Wisconsin Land Tenure Center (paid for from ASAC technical assistance funds) to the Land Market Action Plan has been significant.

⁸ This is partly because registration is a complex and lengthy process.

⁹ RCB disbursed around US\$5.0 million in loans under the ASAC and another US\$10.0 million through lines of credit supported by other donors.

¹⁰ Loans supported flour production, breweries, and production of pasta and bread, mills, meat, soft drinks, coffee and fruit.

inability of a state-owned bank with a strong public sector legacy—despite substantial TA—to execute sound commercial banking practices; government interference with personnel selection and operations; a lack of understanding among borrowers that their loans would have to be repaid; and, reportedly, corruption.¹¹ RCB was merged with National Commercial Bank in early 1998, and the latter is now in the process of being privatized with IDA assistance. A significant factor in RCB's poor performance has been the slow progress made in overall financial sector reform (see below, para 30).

Table 1—ASAC-Funded Rural Subloans

Sector	Approved loans		Approved loan amounts	
	Number	% of total	US\$ 000	% of total
Agricultural production	3	6	91	1.8
Livestock	5	10	421	8.4
Fisheries	1	2	167	3.3
Agro-processing	24	52	2,670	53.0
Forestry/wood processing	7	14	811	16.0
Services	7	14	599	11.9
Other rural industry	3	6	280	5.6
Total	50	100	5,039	100.0

- 19. Privatization**— Considerable progress was made in privatization of state-owned processing and marketing enterprises. All small and medium enterprises were privatized, and an auction was held in December, 1998, to sell the country's eight large agricultural processors. However, no bids were offered, and the GOA plans to divest at least some of these firms by tender or liquidation of assets by the end of 1999. It should be noted that while most of the country's processing and marketing companies are now private, in general they remain in poor operating conditions, and lack working capital and marketing and management expertise to make a substantial contribution to the sector.
- 20. Macroeconomic Progress**—Achievement of project macroeconomic goals was partial, with initial successes followed by setbacks, and then improvement by end-1998. From 1990-1992, GDP fell about 40 percent with inflation of 240 percent at the end of 1992. But from 1993 to 1996, there was substantial recovery, with real GDP growth of 9 percent per year,¹² and inflation of 6 percent at end-1995. The fiscal deficit declined from 20.3 percent of GDP in 1992 to 10.4 percent in 1995. In 1996 and 1997, there was backsliding in inflation and the fiscal deficit, but improvement since late 1997, with a domestically-financed fiscal deficit of 3 percent in the first 8 months of 1998 and an inflation rate of around six percent. The return to a sustainable

¹¹ It was reported that it was routine practice in Albania for a borrower to "kick-back" 10% of the value of a loan to the loan officer and possibly other bank officials in return for obtaining a loan.

¹² It is estimated that 60 percent of the growth came from agriculture, which enjoyed large productivity increases.

macro-economic framework during the second half of 1997, based on a program agreed with the IMF, was crucial for disbursement of the second tranche.

21. **Technical Assistance**—Significant technical assistance was provided under the ASAC, as well as parallel technical assistance provided by other agencies. Under ASAC:
- Considerable support was provided to land policy formulation and further development of a land market (including development of a Land Market Action Plan¹³); this effort was extremely valuable
 - As noted earlier, RCB was provided with substantial TA (56 person-months), although the effort was ultimately unsuccessful (due in part to the weakness of the overall Albanian financial sector)
 - Implementation support was provided to the Project Implementation Unit in the Ministry of Finance
 - Privatization of agricultural enterprises; an advisor in this area was ultimately not hired as this activity was carried out under a grant funding by USAID.
22. In parallel with the TA provided under the ASAC, additional TA was provided to: strengthen the MAF, provide Business Advisory Services for small and medium-sized agricultural enterprises, and develop environmental legislation for agriculture (USAID); provide a long-term policy advisor to MAF, develop an Action Program for Food Inspection, and develop a Public Investment Program for agriculture (EU Phare). Assistance to Reform the Agricultural Extension Program was provided under a project funded by the Government of the Netherlands.

C. MAJOR FACTORS AFFECTING THE PROJECT

23. The ASAC was approved by the Board on June 24, 1993, and made effective November 30, 1993, three months later than anticipated. The credit amount of SDR 14.2 million (about US\$19.6 million) supported a hybrid operation at a total cost of around US\$45 million composed of (a) a quick-disbursing component of US\$36.4 million to support implementation of a program of sectoral reforms (US\$11.0 million from IDA, plus co-financing in the amounts of US\$20.0 million from Japan and US\$5.4 million from the Netherlands); (b) an investment component providing a line of credit to the Government for on-lending through a new Rural Commercial Bank (US\$5 million); and (c) a technical assistance component (US\$3.6 million from IDA plus parallel funding from co-financiers).
24. The closing date of the credit was December 31, 1998, the original closing date. The first tranche of US\$5.4 million was disbursed in June, 1994, and the second tranche of US\$5.6 million on January 8, 1998 (about 2½ years behind schedule), which was the final disbursement. The amount of US\$0.48 million was undisbursed at project closing and was cancelled.

¹³ By the Land Tenure Center of the University of Wisconsin.

25. The credit was closed on December 31, 1998, as foreseen in the Development Credit Agreement, with SDR 14.2 (US\$19.6 million) in IDA funds spent. Co-financing in support of the policy reform program of approximately US\$5.4 million was provided by the Government of the Netherlands on a grant basis, as well as a credit of about US\$20 million from the Overseas Economic Cooperation Fund of Japan. Due to currency appreciation, the project's total foreign exchange expenditures amounted to about US\$ 45.0 million, or 7 percent more than expected at appraisal.

Factors Not Generally Subject to GOA Control

26. Progress under the ASAC, although substantial in many areas, took considerably longer than initially expected. Part of the reason for the delay was the enormous disruption caused by the civil unrest that followed the collapse of the pyramid schemes in late 1996 and early 1997. The country descended into near anarchy and civil war in the first six months of 1997, with widespread rioting and civil unrest. While the second tranche conditions were considered substantially met shortly before the civil crisis of early 1997, the severe macro-economic deterioration prevented disbursement.
27. A factor that proved stronger than expected in delaying progress on liberalization of bread prices (which occurred in July, 1996) was the importance of bread, and the large proportion it comprised of Albanian household budgets. Bread, a central part of the Albanian food basket on which families spend, on average, around 70 percent of household income, occupied a "special place" in Albanians' minds compounded by decades of policies advocating self-sufficiency and autarky, which made the GOA more reluctant to act—prior to 1996—and delayed implementation of the reform. Counterbalancing this was the substantial increase in the world market price of wheat in 1996, which created fiscal strains that made the previous subsidized wheat policy unsustainable. Former GOA officials indicated that the absence of any public relations efforts early in the reform process on the pending wheat price reforms with the aim of educating consumers at large, contributed to procrastination on this critical policy measure.
28. A factor inhibiting the development of a land market was the reluctance of many Albanians to sell their land—even if it had been possible to obtain a registered title which in any case could not have happened until mid-1996 and is still an on-going process. This was due to high economic insecurity in the country with only limited trust in public protection of private property, and the view that "land is always something you can go back to." So even individuals who may go to work in another region, or in the city, may retain their land. This will hinder the consolidation of farms into larger units.

Factors Generally Subject to GOA Control

29. As noted above, in mid-1996, sharply falling revenues brought the state budget under intense pressure, threatening macroeconomic stability. The fiscal deficit rose to 11.9 percent of GDP. Inflation also reversed its previous course of improvement and rose dramatically. The situation was worsened by the mushrooming pyramid schemes.

These events helped derail the macroeconomic progress the country had achieved, and caused to further delay disbursement of the second tranche.

30. To provide context for the failure to create a new agricultural bank (RCB), it should be noted that *the overall financial sector was exceedingly weak*.¹⁴ During the period of the ASAC the financial sector consisted exclusively of publicly owned banks, the inter-bank payment system was rudimentary, and collateral and bankruptcy laws were new (1996) and untested. It was assumed that many of these weaknesses would be addressed under the Enterprise and Financial Sector Adjustment Credit (EFSAC), also supported by IDA.

D. SUSTAINABILITY

31. The overall sustainability of the ASAC is judged as *likely*. It is considered that the sustainability of the following components is likely: strengthening price and trade reform; distribution of farm land to private individuals; sale of former state farm assets; implementation of a Land Market Action Plan and facilitation of land registration; and privatization of state-owned enterprises. Of course, sustainability is unlikely for the creation of a new agricultural bank.
32. The reasons that it is believed that the benefits of the project will be sustained are the following:
- There has been significant development in the thinking of Albanian leaders since the implementation of reforms. Political figures from different parties can see the benefits of reform, and its continuation is not a matter of substantial political debate.
 - Reforms—particularly land ownership—have been very well accepted by the people, who now have no sentiment to go backwards.
 - Albania's strong desire to join the World Trade Organization provides an incentive to keep its trade regime in conformance with the organization's rules.
 - Albania is currently discussing a proposed Structural Adjustment Credit with the Association, which would include conditionality to continue and extend agricultural reforms.

E. IDA PERFORMANCE

33. Overall, IDA performance was *satisfactory*. As noted earlier, project objectives were clear and highly relevant to the circumstances of the Albanian agricultural sector. They were developed in a highly participative manner, and the sector strategy suggested by IDA was embraced by the Government as its own policy framework. However, the objectives were somewhat unrealistic with respect to how long it would take to achieve some reforms. Also, while most of the project design was sound, the effort to build the rural credit component within a state-owned bank was not. That is,

¹⁴ See OED Albania Country Assistance Review, 1998

as noted earlier, the efforts undertaken by IDA could not overcome the inability of RCB staff to execute sound commercial practices, as well as the borrowers' lack of experience with commercial banking practices.¹⁵

34. The borrower regarded the IDA team as highly competent, and particular note was made of the contribution of the Resident Mission.
35. IDA performance in project supervision was satisfactory, with the following two occurrences particularly deserving recognition:
 - **Delay in Second Tranche Release**--An IDA mission visited Tirana in March, 1996, to review progress toward release of the second tranche. While most conditions for tranche release were considered substantially met, the mission detected the emergence of budgetary pressures—associated with the non-reform of wheat prices noted earlier—which intensified later in the year. Consequently, the Association delayed tranche release, a decision that was well justified by the deterioration in the macroeconomic situation and the collapse of the pyramid schemes.
 - **Dialogue on GOA “Green Strategy”**—In 1998, GOA developed a draft of its Green Strategy for the agricultural sector, which was extensively discussed with the Association. In various seminars and communications the Association based on on-going Economic and Sector Works (ESW)¹⁶ and the IMF made clear their concerns about tendencies in the document toward *protectionism and subsidies* that would constitute a step backward in view of potential consequences and distortions. The GOA took into consideration these objections and modified the positions stated in the Green Strategy.

F. BORROWER PERFORMANCE

36. Borrower performance was satisfactory. As noted there was extensive Bank-GOA collaboration in project preparation. For the most part, reform goals were met, and GOA was cooperative and helpful, and complied with all project requirements. But, as noted earlier, in some cases progress was slower than expected. Macroeconomic performance was adequate, with initial successes followed by setbacks, and an improvement by the time of the ASAC closing. However, in the case of RCB, the GOA moved slowly with respect to privatization, and interfered with RCB personnel decisions and operations.

¹⁵ It is interesting to note that the German agency KfW established in 1996 an entirely new private entity—FEFAD—to provide enterprise loans. FEFAD only hired employees who had not previously worked in state-owned financial enterprises, and has had a very satisfactory rate of repayment.

¹⁶ Which was eventually published as: Reforms in Albanian Agriculture – Assessing a Sector in Transition (World Bank Technical Paper 431)

G. ASSESSMENT OF OUTCOME

37. Outcome is assessed as *satisfactory*. There is no question that significant policy reforms were achieved in many areas, and it is likely that these reforms will be sustained and extended. The structure of the agricultural sector has changed fundamentally from what it was at the beginning of the reform process, a change to which ASAC made a significant contribution. Agricultural production and exports grew substantially. And it appears that agricultural reforms in Albania have been deeper, and implemented more quickly, than those in a number of other countries in the region.
38. Data on the growth of Albanian agricultural production is shown in Tables 2 and 3 below. It should be noted that Albanian agricultural output in 1998 was around 140 percent of that in 1989-91, compared with 100 percent in Yugoslavia and Slovenia (the next highest in Central/Eastern Europe or the FSU). *Albania's is the highest such ratio of any country in Central or Eastern Europe or the former Soviet Union.*
39. **Redefining the role of the public sector.** Activities of institutions which seriously impeded reform, such as the General Directorate for State Reserves, were significantly curtailed. To enhance food security, the GOA had created an agency, the General Directorate for State Reserves (GDSR), which purchased, stored, and transported large quantities of grain and other products. While not explicitly cited in the ASAC, during implementation it became evident that GDSR was the major instrument of GOA intervention in the grain market, and IDA (and the IMF) undertook to persuade the GOA to sharply downsize GDSR.¹⁷ This effort was largely successful, and by January, 1999, GDSR had: divested the vast majority of its wheat and was continuing to shrink its stockpile; cut its staff by over 65%; and leased some of its facilities to private operators.¹⁸ Further, the GOA formally adopted an approach—initially proposed by the Association in an June 1998, study—to ensure food security in remote areas utilizing a cash transfer to residents of those areas rather than the purchase, shipment, and maintenance of public physical stocks of grain.
40. **Enterprise Privatization--**Regarding privatization of state-owned agricultural processing and marketing enterprises, the GOA largely met its goals under the ASAC. However, after privatization, there was little or no change in enterprise structure or behavior. Corporate governance—with a large number of shareholders who mainly reflected a short-term perspective—did not stimulate improvements, and the firms' weakness continued to be a significant constraint on the performance of the sector. Privatization is a critical first step, but should be followed by programs and efforts to revitalize firms by providing access to credit and improving the management and marketing skills of enterprise management.
41. **Output and Exports--**Reforms in Albanian agriculture have had a very positive effect on output, and have also contributed to a substantial shift from wheat

¹⁷ In favor of an approach to food security that did not involve the holding of physical reserves.

¹⁸ The downsizing of GDSR was facilitated by the looting of its stocks during the civil disorders of 1997.

production to livestock. As shown in Table 2, below, the value of total agricultural output has grown about 40% from 1992 to 1998, with production of wheat, vegetables, potatoes up by 17%; fruit up by 46%; and livestock, milk, and eggs up by 68%.

Table 2
Agricultural Production, 1992-98
In Billions of 1994 lek

Category	1992	1993	1994	1995	1996	1997	1998
Plants	37.8	42.3	41.4	47.0	49.0	42.5	44.2
Tree fruit	4.1	4.7	5.2	6.6	6.5	6.9	6.0
Livestock, milk, eggs	29.7	37.9	45.3	50.6	51.7	44.0	49.8
Total	71.6	84.9	92.0	104.1	107.2	93.5	100.0

“Plants” includes grains, vegetables, potatoes; 1998 data are preliminary

42. Table 2 below shows that agricultural exports grew 52% from 1993 to 1997, but were still small in relation to agricultural imports, which more than doubled during the same period. Still, Albania’s agricultural exports in 1997 comprised 21% of the country’s total exports, up slightly from 19% in 1993.

Table 3:
Agriculture Trade (1993-97)
in Current US\$ million

	1993	1994	1995	1996	1997
Total Exports	122.40	141.40	201.60	210.50	167.00
Total Imports	421.00	548.20	650.00	908.60	685.00
Total (Deficit/Surplus)	-298.60	-406.80	-448.40	-698.10	-518.00
Agriculture Exports	23.30	23.30	28.00	35.70	35.40
Agricultural Imports	80.00	153.70	184.40	318.50	163.70
Agriculture (Deficit/Surplus)	-56.70	-130.40	-156.40	-282.80	-128.30

H. FUTURE OPERATIONS

43. IDA is involved in an ongoing dialogue with the GOA on sustaining and extending the reforms achieved under the ASAC. Much of this dialogue is in the context of ongoing investment operations (see para 11). Further, in the context of discussions of the forthcoming Structural Adjustment Credit, IDA is closely monitoring existing reforms and the further progress that is expected.

I. KEY LESSONS LEARNED

44. **Adjustment Operations are Most Likely to Succeed Where Key Political Groups Favor Reform**—In Albania—early in the transition period—there was a “meeting of the minds” of the Association and important political groups on how reform should proceed. This positive alignment of the *political economy of change*—seemingly obvious—was critical to the success achieved under the ASAC. Without such a consensus, meaningful reform would be much more difficult, or impossible, to achieve.
45. **Economic and Sector Work (ESW) is an Important Element in Designing and Implementing a Sector Adjustment Operation.** The up-front analysis carried out in the framework of the *Agriculture Strategy for Albania* provided the conceptual basis both for GOA, IDA as well as for participating donors on which ASAC was designed. Subsequent sector analysis initiated by IDA towards the end of the ASAC period (*Reforms in Albanian Agriculture – Assessing a Sector in Transition*) helped sustain a sector policy dialogue over an extended period.
46. **A Hybrid Operation Can More Easily Provide Technical Assistance to Facilitate Policy Reform**—In the ASAC, technical assistance was critical (i) for development of the Land Market Action Plan and preparation of key land tenure legislation, and (ii) for project implementation (procurement, disbursement, auditing). This was more easily provided in a hybrid than in a conventional operation. On the other hand, the complexity of a rural credit operation is best handled on a stand-alone basis (rather than as part of a hybrid).
47. **A Sector Adjustment Operation Can Provide a Favorable Policy Environment for Parallel Investment Operations**—Sector adjustment operations and investment operations are complementary. The ASAC supported the establishment of a largely distortion-free policy environment within which it was possible to successfully implement parallel or follow-on investment operations: Irrigation Rehabilitation; Forestry and Natural Resource Management; Rural Poverty Alleviation and Rural Development; and Agro-processing Development. Without the policy progress achieved under the ASAC, these investment operations would have either been infeasible or much less successful.
48. **It Undesirable to Utilize a State-owned Bank to Provide Rural Credit**—The ASAC attempted to provide credit to farmers and rural entrepreneurs by creating a separate Independent Lending Unit within RCB and utilizing substantial technical assistance to bolster staff skills within RCB. However, these efforts were unable to overcome: the inability of government employees to carry out sound commercial banking practices; government interference with personnel selection and operations; a lack of understanding among borrowers—who were also inexperienced in commercial banking practices—that their loans would have to be repaid; and, reportedly, corruption.
49. **Establishment of an Agricultural Program Office (APO) Can Increase the Effectiveness of Development Assistance**—Implementation of ASAC was

facilitated by APO—located in the Ministry of Agriculture and Food—which coordinated, monitored and evaluated all foreign assistance programs in the agricultural sector. The Director of APO held the rank of Deputy Minister of Agriculture and Food, and the office initially coordinated foreign assistance programs financed by IDA, EU/PHARE, and USAID. APO subsequently assumed responsibility for coordination of additional projects: (FAO - four projects; Netherlands - three projects; Italy - three projects, Germany - three projects; IFAD - two projects—twenty six projects altogether).

50. APO made a large contribution because its staff could evaluate progress *across the sector* and recommend to donors areas where efforts were working well, where more emphasis was needed, etc. APO also provided a sector-wide institutional memory, which informed and guided new projects. This permitted donors to better focus their efforts, and not duplicate what had been achieved by others. APO monitoring and evaluation also increased accountability. The GOA is reportedly considering establishing offices based on the APO model in several other sectors.

PART II: STATISTICAL TABLES

Table 1: Summary of Assessments

A. Achievement of Objectives

	Substantial	Partial	Negligible	N/A
Macro policies		✓		
Sector Policies	✓			
Financial objectives				✓
Institutional development		✓		
Physical objectives				✓
Poverty reduction		✓		
Gender issues				✓
Other social objectives				✓
Environmental objectives				✓
Public sector management				✓
Private sector development	✓			
Other (specify)				

B. Project sustainability

Likely	Unlikely	Uncertain
✓		

C. IDA Performance

Stage	Highly satisfactory	Satisfactory	Deficient
Identification		✓	
Preparation assistance		✓	
Appraisal		✓	
Supervision		✓	

D. Borrower performance

Stage	Highly satisfactory	Satisfactory	Deficient
Preparation		✓	
Implementation		✓	
Covenant compliance		✓	
Operation		NA	

E. Assessment of Outcome

Highly satisfactory	Satisfactory	Unsatisfactory	Highly unsatisfactory
	✓		

Table 2: Related Bank Loans and Credits

Loan Title	Amount US\$ million	Purpose	Year of Approval	Status
Critical Imports	6.2	Irrigation sub-component enabled MOAF to make most urgent pump and canal structure repairs, and increase general operation and maintenance of Water Enterprises.	FY93	Closed June 30, 1996
Rural Poverty Alleviation and Rural Development	125	6,000 small sub-loans were disbursed to rural families, with an average of US \$ 488 per sub-loan and about 380 rural infrastructure subprojects were financed in 32 districts.	FY95	Ongoing
Rural Roads	34	Development and improvement of rural roads	FY95	Ongoing
Agro-processing Development	7	Entrepreneur support component and credit line started at the beginning of 1996.	FY96	Ongoing
Irrigation Rehabilitation	44	78,000 hectares of irrigation and 93,000 hectares of drainage have been rehabilitated.	FY95	Ongoing
Enterprise and Financial Sector Adjustment Credit	15	Support reform in the enterprise and financial sectors; restructure state-owned banks; support enterprise privatization; strengthen enabling environment for private activity.	FY95	Ongoing

Table 3: Project Timetable

Steps in project cycle	Date planned	Actual date
Identification	November, 1992	November, 1992
Preparation	November, 1992	November, 1992- February 1993
Appraisal	March, 1993	September, 1993
Negotiations	May, 1993	May, 1993
Letter of development policy	May, 1993	May 24, 1993
Board presentation	June 24, 1993	June 24, 1993
Effectiveness	August, 1993	November 30, 1993
First tranche release	September 30, 1993	November 30, 1993
Second tranche release	June 30, 1994	January 8, 1998
Project completion (last disbursement)	April 30, 1999	January 8, 1998
Loan closing	December 31, 1998	December 31, 1998

**Table 4: Credit Disbursements:
Cumulative Estimated and Actual
(millions of US \$ equivalent)**

	FY1994	FY1995	FY1996	FY1997	FY1998	Total
Planned Disbursement	18.0	26.0	42.0			42.0
Actual Disbursement	8.2	28.7	29.3	29.6	45.0	45.0
Actual as % of Estimated	45.5	110.4	69.8	--	--	107.1

Last disbursement occurred on January 8, 1999

Table 5.1: Key Indicators for Project Implementation

Area	Indicators for first tranche	Indicators for second Tranche
1. Macroeconomic Framework	Satisfactory progress with the implementation of the overall medium term reform program (Policy Framework Paper) agreed with the IDA and IMF demonstrated by adherence to the conditions established under the IMF program	Satisfactory progress with the implementation of the overall medium term reform program (Policy Framework Paper) agreed with the IDA and IMF demonstrated by adherence to the conditions established under the IMF program
2. Price Policy	Cabinet Decision to price donor supplied wheat at 16 lek/kg (with corresponding increase in the price of donor supplied flour). Introduction of auctions and competitive bidding procedures acceptable to IDA for transport, wholesale and distribution of food aid.	Price of food aid wheat credited to counterpart funds not to decline, in real terms, below 16 Lek/kg or below domestic producer price. Price of other food aid commodities credited to counterpart funds not to decline, in real terms, below their January 1993 level. Agreement with IDA on appropriate margins for distribution, storage and milling of wheat and for bread production in state owned enterprises.
3. Rural Finance	Plan for the liquidation of BAD and creation of the new AB finalized by Government, BOA and bank management, under condition satisfactory to IDA. The conditions for issuance of a license by BOA to the new AB have been fulfilled by Government and Bank management, under conditions satisfactory to IDA.	Adoption and implementation of the first phase of a comprehensive institutional development plan for AB, acceptable to IDA.
4. Farm Privatization	A plan and an implementation timetable, acceptable to IDA, have been adopted by Government for the liquidation of all state farms, distribution of lease rights to beneficiaries, sale of assets and settlement of all claims	Complete liquidation of all state farms, distribution of land rights and sale of assets and settlement of claims.
5. Agricultural Budget	Subsidies earmarked in the 1993 budget for state enterprises under the purview of the Ministry of Agriculture are being drawn exclusively from the over all budget allocation of Lek 4.5 billion budgeted in 1993 for restructuring state enterprises.	Any subsidies earmarked in the 1994 budget for state enterprises under the purview of the Ministry of Agriculture must be drawn exclusively from the overall budget allocation budgeted in 1994 for restructuring state enterprises.
6. Land Reform		Complete liquidation of all state farms, distribution of land rights and sale of assets and settlement of claims.

7. Enterprise privatization	Privatization or liquidation of all small and medium (less than 50 employees) agricultural marketing and processing state enterprises and adoption of a timetable agreed with IDA for the privatization or liquidation of large state-owned enterprises.
8. Ministry of Agriculture	The Agricultural Program Office (policy monitoring and aid coordination unit for the reform program in agriculture) is staffed and operating; and operational procurement guidelines for the project have been finalized.

Table 5.2: Key Indicators for Project Implementation

Project Development Objectives	Key Indicators of Development/Impact
(a) Provide credit line to the Government for on-lending to rural entrepreneurs through the newly created Rural Commercial Bank (RCB);	(a) Disbursement of ASAC credit line and recovery rates of loans to sub-borrowers;
(b) Provide funds for technical assistance to support implementation of the program.	(b) Implementation of Technical Assistance Program: (i) privatization of agricultural enterprises; (ii) land policy; (iii) institutional development of Rural Commercial Bank; and (iv) TA programs financed by other donors.

Table 6: Studies Included in Project

Study	Status	Impact of Study
Public Investment Program for Agriculture	Completed by APO	Helped define public investment priorities
Survey On The Results Of Land Distribution Program And On Functioning Of Land Market	Completed by Wisconsin Land Tenure Center	Assisted in management of project component
Assessment Of Status And Procedures Of The Privatization Of Small And Medium Size Agro-Industries	Completed by SARA with support from EU/Phare	Helped in design of procedures utilized in project
Analysis Of Grain Marketing, and Preparation Of Recommendations For Policy Changes	Completed by FAO and SARA consultants	Influenced GOA policy on grain marketing
Structure of Agricultural Sources of Farm Income in Albania after the Transition	Completed by IFDC	Analysis of changes in agricultural sector and implications for ASAC

Table 7: Project Cost and Financing

Source	Actual (US\$ million)			Revised (US\$ million)		
	1993	1994	Total	1993	1994	Total
IDA	0	20.0	20.0	19.6	19.6	19.6
Netherlands	0	2.0	2.0	5.4	5.4	5.4
OECD (Japan)	0	20.0	20.0	20.0	20.0	20.0
Domestic contribution	--	--	--	--	--	--
Total		42.0	42.0	45.0	45.0	45.0

Note: Increased project expenditures resulted from increased co-financing from Government of the Netherlands as well as appreciation of SDR and Netherlands Guilder against US dollar.

Table 8: Status of Legal Covenants

Agreement Section	Covenant Type*	Present Status*	Description of covenant	Status Comments
2.01 (b)	1,2	C	The Borrower to open two special accounts.	
3.01(b)	2,3,4	C	The Government is to enter into a Subsidiary Agreement with the Agricultural Bank (AB) under the Investment Component of the Credit.	
3.02 (b)	5	NC	The Borrower to furnish progress report to IDA.	
3.05 (a)	2,3,4	C	The Government is to maintain the Agricultural Program Office (APO) within MOA	
3.05 (b)	2,3,4	C	The Government is to maintain the Independent Lending Unit (ILU) within the Agricultural Bank (AB).	
3.05 (c)	2,3,4	C	The Government is to cause the PIU in the Ministry of Finance and Economy to coordinate procurement and provide related advisory services.	
3.06 (b) and (c)	1	NC	The Government is to have its accounts and records, the special account, and accounts related to withdrawals based on statements of expenditures audited report is to be submitted to the Bank within six months of the end of the fiscal year.	Audits are delayed for all IDA supported projects. Auditing arrangements are being made for the IDA entire portfolio including this operation.
Schedule 4 (i)	6	C	The maintenance of a macroeconomic framework consistent with Program is a condition for second tranche release.	
Schedule 4 (ii)	6	C	The maintenance of domestic price of donor-supplied wheat at or above 16 Lek/kg in real terms is a condition of second tranche release.	
Schedule 4 (iii)	6	C	The maintenance of domestic price of donor-supplied food products at or above January 1993 prices in real terms is a condition of second tranche release.	
Schedule 4 (iv)	6	C	Agreement with IDA on margins for distribution, storage and milling of wheat and for bread production in state enterprises is a condition of second tranche release.	
Schedule 4 (v)	6	C	Implementation of first phase of institutional development plan for AB is a condition of second tranche release.	
Schedule 4 (vi)	6	C	Liquidation of all state farms is a condition of second tranche release.	

Schedule 4 (vii)	6	C	Enactment of land lease legislation is a condition of second tranche release.
Schedule 4 (viii)	7	C	1994 subsidies for state enterprises under MOA to be drawn exclusively from 1994 overall budget allocation for restructuring of state enterprises is a condition of second tranche release.
Schedule 4 (ix)	6	C	Privatization of all small and medium agricultural marketing and processing enterprises, and adoption of timetable for privatization of large enterprises in the sector is a condition for second tranche release.
Schedule 6 Section B	3,4,6	C	The Government and AB shall jointly prepare credit guidelines for AB, acceptable to IDA.

Covenant types:	Present status:
1- Accounts/audits	C = complied with
2- Flow and utilization of funds	CD = complied with after delay
3- Management Aspects	CP = complied with partially
4- Implementation	NC = not complied with
5- Monitoring and report	NA = Not applicable
6- Sectoral Regulatory	
7- Sectoral Budgetary	

Table 9: Compliance with Operational Manual Statements

Statement number and title	Description and comment on lack of compliance
All relevant OM statements complied with	

Table 10: Bank Resources--Staff Inputs

	Preparation		Review	
	Days	US\$ (1996)	Days	US\$ (1996)
Preparation, appraisal through Board approval	0	0	55.1	125.3
Supervision/tranche release/completion	68.9	145.4	181.4	293.8
Total	68.9	145.4	248.4	419.1

Table 11: Bank Resources -- Missions

Preparation	Nov 1992	1	10	E		
	Feb 1993	1	3	E		
Appraisal through Board approval	N/A					
Supervision	Sep 1993	1	10	E	Satisfactory	Satisfactory
	Feb 1994	2	18	E	Satisfactory	Satisfactory
	Apr 1994	2	5	E, AB	Satisfactory	Satisfactory
	July 1994	2	6	E, RC	Satisfactory	Satisfactory
	Sep 1994	3	6	E	Satisfactory	Satisfactory
	Mar 1995	2	5	AB, RC	Satisfactory	Satisfactory
	Aug 1995	2	4	E	Satisfactory	Satisfactory
	Sep 1995	2	5	E, I	Satisfactory	Highly Satisfactory
	Jan/Feb 1996	1	5	RC	Satisfactory	Satisfactory
	Apr 1996	2	7	E, I	Satisfactory	Satisfactory
	Sep 1997	2	5	E, I	Unsatisfactory*	Satisfactory
	June 1998		7		Unsatisfactory*	Satisfactory
	Dec 1998	2	4	E,I	Satisfactory	Satisfactory
	Jan 1999	3	7	E, I	Satisfactory	Satisfactory
KEY:		E=Economist	I=Implentator			
		AB=Agribusiness Analyst				
		RC=Rural Credit				

*Note: From September, 1996 to August, 1997, Form 590 reflected Implementation Status as "unsatisfactory"

**Agricultural Sector Adjustment Credit
Implementation Completion Report Mission
Aide Memoire
January 16, 1999**

1. An IDA mission consisting of Severin Kodderitzsch (task manager), Ibrahim Hackaj (project officer), and Elliott Hurwitz (agricultural policy analyst) visited Albania from January 11-16 to assist the Government with and gather information for the Implementation Completion Report (ICR) for the Agricultural Sector Adjustment Credit (ASAC). The mission wishes to thank the Government of Albania and the staff of the Resident Mission for their helpful cooperation and warm hospitality. As usual, this Aide Memoire is subject to confirmation by IDA.

2. Members of the mission discussed the ASAC with representatives of the Ministry of Agriculture, Ministry of Finance, Ministry of Privatization, General Directorate of State Reserves, Ministry of Statistics, Agency for Handling Credits, the former Agricultural Project Office, former officials of the Rural Commercial Bank (RCB), other bilateral donors, and other bilateral organizations lending to the enterprise sector. The mission also visited a number of enterprises, including a sub-borrower under the RCB Credit Line.

3. The mission discussed with the agencies and individuals noted the three project components: (i) Policy reform component; (ii) Investment component (Credit Line); and (iii) Technical assistance component. The discussions included a description of what was accomplished under ASAC compared with the original scope and objectives; project sustainability and future operation; adequacy of IDA performance; and key lessons learned from the project. The IDA team will make detailed judgments regarding these points in the near future, which will comprise IDA's assessment of ASAC.

4. The mission also provided additional information to the Government on the Borrower Contribution to the ICR (which it is understood will be submitted to IDA in the near future and which will be included, unedited, as an appendix to the ICR). Finally, the mission explained that IDA will also send its own assessment of the project to the Government for comment (which comments will also be included as an appendix).

5. It was the mission's preliminary judgment that the ASAC was successful in achieving most of its objectives (although this success took longer than expected). Generally, the ASAC was most successful at furthering:
 - Reform of agricultural prices and trade
 - Privatization of state and cooperative farms, liquidation of their assets, and completion of the distribution of former cooperative and state farm land
 - Implementation of a Land Market Action Plan on titling, land registration, and development of a land policy; facilitation of land consolidation and the lease market (although achievements in these areas fell short of goals); and

- Privatization of state-owned enterprises in the agricultural marketing and processing sector

6. The ASAC was unsuccessful at developing a financial institution (Rural Commercial Bank) which could provide credit to farmers and other rural entrepreneurs. Detailed judgments on these elements of the project will be presented in the IDA's evaluation as noted earlier.

7. It was judged that the implementation of the ASAC program significantly contributed to the transformation of the Albanian agricultural sector from one based on a centrally-planned model to one based on market principles. However, it was recognized that more progress needs to be achieved before that goal can be attained:

- Currently, about 20-25 percent of land ownership has been formally registered. The Government of Albania needs to extend its Land Action Plan to assure that remaining private plots are registered, which would stimulate leasing and sales of land.
- A mechanism needs to be developed to increase the credit available to farmers and agricultural businesses (subject to further reform of the financial sector)
- Agricultural marketing, including infrastructure, requires improvement
- Access to and utilization of agricultural inputs—seeds, in particular--needs to be improved
- Agricultural services, such as veterinary services, agricultural extension service, and technology generation need to be strengthened.

8. The mission will elaborate on the above and lessons learned in its report, which will be submitted to the Government of Albania for comment (see para. 4), in March, 1999.

