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**ALBANIA – Country Assistance Strategy – Progress Report**

## CURRENCY EQUIVALENTS

Currency Unit = Lek  
US\$1.00 = 139 Lek (as of February 22, 2000)

## WEIGHTS AND MEASURES

Metric System

## ABBREVIATIONS AND ACRONYMS

AMC	-	Albanian Mobile Communication
CAS	-	Country Assistance Strategy
CPPR	-	Country Portfolio Performance Review
EBRD	-	European Bank for Reconstruction and Development
EU	-	European Union
FEFAD	-	Foundation for Enterprise Financing and Development
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
IDA	-	International Development Association
IFC	-	International Finance Corporation
IMF	-	International Monetary Fund
INSIG	-	Instituti i Sigurimeve (Insurance Institute)
KESH	-	Korporata Energjitike Shqiptare (Albanian Energy Corporation)
LIL	-	Learning and Innovation Loan
MIGA	-	Multilateral Investment Guarantee Agency
NATO	-	North Atlantic Treaty Organization
NCB	-	National Commercial Bank
NEAP	-	National Environmental Action Plan
NGO	-	Nongovernmental Organization
NLS	-	Nonlending Service
OECD	-	Organization for Economic Cooperation and Development
OED	-	Operations Evaluation Department
OSCE	-	Organization for Security and Cooperation in Europe
PRGF	-	Poverty Reduction and Growth Facility
PRSP	-	Poverty Reduction Strategy Paper
QAG	-	Quality Assurance Group
SAA	-	Stabilization and Association Agreement
SAC	-	Structural Adjustment Credit
SME	-	Small and Medium Enterprise
SB	-	Savings Bank
UNDP	-	United Nations Development Program
USAID	-	United States Agency for International Development

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# ALBANIA

## COUNTRY ASSISTANCE STRATEGY – PROGRESS REPORT

### I. INTRODUCTION

1. Albania's last full Country Assistance Strategy (CAS) covering fiscal years (FYs) 99-01 was discussed by the Board of Executive Directors on July 30, 1998. Prepared in the wake of large-scale civil disturbances in 1997 leading nearly to anarchy, the CAS places central, cross-sectoral emphasis on governance and institution building. The Government and the Bank agree that these themes are still fundamental; and the overall objectives and strategy of the 1998 CAS remain valid. However, developments in Albania and the region over the last twenty months now allow stronger efforts to reduce poverty. Therefore, we will deepen our strategy's cross-sectoral focus on poverty, with special attention to the social underpinnings of poverty alleviation—social cohesion and inclusive institutions. This Progress Report reviews progress, updates the project portfolio, and presents our plans to increase our impact on poverty alleviation.

2. The Government has launched a participatory process to prepare an interim Poverty Reduction Strategy Paper (PRSP), which will be presented to the Boards of the International Monetary Fund (IMF) and the World Bank by June 2000. The interim PRSP lays out the road map for elaborating a full-scale PRSP by June 2001. The PRSP process is designed to place poverty reduction at the center of policy formulation in Albania. The Government—in cooperation with important stakeholders in Albanian civil society—is taking full charge of the process.

### II. RECENT DEVELOPMENTS

#### A. The Domestic Political Situation

3. Since the election of a new government in June 1997, Albania has experienced relative—albeit fragile—domestic stability. Still, there are risks: a weak state, criminality, and an unsettled and volatile political environment, including bitter feuding between the ruling Socialist Party and opposition Democratic Party. The assassination of an opposition deputy in September 1998 provoked renewed unrest that led to the resignation of the Prime Minister and to the appointment of a new Government. The Kosovo Crisis in early 1999, with its massive influx of refugees into Albania, seriously strained Albanian institutions; however, the Albanian population and Government admirably managed the sudden increase of refugees (see Box 1). The special challenges emerging from this crisis forged—at least temporarily—greater national and political unity. After a one-year boycott, the Democratic Party returned to parliament. An internal power struggle within the Socialist Party in October 1999 led to a further change of Government, in a notably smooth transition. While internal security and criminality are still major concerns, they are no longer the overriding threats to Albania's economic development that they were at the time of the 1998 CAS, when criminal gangs roamed the countryside and the Government had not yet regained control over all areas of Albania. The Government has focused on restoring public order and combating crime, and is reasserting control over the northeast now that the Kosovo crisis has ended. Local elections in Fall 2000 and parliamentary elections in 2001 present further risks and are likely to dominate domestic politics during the period covered by this Progress Report.

#### B. Regional Developments in Southeastern Europe: The Stability Pact

4. Albania could benefit substantially from regional policy initiatives under the Stability Pact, established after the Kosovo Peace Settlement to promote peace, stability, and prosperity in Southeastern Europe. The Stability Pact calls for Southeastern European countries to initiate domestic structural reforms, collaborate economically and politically, develop open democratic societies, foster social inclusiveness, improve governance, strengthen domestic security, and combat corruption. Southeastern European countries will receive support for these efforts through regional programs. The European Union (EU) has a special role under the Stability Pact to "draw the countries of this region closer to the prospects of full integration into its structures...through a new kind of contractual relationship, taking into account the individual situations of each

### ***Box 1: The Impact of the Kosovo Crisis***

**The Crisis.** During the 1999 Kosovo crisis, Albania took in most Kosovar refugees—over 450,000 (equivalent to 14 percent of Albania's population). Initially, many refugees lived with Albanian families; but camps were soon established throughout the country. When the crisis ended, repatriation was quick: by September 1999, almost all refugees had returned to Kosovo.

**The Impact.** The crisis placed an enormous strain on Albania's budget and administrative capacity and it fostered criminal activity. Its early end defused a potentially explosive situation. Ultimately—owing to generous external assistance and Albania's prudent policies—the economic impact of the crisis on Albania proved negligible. In fact, the crisis temporarily boosted transport and other services. Despite extra refugee demands, inflation fell due to tight monetary policy and to humanitarian aid, some of which entered local markets and depressed food prices. The current-account deficit for 1999 was 3.5 percentage points less than anticipated, reflecting stronger-than-expected exports and lower imports as a result of the early return of the refugees. However, the crisis led to a postponement of investment, and it exacerbated problems in customs administration, including smuggling and crowding out of regular imports, leading to tax shortfalls. The budgetary cost of the crisis, now estimated at about \$85 million—2.5 percent of GDP in 1999—was financed entirely by foreign assistance.

**The Bank's Response.** The Bank responded quickly to the Kosovo crisis—taking the lead in organizing donor support and providing rapid assistance to the Government of Albania. The Bank sponsored an emergency informal donor meeting in April 1999 for the countries most affected by the crisis. A follow-up Emergency G24/Consultative Group Meeting was held in Brussels in May 1999, resulting in significant pledges of support from the donor community and a commitment to Albania's long-term development. To relieve Albania's immediate budgetary pressures ensuing from the massive inflow of refugees, the Bank processed and disbursed within 30 days a Public Expenditure Support Credit in the amount of \$30 million (approved on May 6, 1999), and increased the amount of the Structural Adjustment Credit (approved on June 3, 1999) from \$20 million to \$45 million to provide additional balance-of-payments support. The Bank also assisted the Government in providing aid and services to Kosovar refugees and to the local population in affected areas through a \$1.5 million Post-Conflict Grant mostly implemented by an Italian NGO, Comunita' di Sant'Egidio, and a \$5 million Supplemental Credit to the Community Works Project, approved by the IDA Board of Directors on June 22, 1999. Two additional projects—Emergency Road Repair (approved in December 1999) and Emergency Water Supply (approved in February 2000)—were designed to address postconflict needs.

country, including progress in regional cooperation, and with the perspective of European Union membership."<sup>1</sup> The EU has established Stabilization and Association Agreements (SAAs) to align Southeastern European countries to European institutions. The European Commission is in the early phases of discussing with Albania the preparation of an SAA. The prospect of association with the EU is a major incentive for political consolidation and reform in Albania. The regional strategy for Southeastern Europe, prepared by the World Bank under a mandate provided by the Stability Pact<sup>2</sup> provides the framework for the Bank's assistance strategy for Albania.

### **C. Conditions for Poverty Alleviation and Sustainable Development**

5. **Albania has the highest poverty in the region.** Although data are limited, a recent study indicates that about 20 percent of Albania's population is poor (see Box 2). In terms of commonly used living standard and human development indicators, Albania ranks low in comparison to other Southeastern and Central European transition countries. Per capita GDP in Albania is only half the average for Southeastern European transition countries, and a quarter of the average for Central European transition countries. Albania's infant, under-five, and maternal mortality rates are 1.5 to 2.4 times higher than those in other Southeastern and Central European transition countries. UNDP's human development index places Albania 100th out of 174 countries ranked, which is significantly below the range of ranks for Southeastern European (55-73) and Central European (33-47) transition countries. Both female and male life expectancy in Albania have fallen since the onset of transition, whereas life expectancies in Southeastern European countries have remained relatively stable, and those in Central European transition countries have increased over the same period.

6. **Alleviating poverty requires an integrated approach.** Most importantly, it is dependent on an extended period of economic growth, which in itself requires stable macroeconomic conditions, structural reforms, and

<sup>1</sup> See para. 72 of the Presidency conclusions of the Cologne European Council of June 4, 1999. This commitment is also reflected in para. 20 of the Stability Pact.

<sup>2</sup> See World Bank, "The Road to Stability and Prosperity in Southeastern Europe: Regional Strategy Paper," Draft February 2000

improved governance. Poverty alleviation also requires stronger public and civic institutions that can perform public sector and communal functions with transparency, accountability, and efficiency, and that are accessible to the entire population, including the poor. Sustainable growth will be crucially dependent on a cohesive Albanian society, consisting of citizens committed to living according to shared values, with an appreciation for the necessity of performing public systems, and a willingness to abide by the rule of law. Safeguarding natural resources will be essential to alleviating the poverty of future generations.

**7. Albania has restored macroeconomic stability and is advancing structural reforms.** By the end of 1998, Albania's economy was recovering from the 1997 crisis: macroeconomic stability was fully restored and the structural reform program was on track. In early 1999, however, the Kosovo conflict and the massive influx of Kosovar refugees created a new crisis for the Government, threatening internal security, stretching administrative capacity, and burdening the economy (see Box 1). Despite the strains, the Government kept its commitment to macroeconomic stability and structural reforms, aided by generous external assistance. GDP growth has remained steady, with 8 percent increases in 1998 and 1999; and inflation dropped from 42 percent in 1997, to 9 percent in 1998, to nearly zero percent in the last few months of 1999, due to tight monetary policy, tariff cuts, a strong exchange rate, and large quantities of humanitarian aid imports. The current-account deficit increased from 6.1 percent in 1998 to 8.5 percent in 1999, reflecting larger-than-expected imports during the Kosovo crisis. The domestically financed fiscal deficit dropped from 6.4 percent of GDP in 1998 to about 5.1 percent of GDP in 1999, primarily due to the postponement of public investment projects during the Kosovo crisis, offsetting a decline in tax revenues caused by customs administration problems. Despite delay due to the Kosovo crisis, structural reforms have advanced, including noteworthy achievements in civil service reform and banking and enterprise privatization.

**8. Future growth depends on further structural reforms and improved governance.** If structural reforms continue and the investment climate improves, Albania's economy is expected to grow by 7 to 8 percent annually from 2000 to 2003, with inflation remaining steady at 2 to 3 percent, and the current account deficit falling as exports increase beginning in 2001. Continued macroeconomic stability depends on fiscal adjustment and noninflationary budgetary financing, requiring substantial efforts on both the revenue front (improving tax and customs administration) and expenditure front (improving public expenditure management). Informal businesses need to be progressively integrated into the formal economy to widen the tax base. Annual growth of 7 to 8 percent over the next three years and sustained high growth is conditional upon improving the investment climate through strengthening governance, advancing structural reforms, and eliminating infrastructure bottlenecks.

**9. Sustainable development requires social cohesion.** Social assessments of Albania point to strong bonds of trust within extended families and traditional villages, lack of mutual trust throughout the rest of Albanian society, and especially deep mistrust toward Government and public institutions, vividly demonstrated by the destruction of public buildings during the 1997 crisis. Albania's rigid communism destroyed both social capital and civic-mindedness. Since 1998, social capital continues to weaken from emigration, rural-urban migration, and illegal activities; and corruption and ineffectiveness are further undermining Government credibility. Social cohesion—the bonds of trust that enable collective problem solving—is an important social underpinning of economic development and poverty alleviation. Building social cohesion in Albania requires complementary efforts to improve the effectiveness and accountability of Government and to build upon existing social capital at the community level.

**10. Albania faces formidable environmental challenges,** although some progress has been made in improving the environmental policy framework. In 1998, the establishment of a National Environmental Agency reporting directly to the Council of Ministers raised the profile of Albania's environment agency and led to greater independence, helping to address gaps in environmental legislation and improve regulatory measures. However, air and water pollution remain largely unmanaged in urban areas, as does the growing problem of solid waste collection and disposal; and overuse of natural resources is degrading the rural environment and creating conditions for future poverty. Management of natural resources surrounding villages has improved by transferring forest and pasture user rights to local communities and helping them develop management plans. But illegal felling of trees in state forests remains a problem in many parts of Albania, exacerbated by the demand for timber in Kosovo reconstruction. In addition, illegal construction and settlements threaten the natural beauty and tourist potential of Albania's coast.

### III. PROGRESS UNDER THE 1998 CAS AND PLANS FOR FY00-FY02

11. **The strategy of the 1998 CAS remains valid, but we will increase our emphasis on the social underpinnings of poverty reduction.** Prepared in the wake of 1997's civil unrest—marked by a collapse of key services, including law and order—the CAS emphasizes the need for a strong state and effective public institutions for sustaining long-term development. The 1998 CAS focuses on three strategic priorities: (a) *Governance and institution building* (building government and public institutions; and working through non-governmental institutions and civil society); (b) *Promoting sustainable private sector growth* (restoring macroeconomic stability in conjunction with the IMF-supported program; reforming the financial sector and privatizing enterprise; sustaining agricultural growth; improving infrastructure provision with an emphasis on private sector participation; and promoting environmental sustainability); and (c) *Promoting human development* (fostering education, health, and social protection). Now that Albania has substantially recovered from the 1997 civil crisis, efforts to reduce poverty—the overarching objective of our assistance strategy—can increase. We will deepen our cross-sectoral focus on poverty alleviation, with special attention to strengthening social cohesion and building inclusive institutions.

12. **Our strategy continues to be selective and coordinated with the donor community** (see para. 43) and the Stability Pact. Our comparative advantage is to provide analytical assistance and support key policy, institutional, and structural reforms necessary for Albania's overall development program. We will help develop the analytical underpinnings of poverty monitoring and policies to reduce poverty. Within the broad governance program defined by the Friends of Albania group, we are intervening very selectively where other donors are not active. The International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), and some bilateral donors play key roles in private sector development. (IFC's activities are described in para. 44.) In the financial sector, we will support reforms and privatization of the remaining state-owned bank. In the infrastructure sector, where donors are especially active, we will focus on accelerating privatization, utility restructuring, and strengthening maintenance systems. In the social sectors, we will concentrate on strengthening policies and institutions. We will also continue to support targeted poverty interventions and community-based operations that can be cofinanced or replicated.

13. **Albania has relatively high poverty**, although data are limited and outdated. According to a study of 1996 data, poverty is largely rural, and poverty is highest in households with many children, headed by a young or poorly educated persons, or lacking remittance income (see Box 2). Gender does not appear to be a poverty indicator in Albania because many female-headed households receive remittance income; however, previous studies have identified some women vulnerable to social exclusion.

14. **The Government is formulating a poverty alleviation strategy.** A joint World Bank/IMF mission to Albania in early 2000 helped launch the preparation of an interim PRSP, which will be submitted to the Executive Directors of the IMF and the World Bank by June 2000. The Government has embraced the PRSP concept and is designing a participatory process to engage foreign donors and Albanian stakeholders. The interim PRSP will include a poverty profile based on a 1996 household survey (see Box 2); partial results from a 1998 Household Living Conditions Survey of 10,800 households in rural and urban areas; and social assessments and other relevant data. A more complete poverty profile will be prepared for the full-scale PRSP (to be presented to the IMF and World Bank Executive Directors by June 2001), using 1999/2000 Household Budget Survey data, the full results of the 1998 Household Living Conditions Survey, and participatory poverty assessment methods. The full-scale PRSP will define a poverty monitoring system to regularly review progress in reducing poverty. A comprehensive Poverty Assessment will be prepared in FY02, based on a fully representative Living Standard Measurement Survey, which requires the completion of a population census planned for mid-2001.

15. **The nonlending program will support the PRSP through sector work in education (FY00) and health (FY01), environment (FY01), and a rural development strategy for alleviating rural poverty (FY02).** The establishment of inclusive, transparent, and accountable organizations and institutions will be supported by Governance/Anti-Corruption Work (FY01), a Social Policy Institutional Study (FY01), and the ongoing Public Expenditure Institutional Review (FY00). A Poverty Assessment based on nationally representative Living Standard Measurement Survey data has been programmed for FY02.

### ***Box 2: Poverty in Albania***

A 1999 World Bank study, "Household Welfare, the Labor Market and Public Programs in Albania," shows that poverty in Albania is largely rural and highest for households with many children, without remittance income, and with a young and/or poorly educated head of household. The findings of the study are:

- About 20 percent of the population is poor (defined as monthly consumption less than US\$28 per person).
- Poverty is highest and most severe in the north.
- Almost 90 percent of Albania's poor are rural. About 25 percent of those living in rural areas are poor—a poverty rate five times greater than for urban areas.
- Gender is not a poverty indicator—poverty generally does not depend on whether the head of household is male or female. In rural areas, households headed by women tend to be less poor (perhaps due to income from husbands working abroad).
- The poverty rate falls as the age of a household head rises. Poverty rates are almost 10 percent higher for household heads from 16 to 35 than for household heads aged 64 and above. Poverty rates for children under 6 are almost double those for adults 64 and above.
- Poverty increases with household size; rising sharply for households with more than three children.
- Remittances constitute a major informal safety net. Especially in rural areas, the poverty rate is minimal where household heads have migrated and returned home; the poverty rate is slightly higher where household heads abroad are currently sending remittances. Poverty rates are highest in households where there has been no migration or remittance income.
- Poverty is strongly linked to education, especially in rural areas. Households headed by people who are illiterate or have basic education are, respectively, 30 or 20 times more likely to be poor than households headed by university graduates.
- The poor have more limited or difficult access to some basic services, including piped water, and a higher incidence of infectious disease.

Based on 1996 household consumption data, the study is not fully representative of Albania because it does not include Tirana. Additional analytical work is underway to define a more reliable poverty profile.

16. **Our lending operations reflect a cross-sectoral emphasis on poverty alleviation.** The quality and accessibility of education will be addressed under the first and second Education Reform Projects (FY00 and FY02). An Agricultural Services Project (FY01) and Fishery Development Project (FY01) will support economic development in rural areas, where poverty is highest. Community-based social services and policy reforms to ensure efficient and sustainable social protection and insurance systems will be addressed under the Social Services Delivery Project (FY01) and the Social Protection Adjustment Credit (FY02). The Second Structural Adjustment Credit (SAC II, FY01) will help further improve public expenditure management, ensuring that public resources are allocated toward alleviating poverty. A Learning and Innovation Loan (LIL) to help strengthen social capital, especially among Albania's youth in selected larger cities, is planned for FY01. Institutional reforms to broaden access to piped water in secondary cities will be undertaken through the Municipal Water and Wastewater Project (FY02).

#### **A. Governance and Institution Building**

17. **Since 1998, progress has been made toward building a framework for better public organizations, despite occasional setbacks.** The 1997 crisis revealed the extent of the public's anger and mistrust toward Government due to its inefficiency and corruption. In response, the 1998 CAS emphasized governance and institution building, complemented by engaging the public in the development process. These emphases remain central to our strategy. To focus our support and facilitate project implementation, we split the planned Legal, Judicial, and Public Administration Project into a Public Administration Reform Project (FY00) and a Legal and Judicial Reform Project (FY00). Our work in this area is part of a broader governance agenda defined and supported by the Friends of Albania group.

18. **Public administration reform, including public expenditure reform, is moving forward, although risks remain.** In January 2000, in a major accomplishment after considerable debate, a new Civil Service Law went into effect to create a depoliticized, permanent, and more efficient civil service. However, the law remains to be fully implemented with bipartisan support. The Government is also addressing public expenditure

reform, which will improve the targeting, transparency, and effectiveness of expenditures and increase Albania's capacity to absorb foreign aid, all critical for alleviating poverty. We are helping the Government introduce a Medium-Term Expenditure Framework—a new approach to budget planning that injects a strategic focus into the budget process. To monitor the appropriate use of public expenditure, the Government is undertaking a Public Expenditure Tracking Study. Under a Public Expenditure Institutional Review (FY00), we are studying decentralization as an option for making local spending more effective, but weak local governments largely mistrusted by local populations requires decentralization to proceed slowly. Public administration reform—and especially public expenditure reform, given its importance for poverty alleviation—is a key element in our strategy. We will support the Government's reform efforts through ongoing analytical work and existing and new lending operations: the SAC, Public Expenditure Support Credit, Public Expenditure Institutional Review (FY00), Public Administration Reform Project (FY00), and a SAC II (FY01).

19. **The foundations for legal and judicial reform are in place**, but need continued institutional strengthening. The Government's reform program, supported by the SAC, has taken initial steps to (a) upgrade the quality of legal education; (b) improve the functioning of the judicial system; (c) create a system for out-of-court resolution of commercial cases; and (d) make essential legal information more accessible. Albania's Constitution of November 1998 provides a clear foundation for judicial independence, strengthened through the 1998 Law on Judicial Organization, amended in December 1999. However, poorly qualified judges remain in the judiciary, the second most corrupt institution in Albania (after tax/customs), according to surveys. Anticorruption measures—such as a reaccreditation test for judges and the establishment of a Judicial Inspection Office—have not yet produced results. The free-standing Legal and Judicial Reform Project (FY00) will help implement policy reforms and anticorruption measures, complementing substantial support from other donors and the Stability Pact.

20. **Anticorruption—essential for building a stronger, more transparent, and accountable state in Albania—remains an integral part of our strategy.** Eliminating corruption is vital for poverty alleviation, because studies show that corruption disproportionately affects the poor. We are supporting the Government in implementing its Anticorruption Action Plan approved in Summer 1998. Despite a strong start in the right direction, some reforms are lagging and a perception of extensive Government corruption persists. Corruption could become an explosive and potentially destabilizing issue; or public sensitivity to it could be used constructively by the Government to push difficult reforms. Recognizing the insufficiency of its efforts, the Government is reviewing and revising its anticorruption strategy, which will be further reinforced by the Stability Pact's anticorruption agenda. Through multiple operations (including SAC II, FY01) and nonlending activities (Governance/Anticorruption Support, FY01), we will support the revised anticorruption strategy.

21. **We will continue to support community-based activities that build institutions and social cohesion from the bottom-up.** Institutions—meaning the formal and informal rules and practices that govern the behavior and actions of individuals—play an essential role in coordinating economic activity. In Albania, the weakness and absence of institutions following the collapse of communism encourage corruption, impede economic development, and worsen poverty. In addition to supporting public sector reform, our strategy focuses on building institutions rooted in local culture, enjoying the full trust and ownership of the community (see Box 3). The Agricultural Services Project (FY01), Fishery Development Project (FY01), and Social Services Delivery Project (FY01) will all feature community-driven programs. Community participation will also be introduced in the Road Maintenance Project (FY02) and Education Reform Projects (FY00 and FY02). In addition, a Youth/Social Cohesion LIL (FY01) has been added to our lending program to find community-based solutions for unemployed youth. A Social Policy Institutional Study (FY01) will identify community institutions and bonds of trust that can be leveraged to increase social cohesion. A Rural Strategy (FY02) will build on these findings to recommend actions that will increase growth and alleviate poverty in rural areas.

## **B. Promoting Sustainable Private Sector Growth**

22. **Increased security and macroeconomic stability since 1998 have produced three years of robust growth in private sector activity.** Under difficult circumstances, the Government has put Albania back on track after the civil crisis. Pyramid schemes are almost completely dismantled, and remaining assets are slated for liquidation and distribution by mid-2000. The Government has maintained its macroeconomic stabilization and structural reform programs. However, to sustain private sector growth leading to poverty reduction, it is



### ***Box 3: Building Social Cohesion through Community-Based Projects***

The Bank has a strong record of supporting community-based initiatives in Albania, such as water user associations for irrigation management, village credit funds for rural credit delivery, community forest and pasture management, and demand-driven small infrastructure rehabilitation. Community-based initiatives build upon positive traditions, social capital, and common interests at the local level, whereas traditional top-down interventions often require a supporting institutional environment, which is lacking in Albania. For example, the village credit fund model relies on local knowledge of borrowers and substitutes peer pressure for collateral, thereby overcoming systemic weaknesses common to rural financial markets (such as lack of credit histories and unenforceable collateral contracts). Community-managed organizations continued to perform well during the 1997 crisis despite general mayhem, testimony to the strength of local ownership.

Ongoing projects with community-based designs include the Forestry, Urban Land Management, Community Works, Irrigation and Drainage II, and Microcredit Projects. The IDA strategy will continue to emphasize community-based development, not only because community-based interventions are more effective, but also because they strengthen social capital and build effective institutions at the local level, within and between communities. Community-based initiatives feature prominently in our operations planned for FY01 and FY02.

necessary to complete the structural reform agenda (financial sector reforms and enterprise privatization), improve infrastructure, pursue broad-based rural development, and ensure sustainable natural resource management. As the role of the private sector expands, adherence to core labor standards needs to be reviewed. Continued financial sector reforms are central to our assistance strategy. In infrastructure, we will focus on strengthening regulatory frameworks and institutions to improve absorptive capacity and maintenance, given that the Stability Pact will support important regional infrastructure investments, especially transport.

#### **Financial Sector Reforms and Enterprise Privatization**

23. **Tangible progress has been made in financial sector reforms**, but important work remains to be done to establish a sound and competitive banking system that supports private investment. The Government, supported by the Recovery Program Technical Assistance Project, remains committed to divesting the two remaining state-owned banks and strengthening the regulatory and supervisory framework. In a major accomplishment despite initial delays, the privatization of the National Commercial Bank (NCB) is nearly complete—the final transfer of the NCB to an investor consortium comprising the IFC, the EBRD, and Kentbank, a Turkish technical partner, is expected by the end of March 2000. The next formidable task is the privatization of the Savings Bank (SB), which holds about 75 percent of household deposits and dominates the Treasury Bill market. The SB has been operating since 1998 under a strict governance contract to improve its performance and prospects for privatization. The Government plans to offer the SB for privatization in 2000, and we will support the process through a Financial Sector Technical Assistance Project (FY00) and a SAC II (FY01). Meanwhile, a new Banking Law and a Bank of Albania Law, both passed in 1998, have fortified the legal framework for the financial sector, and a Law on Secured Transactions will come into force in May 2000. Efforts continue, supported by the IMF and other donors, to revise regulations and strengthen banking supervision. We will continue to support the Government's financial sector reforms, including developing a fully functioning payment system, establishing a Credit Information Bureau, further liberalizing the insurance industry, and privatizing INSIG, the dominant insurance provider in the country.

24. **We are continuing to support microcredit for populations that fall outside the formal financial sector**, such as microentrepreneurs and small farmers, building on the highly positive results of previous IDA-financed projects. Through the Microcredit Project, the Government aims to develop private, sustainable microcredit intermediaries—including savings and credit associations in rural areas—and establish an appropriate regulatory and supervisory environment for microcredit. Strong and successful village savings and credit associations will also contribute to social cohesion in rural areas. IFC is also deepening the financial sector through an equity investment in the Foundation for Enterprise Finance and Development (FEFAD) bank, which focuses on micro, small, and medium enterprises.

25. **The Government's Enterprise Privatization Program is advancing**. The Government will sell the largest of the remaining state-owned small and medium-sized enterprises (SME)—a brewery, dairy, wine/cognac producer, and pharmaceutical company—through an international tender process that should be completed by Summer 2000. The Government and its financial advisors have advanced Strategic Sector Privatization over the last year in the telecommunications, mining (chrome and copper), and petroleum sectors,

starting with Albanian Mobile Telecommunications (AMC), which is expected to be sold to a strategic investor in Spring 2000. The IFC is exploring participation in AMC privatization. The Bank will continue to provide technical assistance to the Government by commenting on its privatization strategy and being a neutral observer in negotiations between the Government and its financial advisors. Both completing SME privatization and sending the request for proposals to the firms short-listed as potential buyers of AMC are SAC second-tranche release conditions.

### **Improving Infrastructure**

26. **Infrastructure bottlenecks continue to deter growth and poverty alleviation** by lowering the marginal productivity of private capital and limiting access by the poor to market opportunities. In Albania, persistent disruptions of power and water also undermine Government credibility with the public. Infrastructure is supported by many donors, including Austria, EBRD, EU, GTZ, Italy, OECF (Japan), and Switzerland. Therefore, we will selectively focus our support in areas of Government commitment to key policy and institutional reform. We also support small-scale infrastructure rehabilitation through the ongoing Community Works Project and infrastructure improvements in informal urban settlements through the ongoing Urban Land Management Project. These projects also strengthen local governance and institutions by using participatory methods that bring together community associations and local governments.

27. **Power.** Power sector performance has been unsatisfactory, mainly due to a failure to reduce illegal electricity use and improve collection of electricity bills. Consequently, IDA suspended its Credit for the Power Transmission and Distribution Project on November 24, 1998. Although the Government agreed to an Action Plan with targets related to losses and collection, there has been little progress in improving collection or reducing losses. During meetings in 1999, Government and donors agreed that before the public electricity company, KESH, was ready for privatization, its management must improve through assistance by an experienced power utility, complemented by other appropriate Government measures. Accordingly, the Government agreed to award a performance-based management assistance contract to a utility of international standing. Contract award is expected by March/April 2000, followed shortly thereafter by lifting of the IDA suspension. If a management assistance contract is not awarded on a transparent and competitive basis by June 30, 2000, the IDA Credit will be canceled.

28. **Water.** Improving access to safe drinking water—through water sector investments and policy reforms, especially cost recovery and private sector participation—will continue to be an important element of our poverty alleviation strategy. The Government has made progress since 1998 by lifting the tariff cap, establishing a Water Regulatory Commission, and taking first steps toward the corporatization of water and wastewater companies and the transfer of assets from the central Government to municipalities. The planned Water Privatization Project (FY01) was canceled because the Italian Government is addressing water supply in Tirana. The Municipal Water and Wastewater Project (FY02) will support the implementation of a management contract for four cities—Durrës, Fier, Lezhe, and Saranda. A Water Supply Urgent Rehabilitation Project, approved by the IDA Board on February 24, 2000, will ensure a minimum quantity and quality of water, and will also help lay the foundation for the Government's medium-term water supply strategy.

29. **Transport.** During the Kosovo conflict, large numbers of refugees, vehicles providing humanitarian aid, and NATO convoys strained and damaged Albania's already dilapidated road network. An Emergency Road Repair Project, approved by IDA in December 1999, will assist in repairing the Durrës-Morin road and the Berat-Corovode road. A Road Maintenance Project (FY02) will support gradual privatization of road maintenance services and improved maintenance of the entire road network. The Bank is also supporting the port sector under the ongoing Durrës Port Project. The project was delayed when NATO took over port facilities, but implementation has resumed. Albania also has signed the regional Transport Memorandum under the Stability Pact and is expected to be included under a regional Trade and Transport Facilitation Project to be approved in FY01.

### **Rural Development**

30. **We will selectively support efforts to sustain agricultural growth and pursue broad-based rural development.** Previous IDA Credits have supported gains in the agricultural sector, the main contributor to GDP and the livelihood of most Albanians. We are focusing on selected areas that complete the unfinished

agenda, such as rehabilitating and devolving irrigation schemes to water user associations under the Irrigation & Drainage II Project and furthering land registration under the SAC. An Agricultural Services Project (FY01) will focus on developing rural markets (including the seed and land markets) through community participation. Other ongoing IDA-financed interventions are the Rural Roads Project; the Microcredit Project's rural savings and credit association component; and the Community Works Project, which finances small-scale infrastructure improvements. IDA's rural and agricultural projects—many of which have used community-based approaches—have been particularly successful, as noted in OED's 1998 Country Assistance Review. Nevertheless, poverty remains pervasive in rural areas. We will explore new ways of pursuing broad-based rural development—especially building social cohesion and strong rural institutions—through a Rural Strategy (FY02).

### **Coastal Development**

31. **Using our ongoing operations, we will support development of Albania's southern coast, which is socially, economically, and environmentally fragile.** Environmental degradation as well as uncontrolled illegal settlement and construction threaten the area's tourism potential. The Saranda-Butrint area will benefit from a number of IDA-supported projects, including the ongoing Community Works Project, Urgent Water Supply Rehabilitation Project (FY00), Fishery Development Project (FY01), and Municipal Water and Wastewater Project (FY02). An Institutional Development Grant will help protect the Butrint National Park; and the Small Grants Program is supporting the start-up of a Saranda radio station for educational and cultural programs. A Coastal Development Project included in the 1998 CAS was canceled in favor of integrated regional development through coordination of ongoing projects.

### **Natural Resource Management**

32. **There has been progress in developing environmental strategies and effective models for improved environmental management.** National strategies are complete for both forestry and biodiversity conservation. The Government is working with the Bank and the Mediterranean Technical Assistance Program to update the Albania National Environmental Action Plan (NEAP, FY01), which will prioritize environmental issues and identify measures for immediate action. Under the Forestry Project, the Government is piloting community forest and pasture management, but investments to strengthen state management of forests have failed to halt illegal tree felling. The Lake Ohrid GEF project is supporting improved environmental management of this transboundary lake, under the direction of the joint Albanian/Macedonian Lake Ohrid Management Board. With Albania's gradual alignment with European institutions under an expected SAA with the EU, Albania will need to place much more emphasis on environmental protection. An Environmental Project is planned for FY02.

### **C. Promoting Human Development**

33. **Health services continue to be very inadequate and inaccessible to most of the rural poor.** Albania's health sector has insufficient public funding (amounting to 1.8 percent of GDP) and limited absorptive capacity. Skilled medical professionals have left the public health due to very low salary levels. Improvements in quality and accessibility of health services are essential for a poverty reduction strategy. In light of Albania's high rates of poverty and mortality for infants and children, primary and maternal/infant health care must be priorities. IDA has two health projects under implementation. Due to the 1997 and Kosovo crises, the Health Services Rehabilitation Project has experienced delays and will be extended for twelve months. The ongoing Health System Recovery and Development Project emphasizes health sector planning and management, mainly on the national level and in Tirana. A Health Sector Study (FY01) will analyze institutional measures to strengthen health sector planning and management capacities. The SAC II will support improved public expenditure management in the health sector. Both the SAC II and the nonlending activity in Governance/Anticorruption (FY01) will support higher accountability for public health facilities. Efforts to improve public health services and increase budgetary allocations for the health sectors will figure prominently in the PRSPs.

34. **In the education sector, expenditures continue to be low and management weak.** According to the Education Sector Review (FY00), the root problems of Albania's educational system are poor management by a weak Ministry of Education and Science; meager budget resources; and inadequate governance and accountability, partly due to politicization of school management appointments. These problems will be supported through the Education Reform I Project (FY00), which will also help the Government undertake the first national assessment of student learning by May 2001. Also, the Public Expenditure Institutional Review

(FY00) will assess efficiency and effectiveness of education programs and services and the extent to which resources are targeted towards the poor. A preliminary household survey reveals a strong correlation between poverty and low education of the household head (see Box 2). The survey also points to low enrollment rates for secondary education, especially in rural areas and among children from poor households. An Education Reform II Project is planned for FY02. The Bank's work will complement the efforts of other donors in the sector.

35. **We will help the Government restructure its social protection system and develop community-based mechanisms for social service delivery**, in order to create a fiscally sustainable social protection system that effectively targets the poor and vulnerable. The Government is committed to providing social services through local communities, modest cash-based social assistance for the very poor, and modest risk mitigation (consumption smoothing) through affordable social insurance. A Social Services Delivery Project (FY01) will introduce new participatory community-based mechanisms to deliver social services to vulnerable populations, including unemployed youth and women at risk. A Social Protection Adjustment Credit (FY02) will help reform the social safety net, social insurance, and labor market policy.

#### **IV. BANK GROUP ASSISTANCE PROGRAM**

##### **A. Portfolio Management and IDA Lending Levels**

36. **Implementation of the ongoing portfolio has proceeded well.** Since FY92, thirty-five IDA Credits have been approved, in addition to four IFC operations. Of the US\$505.5 million in IDA commitments, US\$302 million was disbursed as of December 31, 1999, amounting to 60 percent of the total. Our current portfolio consists of twenty-one active IDA-financed projects totaling US\$309.1 million, of which US\$106.7 million (35 percent) was disbursed as of December 31, 1999. Twelve IDA Credits are scheduled to close by the end of FY02. Since the July 1998 CAS, we have delivered seven IDA operations for a total of \$148.7 million, of which five were FY99 deliveries and two were FY00 deliveries. We intend to present four additional operations to IDA's Board in FY00. The quality of the IDA portfolio has improved since the 1997 crisis, when the share of projects rated unsatisfactory rose from 10 percent to 20 percent and the share of projects facing substantive risks rose from 30 percent to 65 percent. Currently, three projects (14 percent of the portfolio) are rated unsatisfactory and at risk, reflecting a 100 percent realism index. Problem projects are being addressed: we expect to lift the IDA Credit suspension for the Power Transmission and Distribution Project by the end of FY00, or cancel the Credit (see para. 27); the Durres Water Project will close ahead of schedule on June 30, 2000; and the Durres Port Project, which has experienced delays partly due to the Kosovo crisis, is expected to speed up implementation. As a result of these actions, we expect our proactivity index to increase from 33 percent to 100 percent in FY01.

37. **QAG Assessments have been satisfactory or higher.** Since July 1998, six operations have been reviewed by the Quality Assurance Group (QAG)—one for Quality at Entry and five for Quality of Supervision. (An additional Quality-at-Entry review of the SAC is ongoing.) The Community Works Project was rated highly satisfactory (best practice) for Quality at Entry, with special recognition for building upon lessons of experience and incorporating social assessment findings. A highly satisfactory Quality of Supervision rating was given to the Rural Roads Project; and satisfactory Quality of Supervision ratings were given to the Agricultural Sector Adjustment Credit, Health Services Rehabilitation Project, Irrigation Rehabilitation Project, and Tax Administration Modernization Project.

38. **We are working to further improve portfolio quality.** IDA-financed operations have performed remarkably well, owing to careful project supervision and use of community-based approaches that foster ownership and accountability. We are building on experience and QAG and OED feedback to strengthen our overall strategy and further upgrade the design and supervision of projects. To provide on-the-ground support and address financial management weaknesses identified during a 1998 Portfolio Financial Management Review, we posted a financial management specialist to the Tirana Resident Mission in late 1999. A Country Procurement Assessment Review was carried out in January 2000. We also continue to use Country Portfolio Performance Reviews (CPPRs) to address portfolio-wide implementation issues. The next CPPR is scheduled for June/July 2000.

39. **Good performance indicates a continued high-case lending scenario.** Performance has been strong in FY99-FY00 in high-case lending scenario triggers—satisfactory performance under the IMF PRGF program, satisfactory project portfolio implementation, and adequate internal security. In addition, all structural/sectoral triggers have been met or are well underway: civil service regulations are in preparation; functional reviews of the Council of Ministers and three ministries were completed in 1999; NCB privatization will be finalized in 2000; the SB is operating under a governance contract; a school mapping exercise was completed; and the Government has completed, but not yet disclosed, an Education Strategy. (The water sector trigger is no longer relevant because the Italian Government will address Tirana water system improvements.) Albania's progress in meeting all policy performance benchmarks is detailed in Annex 9. Given this strong performance, we expect to maintain a high-case scenario, which has been increased to US\$183.7 million for the period FY00-FY02 (as compared to the 1998 CAS high-case scenario of US\$145 million for FY99-FY01), including a Regional Trade and Transport Facilitation Project. Our high-case lending program, which consists of two adjustment credits and up to fifteen investment operations, is designed to leverage the implementation of the remaining policy reform agenda. The high-case scenario—and the additional IDA resources—are subject to continued good performance and implementation capacity in Albania.

40. **Overall lending program triggers remain the same as those identified in the 1998 CAS:** a satisfactory macroeconomic framework (for example, through adherence to the IMF PRGF program); maintenance of adequate security; and satisfactory project implementation. The high-case scenario will also require satisfactory implementation of the poverty reduction strategy agreed to in the interim PRSP (FY00) and full-scale PRSP (FY01). We have updated the operation-specific triggers (see Box 4). If high-case triggers are not met, we envision a *base-case scenario* of US\$118.7 million. The base-case scenario comprises investment operations that contribute to long-term institution-building and social capital formation. These base-case operations would be effective despite a poor policy environment; therefore, we do not envision a low-case scenario. The high-case lending program is self-regulating: if reform progress in key sectors is not satisfactory, corresponding operations will be dropped. Lending levels could vary accordingly between the base- and high-case scenarios.

41. **We will monitor our assistance strategy** using the CAS performance benchmarks shown in Annex 9 and the following output milestones for key areas: (a) *Poverty alleviation strategy*: implement agreed PRSP programs; (b) *Governance*: implement Civil Service Law; use processes of Medium-Term Expenditure Framework to allocate budget; (c) *Anticorruption*: implement revised anticorruption program; (d) *Financial Sector*: finalize preparation of SB for privatization; (e) *Infrastructure*: operate water utilities in four cities with private management contracts; (f) *Education and Health*: increase budgetary allocation by 0.5 percent of GDP with subsectoral allocations consistent with agreed sector strategy. The outcome benchmarks and milestones will be refined during the PRSP process. A full set of transparent impact indicators will be agreed with the Government and key stakeholders in the context of the interim and full-scale PRSPs.

## **B. Nonlending Services**

42. The nonlending services program is designed to closely support the preparation of poverty reduction strategy papers (see paras. 13-14), and therefore shows only little variation between the high-case and base-case lending scenarios. In a base-case lending scenario, the rural strategy (FY02) would be dropped as it is unlikely that a Government could support and implement economic growth and poverty alleviation measures in rural areas in a situation of domestic insecurity, deteriorating governance, or macroeconomic instabilities.

## **C. Partnerships and Consultations**

43. **Strong external and internal partnerships are key to a holistic approach to Albania's development** as envisioned under the Comprehensive Development Framework. External and internal partners will be fully involved in the PRSPs. We will continue to play a lead role in donor coordination, working closely with Friends of Albania, a group created in 1998 and chaired by the OSCE. Together with the EU, we regularly organize sectoral coordination meetings. We have consulted with Friends of Albania on the interim PRSP and our program presented in this Progress Report. We increasingly involve NGOs in the design, implementation, and evaluation of IDA-supported projects, as well as public awareness campaigns (such as the anticorruption initiative). NGOs and civil society will be closely consulted during the preparation of the PRSP and Poverty Assessment (FY02).

**Box 4: Triggers for Lending Program**

Base Case	High Case
<b>Lending Program and Nonlending Services (NLS)</b>	
<p><b>Lending:</b> Agricultural Services; Social Services; Youth/Social Cohesion LIL; Fishery Development; Trade and Transport, Road Maintenance; and Education Reform II Credit, for a total of US\$118.7. (See Annex 4 for Credit amounts.)</p> <p><b>NLS:</b> NEAP, Social Policy Institutional Study, Public Expenditure Institutional Review, Governance/Anticorruption Support, Poverty Assessment, Health Sector Study.</p>	<p><b>Lending:</b> Base-case lending plus a SAC II; Social Protection Adjustment Credit; Municipal Water Project; and Environment Project; for a total of US\$183.7 million.</p> <p><b>NLS:</b> Base-case NLS plus a Rural Strategy.</p>
<b>Macroeconomic, Poverty, and Security Triggers</b>	
<p><b>Macroeconomy:</b> Unsatisfactory performance as evidenced, for example, by slippage from the IMF PRGF program.</p> <p><b>Poverty:</b> Unsatisfactory progress in preparing an interim PRSP (FY00) and full PRSP (FY01), and in implementing the agreed poverty strategies.</p> <p><b>Security:</b> Outbreak of widespread social disturbances and Government not being able to maintain adequate security over significant parts of the country.</p>	<p><b>Macroeconomy:</b> Satisfactory performance as evidenced, for example, by satisfactory implementation of the IMF PRGF program.</p> <p><b>Poverty:</b> Preparation of an interim PRSP (FY00) and full PRSP (FY01), and satisfactory progress in implementing the agreed poverty strategies.</p> <p><b>Security:</b> Government able to maintain adequate security over significant parts of the country.</p>
<b>Structural / Sectoral Triggers</b>	
<p>Unsatisfactory implementation of structural or sectoral reforms indicated under the high case.</p>	<p>Satisfactory implementation of reforms in the following areas:</p> <p><b>SAC II: Governance:</b> (i) appoint civil service commission; (ii) prepare a revised anticorruption program; (iii) agree on program for new anticorruption survey; (iv) endorse Stability Pact Anticorruption Charter. <b>Public expenditure management:</b> (i) Government approval of a Medium Term Expenditure Framework; (ii) prepare sectoral budget memorandum for health and education; (iii) complete Public Expenditure Tracking Study. <b>Banking privatization:</b> (i) complete the privatization of the NCB; (ii) maintain implementation of the SB's governance contract until the SB privatizes; (iii) hire a privatization adviser to prepare the SB for privatization through a strategic investor.</p> <p><b>Social Protection Adjustment Credit:</b> (i) implement social protection agreed under interim PRSP (FY00) and full PRSP (FY01); (ii) agree on cash transfer system, such as family allowances; (iii) agree on structural reform measures to improve fiscal performance of rural pension system.</p>
<b>Portfolio Implementation Triggers</b>	
<p>More than 20% of projects (by number) with unsatisfactory Implementation Progress (IP) or Development Objective (DO) ratings; disbursement ratio of less than 15%.</p>	<p>No more than 20% of projects (by number) with unsatisfactory IP or DO ratings; disbursement ratio at least 15%.</p>

**D. IFC / MIGA**

44. IFC is stepping up its involvement in Albania, focusing on the financial sector (where there has been very successful collaboration with IDA to advance banking privatization), critical infrastructure investments, SMEs, rehabilitation of key industries, and areas of Albanian comparative advantage. There are four existing IFC operations in Albania: a loan to a cement bagging company near the port of Durres; an equity commitment and loan to the Patos Marinza Project for enhanced oil recovery; an equity investment in FEFAD Bank, which lends to microenterprises and SMEs; and an equity investment in the NCB, where IFC is a key participant in the investor consortium that will purchase the bank. To help deepen Albania's financial sector, IFC is considering a partial guarantee to a domestic bank for SME loans. IFC will also invest in the Balkans Enterprise Facility to be established by the World Bank Group and international donors to address business environment constraints in

Southeastern Europe. In manufacturing, IFC is considering support for the only operating cement plant in Albania and for a green-field clay roof-tile manufacturing plant. IFC has discussed with the Government its possible participation in the privatization of AMC.

45. Albania has been a member of *MIGA* since 1992. *MIGA* has not issued any guarantees in the country but has active applications, notably in the tourism, telecommunications and power sectors.

#### V. RISKS

46. **The major risks continue to be external and internal instability, insufficient institutional capacity, and declining commitment to policy reforms, as identified in the 1998 CAS.**

47. *External instability* was accurately identified by the 1998 CAS as the highest short-term risk. The external environment continues to pose some risk, but an outbreak of hostilities is unlikely given the Stability Pact and presence of NATO. *Internal instability* has improved in Albania since 1998, although criminality must be further reduced for private investment and growth. Upcoming local government elections in Fall 2000 and parliamentary elections in 2001 could be contentious and destabilizing. Our support for better public institutions should help maintain law and order. Our strategy's focus on social cohesion—building on existing social capital to create inclusive local institutions—should increase stability over the medium term. In the event of increased insecurity or renewed social unrest, we would necessarily move toward the base-case lending scenario.

48. Albania's *administrative capacity* to carry out reforms and investments is stretched nearly to the limit. It is a central focus of our strategy to strengthen institutional capacity by reforming the public administration and public expenditure process. We will also continue to support "bottom up" community-based projects, which are not so vulnerable to weak institutional capacity at the central level, and which contribute to social cohesion. If governance or implementation capacity deteriorates to the point where portfolio performance becomes unsatisfactory, we would move to the base-case lending scenario.

49. The Government has demonstrated a strong *commitment to policy reform* by keeping macro and structural reforms largely on track during the 1999 Kosovo crisis. The Government's commitment will likely be reinforced by the Stability Pact framework and continued donor consensus, which we will help maintain through periodic sectoral meetings. In the event of slippage on macroeconomic stabilization or backtracking on structural reforms, we would move to the base-case lending scenario.

James D. Wolfensohn  
President

By Sven Sandstrom

#### Annexes:

1. Key Economic & Program Indicators – Change from Last CAS
2. Albania at a Glance
3. Selected Indicators of Bank Portfolio Performance and Management
4. Bank Group Program Summary
5. Summary of Nonlending Services
6. Key Economic Indicators
7. Key Exposure Indicators
8. Status of Bank Group Operations
9. Progress on FY99-01 Albania CAS Performance Benchmarks





**Albania**  
**Key Economic & Program Indicators - Change from Last CAS**

	<i>Forecast in Last CAS</i>				<i>Actual</i>		<i>Current CAS Forecast</i>			
	<i>1997<sup>a</sup></i>	<i>1998<sup>b</sup></i>	<i>1999<sup>b</sup></i>	<i>2000<sup>b</sup></i>	<i>1998<sup>c</sup></i>	<i>1999<sup>c</sup></i>	<i>2000<sup>a</sup></i>	<i>2001<sup>b</sup></i>	<i>2002<sup>b</sup></i>	<i>2003<sup>b</sup></i>
<i>Economy (CY)</i>										
<b>Growth rates (%)</b>										
GDP	-7	10	7	7.5	8	8	8	8	7	7
Exports	-21.3	22.6	36.8	28	17	49.6	15	18.1	12	12.5
Imports	-20	21.9	11.9	10	16	40.7	-7.6	6.7	5.1	7
<b>Inflation (%)</b>	42.1	10	7	5	8.7	0.5	3	2	2	2
<b>National accounts (% GDP)</b>										
Current account balance	-12.1	-13.8	-11.4	-9.1	-6.1	-8.5	-8.6	-7.4	-6.3	-5.4
Gross investment	12.2	22	22	22	16	16.1	18	19	20	21
<b>Public finance (% GDP)</b>										
Fiscal balance	-12.7	-13.6	-9.6	-7.8	-10.4	-10.9	-8.8	-6.4	-5.3	-4.2
Foreign financing	2.1	7.3	4.8	5	4	5.8	4.2	2.9	2.7	2.1
<b>International reserves (as months of imports)</b>	4.4	3.7	3.7	3.6	4.7	4.8	4.3	4.1	4	3.9
<i>Program (Bank's FY)</i>	<i>FY97<sup>c</sup></i>	<i>FY98<sup>c</sup></i>	<i>FY99<sup>a</sup></i>	<i>FY00<sup>b</sup></i>	<i>FY98<sup>c</sup></i>	<i>FY99<sup>c</sup></i>	<i>FY00<sup>a</sup></i>	<i>FY01<sup>b</sup></i>	<i>FY02<sup>b</sup></i>	<i>FY03<sup>b</sup></i>
Lending (\$ million)	0	84.2	57	48.0	84.2	125	55.2	53	63	
Gross disbursements (\$ million)	23.3	52.9	68.5	59.2	52.9	66.9	62.3	71.2	53	55

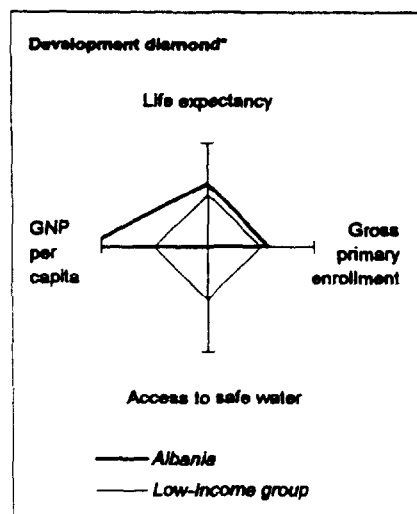
- a. Estimated year
- b. Projected year
- c. Actual outcome



# Albania at a glance

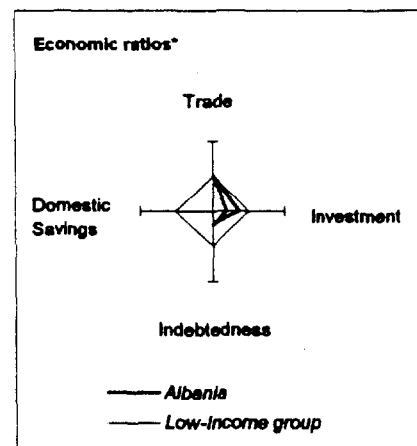
## POVERTY and SOCIAL

	Albania	Europe & Central Asia	Low-income
<b>1996</b>			
Population, mid-year (millions)	3.4	474	2,036
GNP per capita (Atlas method, US\$)	810	2,310	350
GNP (Atlas method, US\$ billions)	2.7	1,096	712
<b>Average annual growth, 1982-86</b>			
Population (%)	0.8	0.2	2.0
Labor force (%)	1.1	0.5	2.4
<b>Most recent estimate (latest year available, 1992-96)</b>			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	38	67	28
Life expectancy at birth (years)	72	69	59
Infant mortality (per 1,000 live births)	26	23	82
Child malnutrition (% of children under 5)	..	..	..
Access to safe water (% of population)	..	..	69
Illiteracy (% of population age 15+)	..	4	46
Gross primary enrollment (% of school-age population)	107	100	93
Male	106	101	100
Female	108	99	82



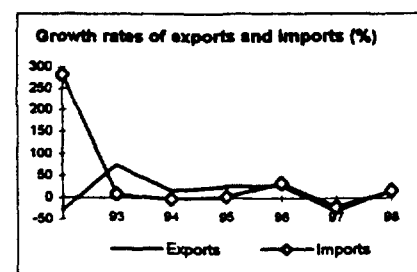
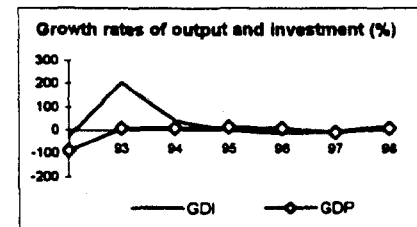
## KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1977	1987	1997	1998	
GDP (US\$ billions)	..	2.2	2.3	3.0	
Gross domestic investment/GDP	..	28.4	16.0	16.0	
Exports of goods and services/GDP	..	15.5	11.8	9.0	
Gross domestic savings/GDP	..	28.3	-9.1	-8.7	
Gross national savings/GDP	..	..	4.1	9.9	
Current account balance/GDP	..	0.2	-12.0	-6.1	
Interest payments/GDP	..	0.0	0.9	0.2	
Total debt/GDP	..	0.0	30.9	26.9	
Total debt service/exports	..	0.0	7.2	2.2	
Present value of debt/GDP	..	..	21.0	..	
Present value of debt/exports	..	..	72.0	..	
<b>1977-87 1988-88 1997 1998 1999-03</b>					
<i>(average annual growth)</i>					
GDP	1.9	-25.8	-7.0	8.0	7.6
GNP per capita	..	-24.9	-9.1	6.1	6.7
Exports of goods and services	..	13.6	-29.5	17.0	21.4



## STRUCTURE of the ECONOMY

	1977	1987	1997	1998
<i>(% of GDP)</i>				
Agriculture	..	33.2	62.6	54.4
Industry	..	45.8	18.2	24.5
Manufacturing	..	..	..	..
Services	..	21.0	19.2	21.0
Private consumption	..	62.0	97.7	96.5
General government consumption	..	9.6	11.4	10.2
Imports of goods and services	..	15.6	36.9	32.2
<b>1977-87 1988-88 1997 1998</b>				
<i>(average annual growth)</i>				
Agriculture	2.4	-21.3	1.0	5.0
Industry	2.2	-31.6	-5.9	12.2
Manufacturing	..	..	..	..
Services	0.6	-25.1	-24.4	11.3
Private consumption	..	6.1	-9.3	10.1
General government consumption	..	-3.9	-16.5	-0.6
Gross domestic investment	-0.6	19.9	-4.1	21.0
Imports of goods and services	..	16.7	-20.2	16.0
Gross national product	..	-24.6	-8.1	7.1

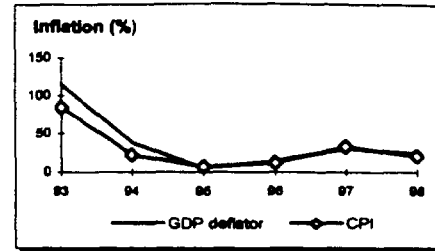


Note: 1998 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

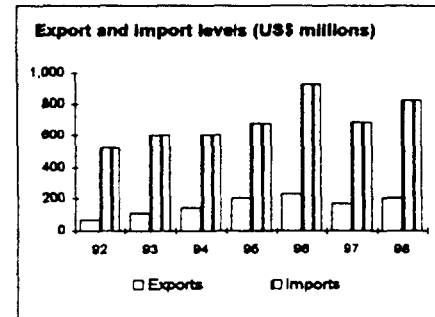
PRICES and GOVERNMENT FINANCE

	1977	1987	1997	1998
<b>Domestic prices</b>				
(% change)				
Consumer prices 1/	..	..	33.2	21.9
Implicit GDP deflator	..	..	30.8	24.8
<b>Government finance</b>				
(% of GDP, includes current grants)				
Current revenue	..	49.2	16.9	20.3
Current budget balance	..	23.7	-8.5	-5.3
Overall surplus/deficit	..	-1.7	-12.6	-10.4



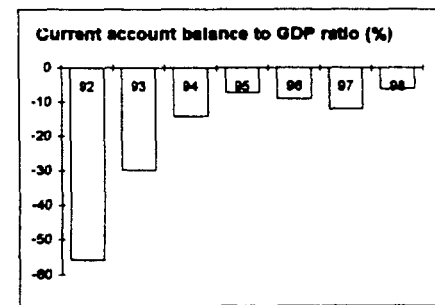
TRADE

	1977	1987	1997	1998
<b>(US\$ millions)</b>				
Total exports (fob)	..	311	167	205
Minerals and fuels	..	..	46	57
Food, beverage, and tobacco	..	..	18	22
Manufactures	..	..	99	122
Total imports (fob)	..	316	685	826
Food	..	..	164	197
Fuel and energy	..	..	71	86
Capital goods	..	..	99	120
Export price index (1993=100)	..	..	..	..
Import price index (1993=100)	..	..	..	..
Terms of trade (1993=100)	..	..	..	..



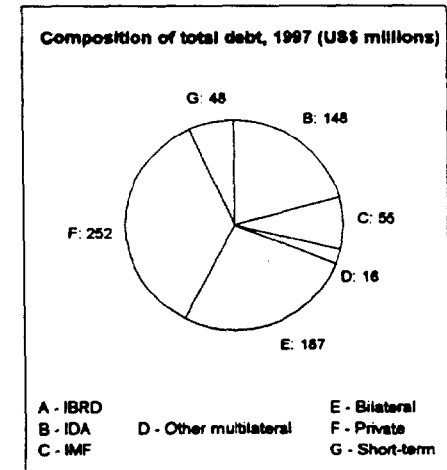
BALANCE of PAYMENTS

	1977	1987	1997	1998
<b>(US\$ millions)</b>				
Exports of goods and services	..	334	239	274
Imports of goods and services	..	336	816	980
Resource balance	..	-2	-577	-706
Net income	..	0	51	79
Net current transfers	..	..	250	440
Current account balance	..	5	-276	-187
Financing items (net)	..	7	303	258
Changes in net reserves	..	-12	-27	-71
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	..	342	401
Conversion rate (DEC, local/US\$)	..	8.0	149.6	151.2



EXTERNAL DEBT and RESOURCE FLOWS

	1977	1987	1997	1998
<b>(US\$ millions)</b>				
Total debt outstanding and disbursed	0	0	706	821
IBRD	0	0	0	0
IDA	0	0	146	220
Total debt service	0	0	39	37
IBRD	0	0	0	0
IDA	0	0	1	1
<b>Composition of net resource flows</b>				
Official grants	0	0	77	89
Official creditors	0	0	46	79
Private creditors	0	0	-1	0
Foreign direct investment	..	..	42	45
Portfolio equity	0	0	0	0
<b>World Bank program</b>				
Commitments	0	0	34	54
Disbursements	0	0	19	64
Principal repayments	0	0	0	0
Net flows	0	0	19	64
Interest payments	0	0	1	1
Net transfers	0	0	18	63



**Albania - Selected Indicators of  
Bank Portfolio Performance and Management**

<b>Indicator</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<i>Portfolio Assessment</i>				
Number of Projects Under Implementation <i>a</i>	20	23	20	21 <i>f</i>
Average Implementation Period (years) <i>b</i>	2.77	3.03	2.73	3.02
Percent of Problem Projects by Number <i>a, c</i>	25	21.74	10	14
Percent of Problem Projects by Amount <i>a, c</i>	23.14	23.82	13.59	18.21
Percent of Projects at Risk by Number <i>a, d</i>	30	21.74	10	14
Percent of Projects at Risk by Amount <i>a, d</i>	29.69	23.82	13.59	18.84
Disbursement Ratio (%) <i>e</i>	16.4	20.71	21.41	8.71
<i>Portfolio Management</i>				
CPPR during the year (yes/no)	No	Yes	Yes	Yes
Supervision Resources (total US\$)	1,056.48	1,165.70	1,202.30	1,236.44
Average Supervision (US\$/project)	52.82	50.68	60.12	58.88

<b>Memorandum Item</b>	<b>Since FY 80</b>	<b>Last Five FYs</b>
Proj Eval by OED by Number	7	6
Proj Eval by OED by Amt (US\$ millions)	111.06	108.66
% of OED Projects Rated U or HU by Number	14.3	16.67
% of OED Projects Rated U or HU by Amt	4.48	4.57

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- f. PESP is not included because fully disbursed and, as such, considered inactive.  
Community Works Project and the Community Work Supplemental projects are counted as one operation.



**Albania - Bank Group Program Summary: FY2000-2001**  
**Proposed IBRD/IDA High-Case Lending Program**

<i>Fiscal year</i>	<i>Project</i>	<i>US\$(M)</i>	<i>Strategic Rewards (H/M/L)</i>	<i>Implementation Risks (H/M/L)</i>
2000	EDUC REF I	10.0	M	M
	EMG ROAD REPAIR /a	13.6	H	L
	FIN SEC IBTA	6.0	H	M
	LEG/JUD REFORM	9.0	H	H
	PUB ADM REF	8.5	H	H
	WS URG REHAB /a	10.0	H	M
	SUBTOTAL	57.1		
2001	AG SERVICES	5.0	M	L
	STRUCTURAL ADJ. CREDIT II /b	30.0	H	M
	SOC SERV DELIVERY	8.0	M	M
	YOUTH/SOCIAL COHESION (LIL)	5.0	H	L
	FISHERY DEVELOPMENT	5.0	M	M
	REGIONAL TRADE AND TRANSP /c	10.6	H	M
	SUBTOTAL	63.6		
2002	EDUC REF 2	5.0	M	H
	MUN WATER/WW /b	15.0	H	H
	ROAD MAINTENANCE	15.0	H	M
	SOCIAL PROTECT. ADJ. CREDIT /b	20.0	H	M
	ENVIRONMENT	8.0	M	M
	SUBTOTAL	63.0		
	TOTAL	183.7		

/a Approved by the IDA Board of Directors.

/b To be dropped in a base-case lending scenario.

/c Southeastern European regional project.

H = High

M = Moderate

L = Low





Albania - Summary of Nonlending Services

<i>Product</i>	<i>Estimated Cost</i>	<i>Completion FY</i>	<i>Audience</i>	<i>Objective</i>
<b>Recent completions</b>				
Poverty Assessment	235.3	97	Govt./IDA/NGOs	KG/PS
Directions for Recovery and Growth	329.7	98	Govt/Donors/IDA	PS
Framework of Economics Policies	24.2	98	Govt/IDA/Donors	PS
Country Portfolio Performance Review	45	98	Govt/IDA/Donors	KG/PS
Agriculture Sector Review	79.6	98	Govt/IDA/Donors	KG/PS
Policy Framework Paper	39.5	98	Govt/IDA/Donors	PS
Vulnerability Study	38.6	98	Govt/IDA/Donors	KG/PS
Anti-corruption Workshop	21.7	98	Govt/IDA/Public	PS/PD
Country Economic Memorandum	398.3	99	Govt/IDA/Public/Donors	KG/PS/PD
LSMS Review	34.8	99	Govt./IDA/Public/NGOs	KG/PD
Financial Sector Note	34	99	Govt./IDA	KG/PS
Policy Framework Paper	32	99	Govt/IDA/Donors	PS
<b>Underway</b>				
Education Sector Review	160.9	00	Govt/IDA/Public/Donors	KG/PS/PD
Public Expenditure Institutional Review	187	00	Govt/IDA/Public/Donors	KG/PS/PD
Refugee Impacts/Prospects	25	00	Govt/IDA/Donors	KG/PS
<b>Planned</b>				
National Environm. Action Plan	78.4	01	Govt/IDA/Public/Donors	KG/PS/PD
Social Policy Institutional Study	90	01	Govt/IDA/Public/Donors	KG/PS/PD
Governance/Anticorruption Support	120	01	Govt/IDA/Public	PS/PD
Health Sector Study	100	01	Govt/IDA/Donors	KG/PS
Country Portfolio Performance Review	45	01	Govt/IDA/Donors	KG/PS
Poverty Assessment	250	02	Govt/IDA/Donors	KG/PS
Rural Strategy /a	100	02	Govt./IDA	KG/PS
Country Portfolio Performance Review	45	02	Govt/IDA/Donors	KG/PS

/a To be dropped in a base-case lending scenario.

KS = Knowledge generation  
PS = Problem solving  
PD = Public debate



## Albania - Key Economic Indicators

Indicator	Estimate					Projected			
	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>National accounts</b> (as % GDP at current market prices)									
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	55.8	51.5	62.6	54.4	52.9	51.4	50.5	50.1	50.0
Industry	22.5	23.4	18.2	24.5	25.2	26.5	27.2	27.7	28.6
Services	21.7	25.1	19.2	21.0	21.9	22.1	22.3	22.2	21.4
Total Consumption	100.7	106.8	109.1	106.7	108.6	101.2	99.3	97.3	95.6
Gross domestic fixed investment	21.3	20.5	16.0	16.0	16.1	18.0	19.0	20.0	21.0
Government investment	8.5	4.5	4.0	5.0	6.1	6.1	6.2	6.0	6.0
Private investment (includes increase in stocks)	12.8	16.0	12.0	11.0	10.0	11.9	12.8	14.0	15.0
Exports (GNFS) <sup>a</sup>	13.7	13.7	11.8	9.0	10.7	11.3	12.7	13.4	14.1
Imports (GNFS) <sup>a</sup>	35.7	41.0	36.9	32.2	36.1	30.5	31.0	30.6	30.7
Gross domestic savings	-0.7	-6.8	-9.1	-6.7	-8.6	-1.2	0.7	2.7	4.4
Gross national savings <sup>b</sup>	15.2	11.5	4.1	9.9	8.2	9.4	11.6	13.6	15.6
<b>Memorandum items</b>									
Gross domestic product (US\$ million at current prices)	2422	2689	2292	3047	3798	4250	4572	4995	5456
<b>Real annual growth rates</b>									
Gross domestic product at market prices	8.9%	9.1%	-7.0%	8.0%	8.0%	8.0%	8.0%	7.0%	7.0%
Gross Domestic Income	9.0%	8.9%	-7.1%	10.0%	12.5%	2.1%	8.2%	7.0%	7.4%
<b>Real annual per capita</b>									
Gross domestic product at market prices	7.3%	7.5%	-8.0%	6.9%	7.1%	7.2%	7.1%	6.1%	6.0%
Total consumption	0.4%	15.9%	-7.7%	8.4%	12.3%	0.1%	5.2%	4.3%	2.2%
Private consumption	-0.6%	18.2%	-6.3%	9.9%	13.2%	-0.6%	5.2%	4.9%	2.0%
<b>Public finance</b> (as % of GDP at current prices) <sup>c</sup>									
Current revenues	24.9	18.3	16.9	20.3	20.4	21.0	21.5	22.1	22.4
Current expenditures <sup>d</sup>	25.8	25.8	25.4	25.6	26.3	23.8	21.9	21.4	20.6
Current fiscal surplus (+) or deficit (-)	-0.9	-7.5	-8.5	-5.3	-5.9	-2.8	-0.4	0.7	1.8
Capital expenditure	8.5	4.5	4.0	5.1	4.9	6.0	6.0	6.0	6.0
Overall deficit (-)	-10.4	-12.1	-12.6	-10.4	-10.9	-8.8	-6.4	-5.3	-4.2
Domestically financed deficit	6.6	11.0	10.8	6.4	5.1	4.6	3.5	2.6	2.1

Albania - Key Economic Indicators  
(Continued)

Indicator	Estimate					Projected			
	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Balance of Payments (US\$m)</b>									
Exports (GNFS) <sup>a</sup>	289.0	367.0	239.0	274.0	407.0	480.0	580.0	671.0	776.0
Merchandise FOB	205.0	229.0	167.0	205.0	285.0	353.0	413.0	475.0	547.0
Imports (GNFS) <sup>a</sup>	823.0	1100.0	816.0	980.0	1188.0	1298.0	1420.0	1530.0	1677.0
Merchandise FOB <sup>b</sup>	679.0	921.0	685.0	826.0	1208.0	1117.0	1218.0	1327.0	1447.0
Resource balance	-534.0	-733.0	-577.0	-706.0	-781.0	-818.0	-840.0	-859.0	-901.0
Net current transfers (including official current transfers)	300.4	425.5	250.0	440.2	557.0	394.0	434.0	479.0	536.0
Current account balance (after official capital grants)	-176.0	-245.0	-276.0	-187.0	-326.0	-367.0	-339.0	-318.0	-292.0
Net private foreign direct investment	89.0	97.0	42.0	45.0	50.0	91.0	128.0	136.0	146.0
Long-term loans (net)	73.0	109.0	61.0	107.0	182.0	127.0	136.0	138.0	118.0
Official	102.0	103.0	60.0	107.0	182.0	127.0	136.0	138.0	118.0
Private	-29.0	2.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital (net, including errors and omissions)	40.0	82.0	200.0	106.0	166	146.0	110.5	84.0	72.5
Change in reserves <sup>f</sup>	-26.0	-43.0	-27.0	-71.0	-72.0	3.0	-35.5	-40.0	-44.5
<i>Memorandum Items</i>									
Current account balance (% of GDP at current market prices)	-7.3%	-9.1%	-12.0%	-6.1%	-8.5%	-8.6%	-7.4%	-6.3%	-5.4%
Resource balance (% of GDP at current market prices)	-22.0%	-27.3%	-25.2%	-23.2%	-20.6%	-19.2%	-18.4%	-17.2%	-16.5%
Official reserves (months of imports)	3.4	3.1	4.5	4.7	4.8	4.3	4.1	4.0	3.9
<b>Monetary Indicators</b>									
M2/GDP (at current market prices)	47.8	55.0	58.0	51.7	50.3	49.9	49.7	49.6	49.6
Growth of M2 (%)	38.2	25.6	-1.0	-1.1	6.3	7.6	6.5	5.9	5.6
Private sector credit/GDP (%)	0.5	0.9	0.6	1.2	1.4	1.5	1.6	1.8	2.0
<b>Price indices( 1990 =100)</b>									
Merchandise exports	99.8	111.7	147.5	154.8	153.9	157.8	161.7	165.9	169.9
Merchandise imports	98.6	111.3	147.5	154.8	153.9	157.8	161.7	165.9	169.9
Merchandise terms of trade	101.2	100.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Real exchange rate (LCU/US\$) <sup>g</sup>	137.9	134.1	122.6	147.0	124.5	125.3	126.4	127.2	128.0
Real interest rates <sup>h</sup>	6.8%	8.7%	1.8%	7.6%	16.4%	11.7%	10.8%	10.9%	11.0%
Consumer price index (% growth) <sup>i</sup>	6.0%	17.4%	42.1%	8.7%	0.5%	3.0%	2.0%	2.0%	2.0%
GDP deflator (% growth) <sup>i</sup>	9.8%	14.6%	29.7%	20.9%	5.2%	3.4%	1.4%	2.1%	2.1%

- a. "GNFS" denotes "goods and nonfactor services."  
b. Includes net unrequited transfers excluding official capital grants.  
c. Central government only.  
d. Includes Kosovo-related expenditures in 1999 and 2000.  
e. Includes Kosovo-related imports in 1999.  
f. Includes use of IMF resources.  
g. "LCU" denotes "local currency units." An increase in LCU/US\$ denotes depreciation.  
h. Calculated based on 12-month T-bill rates.  
i. End of period.

## Albania - Key Exposure Indicators

Indicator	Estimate					Projected			
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	644	672	706	821	957	1126	1257	1398	1517
Net disbursements (US\$m) <sup>a</sup>	73	70	49	82	136	169	131	141	118
Total debt service (TDS) (US\$m) <sup>a</sup>	7	34	39	37	22	37	48	56	52
Debt and debt service indicators (%)									
TDO/XGS <sup>b</sup>	130.8	106.5	88.9	102.5	132.9	156.2	153.6	148.8	141.1
TDO/GDP	26.6	25.0	30.8	26.9	25.2	26.5	27.5	28.0	27.8
TDS/XGS <sup>b</sup>	1.5	5.3	6.0	2.6	2.5	3.9	4.4	4.6	3.7
IBRD exposure indicators (%)									
IBRD DS/public DS <sup>c</sup>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IDA TDO (US\$m)	109	139	148	220	296	391	437	493	..
IFC (US\$m)									
Loans	0	0	0	0	1.2	0	0	0	0
Equity and quasi-equity	0	0	0	5.1	0	0	0	0	0
MIGA									
MIGA guarantees (US\$m)	0	0	0	0	0	0	0	0	0

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

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

c. "N/A" denotes non-applicable.



Status of Bank Group Operations (Operations Portfolio)  
IBRD Loans and IDA Credits in the Operations Portfolio

Closed  
Projects 7

Board Date Fiscal Year	Active Projects	Last PSR		Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements <sup>a</sup>		
		Supervision Rating b/		IBRD	IDA	Cancel	Undisb.	Orig.	Frm	Rev'd
		Development Objectives	Implementation Progress							
1994	P008260	DURRES WATER SUPPLY	U	S	0	11.6	0	2.5	1.49	0
1994	P008269	SCHOOL REHAB. AND CA	S	S	0	9.6	0	0.4	0.12	0
1995	P008253	HEALTH SERVICES REHA	S	S	0	12.4	0	4.8	5.04	0
1995	P008270	IRRIGATION REHABILITATION	S	HS	0	10	0	0	-1.14	0
1995	P008267	RURAL ROADS	S	S	0	15	0	1.1	2.14	-5.52
1995	P008272	TAX ADMIN. MODERNIZ.	S	S	0	4	0	1.6	1.45	0
1996	P035787	AGROPROCESSING DEVEL	S	S	0	6	0	2	2.12	0
1996	P008271	FORESTRY	S	S	0	8	0	5	2.27	0
1996	P036060	NATIONAL ROADS	S	S	0	25	0	15.2	10.41	0
1996	P034491	POWER TRANSM. & DIST	HU	U	0	29.5	0	18.7	19.62	0
1998	P040818	DURRES PORT	S	U	0	17	0	15.9	8.75	0
1998	P045312	HEALTH RECOVERY	S	S	0	17	0	16.8	6.68	0
1998	P040975	LAND DEVELOPMENT	S	S	0	10	0	9.8	3.06	0
1998	P051602	PRIVATE INDUSTRY REC	S	S	0	10.3	0	7	6.94	0
1998	P054384	RECOVERY PROG. TA	S	S	0	5	0	2.3	1.14	0
1999	P051309	COMMUNITY WORKS	S	S	0	14	0	12.4	1.14	0
1999	P043178	IRRIG. & DRAINAGE II	S	S	0	24	0	23.3	-0.56	0
1999	P051310	MICROCREDIT	S	S	0	12	0	11.4	-0.6	0
1999	P055160	SAC	S	S	0	45	0	25.6	24.86	0
2000	P068853	EMG ROAD REPAIR	#	#	0	13.7	0	13.6	0	0
2000	P066491	WS URGENT REHAB.	#	#	0	10	0	10	0	0
Total Active Projects:			21			309.1	0	199.4	94.93	-5.52

Note: Public Expenditure Support project is not included because fully disbursed in FY99, and as such, considered inactive.  
Community Works project and its supplemental project are counted as one operation.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

**Albania**  
**Statement of IFC's**  
**Held and Disbursed Portfolio**  
As of 2/15/00  
(In US Dollars Millions)

FY Approval Company	Held				Disbursed			
	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1998 AAP	0	28.5	0	0	0	7.89	0	0
1999 SEF Eurotech	1.2	0	0	0	1.2	0	0	0
1999 SEF FEFAD Bank	0	1.01	0	0	0	0	0	0
<b>Total Portfolio:</b>	<b>1.2</b>	<b>29.51</b>	<b>0</b>	<b>0</b>	<b>1.2</b>	<b>7.89</b>	<b>0</b>	<b>0</b>

<b>Approvals Pending Commitment</b>				
	Loan	Equity	Quasi	Partic
1998 Patos Marinza	30	0	0	50
2000 NCB	0	2	0	0
<b>Total Pending Commitment:</b>	<b>30</b>	<b>2</b>	<b>0</b>	<b>50</b>



PROGRESS ON FY99-FY01 ALBANIA CAS PERFORMANCE BENCHMARKS

Key Development Issues	FY 99-01 CAS Performance Benchmarks	CAS Progress Report Status
<b>A. Governance and Institution Building</b>		
<b>I. Strengthen the Public Administration and Professionalize the Civil Service</b>	<ol style="list-style-type: none"> <li>1. Implementing regulations approved</li> <li>2. Functional reviews undertaken</li> <li>3. Pay reform implemented</li> <li>4. Job evaluation and regrading program undertaken</li> <li>5. State Control Service established as independent national audit office</li> <li>6. Independent commissions (civil service commission, judiciary commission, etc) established</li> <li>7. Merit-based recruitment and promotion systems introduced</li> <li>8. Fast-track scheme introduced</li> </ol>	<ol style="list-style-type: none"> <li>1. New Civil Service Law was enacted (11/11/99) and published in <i>Official Gazette</i> (1/12/00). Implementing regulations are currently under preparation.</li> <li>2. Functional reviews of Council of Ministers, Ministry of Finance (public expenditure management side), Ministry of Justice, and Ministry of Local Government were completed in 1999.</li> <li>3. New Civil Service Law has improved legal framework for civil service pay. Initial work has begun on revising the salary structure. A salary survey of the public, private and donor sectors is being launched to provide a better basis for revising pay scales.</li> <li>4. Job evaluation methodology exists in draft form.</li> <li>5. Supreme Audit Institute was established as independent national audit office by new Constitution that was adopted in December 1998.</li> <li>6. New Civil Service Law provided better legal framework for an independent Civil Service Commission (CSC), but CSC establishment is pending and currently lacks bipartisan support.</li> <li>7. New Civil Service Law establishes better legal framework for merit-based recruitment and promotion systems. Subsidiary implementing regulations are in various stages of preparation.</li> <li>8. Fast-track scheme has not been introduced.</li> </ol>
<b>II. Strengthen Judiciary</b>	<ol style="list-style-type: none"> <li>1. Court rooms repaired</li> <li>2. Judges trained</li> <li>3. High Council of Justice (HCJ) reformulated</li> <li>4. Legislation enacted to provide explicit criteria for appointment and dismissal of judges</li> <li>5. Independent administrative center for judiciary established</li> <li>6. Objective mechanisms for judicial oversight introduced</li> <li>7. Pilots for commercial courts established</li> </ol>	<ol style="list-style-type: none"> <li>1. The High Court and six other courts have been rehabilitated and substantially renovated. Initiatives still outstanding are: Tirana district court building; and rehabilitation of Birrel court building.</li> <li>2. Magistrates School is in its third year of operation. First graduate judges are expected to enter the judicial system at the end of this academic year. A training course was set up for existing judges in commercial subjects. New Magistrate School courses will be set up for judges with less than 5 years of experience and court administrators.</li> <li>3. The Law on the Organization of the Judiciary (1998) was amended to provide a more solid basis for Albania's judicial structure. Composition of the HCJ was revised to permit judges to elect the majority of the Council members. The HCJ's decision-making process has become more transparent and fair. A new law on the functioning of the HCJ is under preparation.</li> <li>4. The Law on the Organization of the Judiciary introduces minimum higher academic standards for all judges, and the Government would like to apply these standards to existing judges. Rules on the appointment and dismissal of judges were revised in 1998, and judges who were democratically elected by the judicial cadre are now in the majority.</li> <li>5. A Court Administrative Budget Office under the High Court was established in 1998, and began operations in 1999.</li> <li>6. In late 1997, the Judicial Inspection Office was created and put in charge of evaluating judicial performance, reporting to the HCJ and investigating complaints against individual judges. However, this office is not functioning well. A comprehensive review of the inspection function will be carried out.</li> <li>7. The idea of pilots for commercial courts was dropped. The Bank decided to focus on structural and institutional changes in the judiciary as a whole. Specialized courts are a second tier priority.</li> </ol>
<b>III. Strengthen Local Institutions and Build Social Consensus</b>	<u>Building Local Public Institutions</u> <ol style="list-style-type: none"> <li>1. Local governments trained in infrastructure works and in methods of consulting population</li> </ol>	<u>Building Local Public Institutions</u> <ol style="list-style-type: none"> <li>1. Training of governments in infrastructure works is ongoing under the Community Works Project; but training in methods of consulting populations has not yet begun.</li> </ol>
	<u>Decentralization and Deconcentration</u> <ol style="list-style-type: none"> <li>1. Water and sewerage assets transferred to districts and municipalities</li> <li>2. Power cooperatives set up/power bill collection devolved to municipalities</li> <li>3. Ministry of Health (MoH) refocused as policy-making body</li> </ol>	<u>Decentralization and Deconcentration</u> <ol style="list-style-type: none"> <li>1. The Ministry of Public Economy and Privatization will take the decision for transferring water and sewerage asset ownership to municipalities in 2000.</li> <li>2. Power cooperatives are not set up; power bill collection has not been devolved to municipalities.</li> <li>3. A Position Paper on Policy and Strategies for the Albanian Health Sector was produced in September 1999. However, MoH is weak in policy making, planning implementation, and as a regulatory body. MoH plans to set up a new department for policy making and planning. The process of devolving more authority to regions, districts and hospitals has been slow.</li> </ol>

Key Development Issues	FY 99-01 CAS Performance Benchmarks	CAS Progress Report Status
<p><b>III. Strengthen Local Institutions and Build Social Consensus (continued)</b></p>	<p><u>Working Through Non-Governmental Institutions and Civil Society</u></p> <ol style="list-style-type: none"> <li>1. Small-scale infrastructure projects implemented in accordance with local priorities</li> <li>2. Private SCAs established</li> <li>3. Water resource management transferred to water user associations</li> <li>4. Forests and pastures sustainably managed by local population</li> <li>5. Education sector strategy developed with NGOs and communities</li> </ol>	<p><u>Working Through Non-Governmental Institutions and Civil Society</u></p> <ol style="list-style-type: none"> <li>1. Small infrastructure subprojects are being implemented in accordance with local priorities through the Community Works Project.</li> <li>2. A governmental foundation (Rural Finance Fund) was established in May 1999 to promote and finance SCAs. SCAs have not yet been created although 12 SCAs are expected by June 30, 2000.</li> <li>3. The Government adopted a strategy to transfer entire managerial responsibilities for irrigation facilities, including reservoirs, to water user associations in July 1999.</li> <li>4. 22,200 ha of forest and 4,000 ha of pasture have been transferred to communes with good results.</li> <li>5. Government has an education sector strategy but has not yet disclosed it.</li> </ol>

**B. Resumption of Sustained Private Sector Growth**

<p><b>I. Restore Macroeconomic Stability</b></p>	<ol style="list-style-type: none"> <li>1. Agreement with IMF on an ESAF; reduce domestically-financed fiscal deficit to 3% by 2001; output target 12% in 1998 followed by 7%-8% in 1999-2001; inflation target 3% in 2001</li> <li>2. More VAT offices automated</li> <li>3. Improved management of public finances including establishment of external debt management system</li> <li>4. Improved prioritization of spending within sectors</li> <li>5. Pensions and unemployment systems reformed</li> </ol>	<ol style="list-style-type: none"> <li>1. There is an active IMF PRGF program in place, and targets are on track.</li> <li>2. Little progress has been made on the automation of VAT offices.</li> <li>3. The external debt management system has been established. To improve fiscal management, the Government, under the Public Expenditure Support Credit and the SAC implemented bi-monthly Budget Framework Memoranda as a first step toward a more strategic budget formulation process. It also committed to undertake Public Expenditure Tracking Surveys in three sectors.</li> <li>4. The Government intends to establish a medium-term expenditure planning mechanism that would allow prioritization of expenditures in line with its policy priorities and available resources.</li> <li>5. As part of the SAC, the Government has committed to undertaking a study to review options for the reform of the pension system.</li> </ol>
<p><b>II. Improve Financial Intermediation</b></p>	<p><u>Banking Sector</u></p> <ol style="list-style-type: none"> <li>1. RCB closed; NCB privatized or liquidated; SB turned into a narrow bank or privatized</li> <li>2. Amendments to Banking Law approved; new collateral legislation introduced; number of banking supervisors increased</li> <li>3. Implementation of international accounting standards in the state banks; institution of payments system; state banks audited</li> </ol>	<p><u>Banking Sector</u></p> <ol style="list-style-type: none"> <li>1. RCB was closed in December 1997. NCB privatization will be finalized by March 2000. SB lending activities were restricted in accordance with a governance contract between the Ministry of Finance and SB's management board. SB is being prepared for privatization, to be offered in 2000.</li> <li>2. Banking law was amended in January 1998; a new banking law was signed in July 2, 1998. Parliament passed the Secured Transactions Law in September 1999. It is scheduled to come into force in May 2000, once the registry of property ownership is established. The number of banking supervisors has been increased.</li> <li>3. A standard chart of accounts (based on international accounting standards) was introduced in early 1998 and commercial banks have been keeping accounts based on the new chart since mid-1998. Development of standard procedures for accounting will be supported under the Financial Services TA Project and SAC II. The Bank of Albania has been receiving advice from the IMF on its requirements for implementing a real time gross settlement system which would handle settlement of large value interbank payments.</li> </ol>
	<p><u>Political Risk Guarantee</u></p> <ol style="list-style-type: none"> <li>1. Value of guarantees issued</li> <li>2. Increased level of production and employment in enterprises benefiting from guarantees</li> </ol>	<p><u>Political Risk Guarantee</u></p> <ol style="list-style-type: none"> <li>1. US\$3.3 million in guarantees have been issued since the Private Industry Recovery Project became effective in June 1998.</li> <li>2. Levels of production and employment have increased in six enterprises benefiting from guarantees.</li> </ol>

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Key Development Issues	FY 99-01 CAS Performance Benchmarks	CAS Progress Report Status
<p><b>II. Improve Financial Intermediation (continued)</b></p>	<p><u>Microcredit</u></p> <ol style="list-style-type: none"> <li>1. Autonomous microcredit foundation established</li> <li>2. Legislative and supervisory framework for SCAs established</li> <li>3. Increase in savings intermediated through SCAs</li> </ol>	<p><u>Microcredit</u></p> <ol style="list-style-type: none"> <li>1. An autonomous urban microfinance institution (Besa Foundation) was established in May 1999 and is now operational. A governmental foundation (Rural Finance Fund) was established in May 1999 to promote and finance SCAs.</li> <li>2. Prudential standards for SCAs are expected by April 2000; SCA law is to be amended by January 2001.</li> <li>3. Savings to be introduced progressively starting in 2000.</li> </ol>
<p><b>III. Complete Enterprise Privatization</b></p>	<ol style="list-style-type: none"> <li>1. Remaining state-owned enterprises privatized or liquidated</li> <li>2. Restitution process concluded</li> </ol>	<ol style="list-style-type: none"> <li>1. Four of the larger SMEs will be privatized through an international tender process that should be completed by Summer 2000. Strategic sector privatization is progressing, with Albanian Mobile Telecommunications expected to be sold in Spring 2000.</li> <li>2. The restitution process was completed by the end of 1998.</li> </ol>
<p><b>IV. Improve Infrastructure</b></p>	<p><u>Power</u></p> <ol style="list-style-type: none"> <li>1. Reduction in outages and power distribution loss</li> <li>2. Clearance of arrears to electricity companies</li> </ol>	<p><u>Power</u></p> <ol style="list-style-type: none"> <li>1. There have been no improvements in reduction of outages and power distribution loss.</li> <li>2. The arrears to electricity companies have increased.</li> </ol>
	<p><u>Water and Sewerage</u></p> <ol style="list-style-type: none"> <li>1. Management contracts approved for Tirana and Durres water systems</li> <li>2. Assets transferred to districts and municipalities</li> <li>3. Water regulatory commission established</li> <li>4. Tariff cap removed</li> <li>5. Water, sewerage and solid waste organizations corporatized</li> <li>6. Population served with continuous piped water supply and sewerage services in urban areas</li> </ol>	<p><u>Water &amp; Sewerage</u></p> <ol style="list-style-type: none"> <li>1. The Bank is no longer involved in Tirana because the Italian Government will address Tirana water system improvements, without a management contract. Instead, the Bank will support the preparation of a management contract for Durres, Fier, Lezhe and Saranda. (contract award expected in FY01).</li> <li>2. The Ministry of Public Economy and Privatization will take the decision for transferring the asset ownership to municipalities in 2000.</li> <li>3. The law for the water tariff regulatory commission was issued on March 28, 1996, and the commission commenced working in June 1998.</li> <li>4. Tariff cap has been removed and the Durres Water company has established higher tariffs. The water companies of Fier, Lezhe, and Saranda have applied to the Water Regulatory Commission for a tariff increase.</li> <li>5. Corporatization of water and sewerage companies of Durres, Fier, Lezhe, and Saranda is underway and expected to finish during the first half of 2000.</li> <li>6. Water supply in Durres city is still intermittent but customers are getting more water than before despite a 30% increase in population.</li> </ol>
	<p><u>Urban Infrastructure</u></p> <ol style="list-style-type: none"> <li>1. Increased coverage and cost recovery of urban infrastructure</li> <li>2. Families eligible under government housing program reduced</li> </ol>	<p><u>Urban Infrastructure</u></p> <ol style="list-style-type: none"> <li>1. Under the Urban Land Management Project, two subprojects (access roads and electricity networks) have been carried out with substantial up-front contribution from the community residents for investment cost.</li> <li>2. The Government in principle converted programs for public housing construction for those who did not benefit from the privatization of public housing to voucher programs. However, they have recently started a new public housing program, with assistance from the Greek Government, for those who lost their homes due to the pyramid schemes.</li> </ol>

Key Development Issues	FY 99-01 CAS Performance Benchmarks	CAS Progress Report Status
<p><b>IV. Improve Infrastructure (continued)</b></p>	<p><u>Transport</u></p> <ol style="list-style-type: none"> <li>1. Contractors and consultants resume work</li> <li>2. Contractors' claims resolved</li> <li>3. Inter-Ministerial Road Safety Committee set up</li> <li>4. Railway staff and services reduced</li> <li>5. Durres port privatization action plan implemented</li> </ol>	<p><u>Transport</u></p> <ol style="list-style-type: none"> <li>1. Consultants and contractors who fled Albania due to riots in March 1997 returned in late Fall 1997 and resumed their works. In a few cases, the contracts were terminated and rebid.</li> <li>2. A Greek road works contractor claims US\$1.8 million to compensate for destroyed site camp for Contract No. 4, executed under the first Transport Project and terminated after the crisis. This claim is being discussed between the contractual parties (the Government and the Contractor). The Bank advised both parties to follow applicable clauses of the Contract No. 4.</li> <li>3. Inter-Ministerial Road Safety Committee has not yet been set up. However, thanks to the implementation of the Road Safety Study (prepared under the first Transport Project and partially being implemented under the National Roads Project), contacts between MoT, General Roads Directorate, and National Police, coordinated by the Traffic Police Department, have been established. Road Safety Equipment is being provided under the National Roads Project.</li> <li>4. The study "Future Role of Albanian Railways," prepared under the first Transport Project, is applied in railways planning. However, as of today, the Bank does not address railways restructuring.</li> <li>5. The Port Authority of Durres (PDA) turned into a State-owned JSC on December 4, 1998. MoT chairs PDA's Board and supervises Transport related activities of the Port. Port staff has been reduced to acceptable levels (from 1520 to 850) and will be further reduced after the privatization of cargo handling. PDA's cargo handling departments are in the process of being split from the JSC and privatized. They were incorporated and have just started working as private stevedores under licenses granted by MoT and a 2-year period of exclusivity, before opening port operations to open competition. The ongoing Durres Port Project addresses these and other issues.</li> </ol>
	<p><u>Local/Community Infrastructure</u></p> <ol style="list-style-type: none"> <li>1. Local infrastructure improved and maintained</li> </ol>	<p><u>Local/Community Infrastructure</u></p> <ol style="list-style-type: none"> <li>1. Local infrastructure improvements are ongoing under the Community Works Project; and maintenance is being monitored as a performance indicator.</li> </ol>
<p><b>V. Sustain Agricultural Growth</b></p>	<p><u>Incentive Framework</u></p> <ol style="list-style-type: none"> <li>1. Low and uniform tariff structure maintained</li> <li>2. Accession to WTO</li> <li>3. GDSR abolished</li> </ol>	<p><u>Incentive Framework</u></p> <ol style="list-style-type: none"> <li>1. The Government has maintained a low and uniform tariff structure. On May 15, 1999, a new tariff code went into effect, which divides custom duties of imported agriculture products in categories at 5, 10, and 20 percent levels, below the rates prevailing in September 1998.</li> <li>2. The Government is continuing negotiations for joining WTO in 2000.</li> <li>3. GDSR has not been abolished. Due to the Kosovo crisis, it was agreed that the GDSR must be retained to help handle, store, and distribute food aid. Instead, a condition related to the audit of the GDSR was included in the SAC. The audit of GDSR by the supreme State Audit Commission began on January 5 and is expected to be completed by end-February 2000.</li> </ol>
	<p><u>Land Market Development</u></p> <ol style="list-style-type: none"> <li>1. Agricultural land registered</li> <li>2. Legislation adopted allowing long-term leases of pasture and forest land</li> </ol>	<p><u>Land Market Development</u></p> <ol style="list-style-type: none"> <li>1. A systematic registration process has now commenced. Out of 3,046 cadastral zones in the country, titles were issued for all parcels in 1,050 zones as of November 1999, amounting to nearly one million titled parcels since 1995. Registration will be complete by the end of 2001 with nearly 3 million parcels registered.</li> <li>2. In April 1998, the Government adopted legislation that allows communes to lease state-owned land on a long term basis (Law on Leasing of State-owned Agriculture Land, Meadows, Pastures and Forests Land). However, this legislation does not allow communes to sub-lease the land to individuals and it excludes a major share of state-owned forest land. The question of who has the authority to lease the land to the commune - central or local government - has not yet been sorted out.</li> </ol>

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Key Development Issues	FY 99-01 CAS Performance Benchmarks	CAS Progress Report Status
<p><b>V. Sustain Agricultural Growth (continued)</b></p>	<p><u>Agriculture Infrastructure</u></p> <ol style="list-style-type: none"> <li>1. Major drainage and majority of economically viable irrigation schemes rehabilitated</li> <li>2. Water resource management transferred to water user association (WUA)</li> </ol>	<p><u>Agriculture Infrastructure</u></p> <ol style="list-style-type: none"> <li>1. 23 irrigation schemes covering about 100,000 hectares have been rehabilitated under the first irrigation project. Another 8 are being rehabilitated under the second project.</li> <li>2. The Government adopted a strategy to transfer entire managerial responsibilities for irrigation facilities, including reservoirs to water user associations in July 1999. Secondary irrigation schemes covering 100,000 hectares have been transferred to some 200 WUAs established under the first projects, and 16 federation of WUAs have been established to take over managerial responsibilities for 16 irrigation schemes.</li> </ol>
	<p><u>Agriculture &amp; Rural Services</u></p> <ol style="list-style-type: none"> <li>1. Livestock productivity increased</li> <li>2. Public seed research institutes privatized</li> <li>3. Joined International Union for the Protection of New Plant Varieties</li> </ol>	<p><u>Agriculture &amp; Rural Services</u></p> <ol style="list-style-type: none"> <li>1. Livestock productivity has not increased.</li> <li>2. It was decided that public seed research institutes would focus on providing public research goods and would not be involved in commercial production and distribution of seeds.</li> <li>3. Albania has not yet joined the International Union for the Protection of New Plant Varieties. The proposed Agricultural Services Project will provide TA to draft the necessary legislation.</li> </ol>
	<p><u>Natural Resource Management</u></p> <ol style="list-style-type: none"> <li>1. Modern and enforceable legal framework established</li> <li>2. Ratification of international treaties on natural resource management</li> <li>3. Institutional basis for monitoring natural resource degradation established</li> <li>4. Forests and pastures sustainably managed by local population</li> <li>5. Sustainable forestry management plans developed and implemented</li> <li>6. Flooding incidence reduced in plains</li> </ol>	<p><u>Natural Resource Management</u></p> <ol style="list-style-type: none"> <li>1. The legal framework for improved state forest management has been improved. Overall, however, the legal basis for land, water, and air protection in Albania is a patchwork of old and new regulations, much of it with enforceability problems.</li> <li>2. Albania has ratified a number of international treaties on environmental protection, especially in biodiversity conservation, but has achieved only modest success in their implementation.</li> <li>3. With regard to the forest sector, monitoring has improved. With regard to biodiversity conservation, small-scale efforts are being implemented by NGOs and the National Environment Agency. With regard to water resources and other natural resources, especially in the area of land use and land degradation, little or no improvements in monitoring have been achieved.</li> <li>4. The Forestry Project is successfully piloting the transfer of user rights for communal forest and pasture resources from the government to communes and assisting the communes in implementing improved management measures, with good results.</li> <li>5. Modern forest management plans are being prepared for a first tranche of forest units throughout Albania, and are scheduled for implementation in Spring 2000.</li> <li>6. There is no evidence that the incidence of flooding in the plains has been reduced yet.</li> </ol>
<p><b>VII. Promoting Sustainable Environmental Development</b></p>	<ol style="list-style-type: none"> <li>1. National Environmental Action Plan (NEAP) completed and implemented</li> <li>2. Biodiversity Strategy and Action Plan (BSAP) completed</li> <li>3. Joint environmental task force created, staff recruited and trained</li> <li>4. Joint Lake Ohrid Management Board and joint lake monitoring task force established and operations begun</li> <li>5. Joint watershed management taskforce created, action plan developed and implementation begun</li> <li>6. Legal and regulatory framework for coastal zone management implemented</li> <li>7. Monitoring of air and water quality established</li> </ol>	<ol style="list-style-type: none"> <li>1. There have been modest accomplishments in implementation of Albania's 1993 NEAP. A NEAP update is currently under preparation (FY01) through METAP.</li> <li>2. BSAP was completed in 1999 and is awaiting government approval.</li> <li>3. Two PIUs were established instead of a joint task force in order to implement the Lake Ohrid Project.</li> <li>4. Joint board was established in 1999 and is currently in operation, with GEF financing. Joint lake monitoring task force has been established.</li> <li>5. Joint watershed management taskforce has not yet been created.</li> <li>6. There has been no substantive progress on the legal and regulatory framework for coastal zone management. Rather than a Coastal Development Project, the Bank will pursue regional development of the Saranda-Butrint area through coordination of ongoing projects.</li> <li>7. Little or no progress has been made in air and water quality monitoring. The National Environment Agency is seeking financing for air and water quality monitoring programs, thus far without result.</li> </ol>

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Key Development Issues	FY 99-01 CAS Performance Benchmarks	CAS Progress Report Status
<b>C. Promote Human Development and Poverty Alleviation</b>		
<b>I. Strengthening the Social Safety Net</b>	<ol style="list-style-type: none"> <li>1. Social assistance benefits raised</li> <li>2. LSMS (Living Standards Measurement Survey) undertaken</li> </ol>	<ol style="list-style-type: none"> <li>1. Social assistance benefit (<i>Ndihme ekonomike</i>) is paid regularly to over 150,000 families, and is increased each year to keep up with inflation.</li> <li>2. LSMS was undertaken in 1998. A Household Income Survey was undertaken by the Albanian Institute of Statistics with EU assistance. Survey results were disclosed in February 2000. A survey on household expenditures is being conducted, and results are expected to be published at the end of 2000.</li> </ol>
<b>II. Improving the Quality of Education</b>	<ol style="list-style-type: none"> <li>1. Levels of authority reduced between the Ministry and schools and district education offices downsized</li> <li>2. Sector strategy developed</li> <li>3. Learning assessment methods developed</li> <li>4. Teachers retraining begun</li> <li>5. School mapping exercise completed</li> <li>6. Damaged schools rehabilitated</li> <li>7. Number of universities rationalized</li> <li>8. Increased share of fiscal resources for non-wage expenditures</li> </ol>	<ol style="list-style-type: none"> <li>1. Reduction of levels of authority between Ministry and schools is in process. Downsizing of district education offices has not been done; it will be addressed in the context of discussions on decentralization and civil service reform.</li> <li>2. The Government has a sector strategy, but it has not yet been disclosed.</li> <li>3. Development of learning assessment methods is in progress. First assessment is scheduled for May 2001.</li> <li>4. Teacher training has not begun. Government left teacher in-service training out of its budget.</li> <li>5. School mapping exercise has been completed.</li> <li>6. Rehabilitation of damaged schools has been completed.</li> <li>7. No progress has been made in rationalization of number of universities.</li> <li>8. Increased share of fiscal resources for non-wage expenditures will be addressed in the context of the PER. Analyses show that total allocation to the sector has to increase in order to increase the share of recurrent expenditures for non-wage items.</li> </ol>
<b>III. Develop an Effective and Sustainable Health System</b>	<ol style="list-style-type: none"> <li>1. Priority services restored</li> <li>2. Ministry of Health (MoH) refocused as policy making and regulatory body</li> <li>3. Routine planning and management devolved to sub-national levels</li> <li>4. Health insurance institute remains solvent</li> <li>5. Improved health services: coverage, utilization and outputs</li> <li>6. Improved capacity -- management skills, modern clinical practice standards</li> </ol>	<ol style="list-style-type: none"> <li>1. The health services are operational and their capacities were restored after the 1997 civil unrest. However, the Kosovo refugee crisis had an adverse impact on the health care services system.</li> <li>2. MoH has made some efforts to increase its capacities. A Position Paper on Policy and Strategies for the Albanian Health Sector was produced in September 1999. However, MoH capacities for policy making, planning, implementation, and as a regulatory body continue to be weak. MoH is planning to set up a new department for policy making and planning.</li> <li>3. The process of devolving more authority to regions, districts, and hospitals has been slow. The draft legislation for setting up the new Tirana Regional Health Authority has been formulated. The Health Insurance Institute will finance on a pilot basis the PHC services of Tirana, as well as the Durres hospital services. These initiatives will bring new models for budget devolution.</li> <li>4. The Health Insurance Institute has been solvent and it is extending its coverage to fund additional services.</li> <li>5. Many interventions have been done to improve health service coverage and accessibility. The Government and donors have made important investments to improve the physical infrastructure of health care services. However, the quality of services remains poor due to scarce financial resources and their inefficient use.</li> <li>6. Clinical skills of physicians and nurses have improved. More than 100 hospital specialists have been trained through the Health Services Rehabilitation Project. The curriculum of Tirana Nurses School has been upgraded to a university level and two generation of nurses have graduated from this school. Management capacity of the health system continue to be weak. A 5 months training course in planning and management has been prepared and will start in March 2000.</li> </ol>