RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

After a robust average annual rate of growth at over 6 percent for the decade preceding the 2008 global financial crisis, growth in Albania has slowed down since 2009. Albania weathered the impact of the global financial crisis rather well—the economy did not contract in 2009. The recovery to above 3 percent growth rates during 2010 moderated in 2011, reflecting the deteriorating situation in the Eurozone. GDP real growth turned negative (-0.2 percent year-on-year) in the first quarter of 2012 for the first time since the 2009 crisis, and the business sentiment does not show signs of improvements. Industry suffered a sharp drop of 19 percent (year-on-year), reflecting the difficult situation in the energy sector at the beginning of this year and the moderation in commodities demand. Construction also dropped sharply by 17.6 percent (year-on-year) mostly as a result of weakening domestic demand and the slowdown in public investments.

Services, on the other hand, saw a strong growth of 5.3 percent (year-on-year), which is in contrast with the weakening demand and business sentiment, raising some concerns about the quality of data. Telecommunications and transport also contracted 4.8 and 1.7 percent, respectively. Agriculture recorded a positive start with a growth rate of 4.5 percent. Based on this development, the real growth outlook for 2012 is now at around 1 percent, with downside risks coming from the external environment and energy situations in the country that could deteriorate during the last quarter of the year if the weather conditions do not change.

External imbalances are improving, but still remain high. After reaching 15 percent of GDP in 2009, the current account deficit (CAD) dropped to below 12 percent of GDP in 2010 and 2011. CAD narrowed during the first half of 2012 (18 percent year-on-year). The change of weather conditions in the second quarter helped improve the trade balance in the energy sector considerably after a difficult first quarter. The weakening of domestic demand led to an improvement in the trade balance in other sectors, such as food and raw materials. Remittances and other private transfers remained almost unchanged despite the difficulties of Greece and Italy, where most Albanian emigrants work. Foreign direct investments (FDI) were 30 percent higher than last year as of June. FDIs are concentrated in financial intermediation, services, and industry.

Inflation has largely been within the central bank’s objective of 2–4 percent. After experiencing a sharp drop reaching 0.6 percent in February, headline inflation picked up again in the second quarter, approaching the central bank inflation target of 3 percent. Food prices have been the main driver of this volatility. Seasonality rather than domestic demand and international food prices may explain the dynamic of food prices during 2012. With international food prices picking up again, headline inflation may see a further jump toward 4 percent. Core inflation (non-rent-non-food) remains subdued at 2 percent. The producer price index has declined to almost 1 percent, reflecting weakening production. The lek depreciated against the euro during the first quarter of 2012, hitting the 140 level, but with the improvement of the trade balance in
the sector, the exchange rate returned to 138, the level at the beginning of the year.

Fiscal Sector Performance

Expansionary fiscal policy helped mitigate the negative effects of the global crisis in 2009, but currently the fiscal space is exhausted, with public debt near 60 percent. The fiscal stimulus, which started in 2008, consisted of elevated public investments (mainly on roads) and salary and pension increases. Rising fiscal deficits, combined with a 10 percent depreciation of thelek, brought public debt close to 60 percent of GDP (which is the legal limit stipulated in the law on public debt). The poor performance of tax revenues persisted during 2012. By July, tax revenues were growing at 2.5 percent (year-on-year) compared to 7 percent in the plan. Value added tax (VAT) has been particularly disappointing. At the current pace there is a need to adjust expenditure if the deficit is to be maintained at 3 percent of GDP. Given the rigidity of the ongoing public investments’ contracts, operation and maintenance (O&M) remain the only options for adjusting spending. However, cuts in O&M are becoming detrimental to the quality of services in some key public sectors such as education and health.

Lowering public debt over the medium term remains critical to macroeconomic stability and growth. Albania has the highest public debt stock in the region. As a result of the high debt, interest expenditures are several times higher than in other South East Europe (SEE) countries and crowd out other, more productive spending. They also represent a major source of vulnerability for the budget, as reduced demand for government securities and/or increased interest rates in the future could jeopardize the rollover of debt or raise interest expenditures to an unsustainable level.

Financial Sector

The financial sector has remained largely stable in the postcrisis period. Bank credit grew strongly between 2005 and 2008, reaching 38 percent of GDP. Deposits recorded a sharp drop in 2008 but recovered to precrisis levels by the beginning of 2010 and have since continued to grow. Nonperforming loans (NPLs) reached 21 percent of the loan portfolio in 2012. The jump in NPLs was anticipated, as credit growth slowed considerably and borrowers came under stress. This development triggered precautionary measures from the central bank, and consequently the level of provisions and the capital adequacy ratio remain at a level that can absorb further negative shocks to the system (8.2 percent of the total loan portfolio and 14 percent of total assets). The Eurozone sovereign debt crisis has so far not affected the Albanian banking sector, despite the significant share of Greek and Italian banks involved (about 33 percent of total assets). All foreign banks are registered as local subsidiaries and do not rely on foreign funding from their parent banks. Some banks, however, started deleveraging their government securities holdings. A worrisome NPL ratio and external environment have pushed banks to take a more conservative approach in
extending credit to the private sector. The Bank is working with the authorities on the Financial Sector Modernization Project to help address remaining vulnerabilities and safeguard financial stability.

Unemployment and Poverty

Albania's strong economic performance prior to 2008 was accompanied by positive changes in employment and a strong reduction in poverty rates. Between 2002 and 2008, the unemployment rate decreased from approximately 17 to 12.8 percent, and the poverty headcount rate decreased from 25.4 to 12.4 percent, equivalent to 200,000 people lifted out of poverty during this period. The reduction in poverty has been particularly dramatic in rural areas, where the poverty headcount fell from 39.6 percent in 2002 to 14.6 percent in 2008. Growth accounted for most of the reduction in the poverty rate during the 2002–05 period, and contributed 3.7 points to a 6.1 percentage point reduction in the poverty headcount during 2005–08. Inequality also decreased during that period, as individuals in the lower percentiles of the distribution experienced higher income growth rates than others. The extremely poor population, defined as those with difficulty meeting basic nutritional needs, decreased from about 5 percent in 2002 to 3.5 percent in 2005, and to 1.2 percent in 2008.

Addressing the higher poverty incidence in the mountainous areas, as well as the sluggish reduction of the pockets of poverty in urban areas, remains a priority. Between 2002 and 2005, urban areas took the lead in poverty reduction, where progress has slowed since 2005. Tirana, which has the lowest poverty level among the regions, has achieved no further reduction since that year. Rural areas, which made little progress in the first of those two periods, saw major progress in terms of poverty reduction in recent years.

There are also concerns that as growth slowed over the last four years, so did the pace of poverty reduction across the country. While systematic updated poverty figures for Albania are not available, household vulnerability is likely to be higher than in the past. Remittances for example are now lower than they were earlier in the decade. Perception surveys, such as the Life in Transition Survey conducted in all the countries of Eastern Europe and Central Asia in 2010 by the European Bank for Reconstruction and Development (EBRD) and the World Bank, also confirm signs of unease. About 60 percent of respondents suggested that the ongoing crisis had significantly affected them. These concerns are further supported by data from regional databases and from neighboring countries (for example, Serbia and Macedonia) that have more recent data than those available for Albania. A new Living Standards Measurement Survey (LSMS) survey is planned in the next months, with support from the World Bank and other donors, and is expected to provide an accurate measure of what has happened to poverty during the last several years.

There has been progress in setting up a social safety net for the poor. Further measures are planned to improve equity, efficiency, transparency, and effectiveness in the use of resources for social protection. Ndihma Ekonomike (NE) is the largest cash benefit social assistance program, providing a monthly cash allowance to approximately 7.3 percent of the population (about 100,000 households) on the basis of a means test. About one-quarter of total spending on social assistance in Albania (1.6 percent of GDP) is devoted to NE (0.3 percent of GDP). The NE program produces respectable outcomes in terms of targeting accuracy (leakages to the non-poor). The poorest 20 percent of the beneficiaries receive 56 percent of all NE transfers, while in the best performing social assistance programs in the Europe and Central Asia (ECA) region, at least 80 percent of benefits reach the poorest 20 percent of the population. The link to poverty could therefore be improved, in terms of

![Albania: Non-Performing Loans (% of total loans)](image-url)
both transfers from the central level to the municipalities and when selecting beneficiaries at the municipality level.

The Bank has recently supported social protection in Albania through (i) the Social Services Delivery Project, which is helping to increase the access of vulnerable population groups to effective social care services, and improve the efficiency and effectiveness of the pension system in the country; (ii) the Social Sector Development Policy Loan (DPL), which supported policy and institutional changes to improve the effectiveness of social safety nets, and (iii) the Social Assistance Modernization Project, which is assisting with social assistance and disability reform. A Japan Social Development Fund (JSDF) grant supports youth empowerment and employment programs in two major municipalities.

Health Development

Health services have been improving but more needs to be done to ensure universal access by poor households. Albania spends about 6 percent on health care, in line with the average for countries at similar income levels. The public sector contribution is relatively low, well below the SEE average. As a result of low public sector spending, out-of-pocket expenditures at the point of service account for about 60 percent of sectoral funding. The high level of direct household spending indicates that the existing health financing system offers Albania’s population limited protection against catastrophic illness or injury and allows for little redistribution of resources to protect the most vulnerable groups from health shocks. The economic barrier to accessing quality services by the poor is exacerbated by the lack of total health insurance coverage. The Government is committed and working to develop a health-financing policy that will address these problems.

The Bank supported the health sector in Albania through the recently closed Health System Modernization Project, which assisted the Government in improving physical and financial access to high quality primary health care services, and in strengthening institutions. The Social Sector DPL supported reforms to enhance the efficiency and equity of health spending and better protect the poor from health shocks, including through health insurance reforms, in a fiscally sustainable environment.

Education

The importance of education and skilled labor for the individuals themselves and for economic development is well recognized in Albania. As a result, major and wide-ranging education reforms were initiated in 2006, which included: (i) curriculum reform, to make curricula more modular and relevant, including the introduction of a modern information and communications technology (ICT) curriculum in basic and secondary schools, and eventually the equipping of all schools with computer labs and Internet access; (ii) improved teacher training, so that teaching methods focus more on creativity and discussion rather than the uncritical transmission of knowledge; (iii) a more equitable distribution of resources across regions; (iv) an improvement in learning conditions, with less crowded classrooms and less need for multiple shifts in schools; (v) an increase in average teacher average salaries by 67 percent (or 49 percent in real terms) between 2005 and 2009; and (vi) a renewal of the content and administration of the Matura examination upon leaving secondary school to improve relevance and ensure objective results. Reforms continue to be implemented successfully.

Major higher education reforms have also been initiated. In higher education, the focus has been on the effective adoption of the Bologna process for modular education that is compatible across Europe, the expansion of the numbers of students in higher education, and the introduction of short-cycle, subdegree programs in regional universities. There is also a focus on increasing the efficiency and accountability of higher education institutions, including by introducing a revised per student financing formula, establishing external advisory
boards, setting up an accreditation system for universities, and developing university ranking procedures.

The Bank supports a comprehensive range of reforms in the education sector in Albania through the Education Excellence and Equity Project that is also financed by the European Investment Bank (EIB), the Council of Europe Development Bank (CEDB), and a substantial contribution from the Government.

Agriculture

Albania’s rural population was 46 percent of the total population according to the latest 2011 census. Agriculture is a main source of employment and income in the rural areas, contributing 21 percent to GDP and accounting for 38 percent of employment in the country. Albania’s farming sector has been dominated by small private holdings since the collapse of the communist state in 1991, when peasant farmers disbanded the quasi-state collective farms. There are currently a total of some 375,000 private farms, each on average of roughly only 1.1 hectares of field crops in four plots. In addition to field crops, 91 percent of farms also have livestock and 37 percent tree crops. Over the last 10 years, there has been a slight downward trend in the total area devoted to field crops, with a major decrease in cereals, partly compensated for by an increase in areas under forages and, to a more limited extent, vegetables.

The challenge is to transform agriculture from subsistence-oriented production into a modern, commercial, and competitive sector, while fostering alternative income opportunities for rural residents exiting the sector. Competitiveness can be improved through increased productivity and higher quality products. At the same time, agriculture policy reform should be conducted within the context of current and future European Union (EU) requirements, including harmonizing with EU legislation and standards.

The Bank has supported agriculture in Albania through investments in irrigation and exposure to new technologies and practices, and through piloting a small grant program that was subsequently scaled-up by the Government. A new Water Resources and Irrigation Project (WRIP) has been appraised. The project will: (i) strengthen the Government’s capacity to manage water resources at both the national level and in the Drini-Buna and Semani river basins and (ii) sustainably improve the performance of irrigation systems in the project area.

Environment

The Government of Albania is implementing a wide range of policies in the field of environment protection and natural resources management. Albania is moving toward a gradual approximation of its respective laws to EU environmental legislation. Challenges include limited enforcement, due to the weak capacity of the environmental authorities at both the central and regional levels, and a lack of resources for monitoring and ensuring full compliance with environmental standards.

The Bank has helped to preserve the important natural and environmental assets of Albania and foster local economic growth through a number of projects, in partnership with the Global
Environment Facility (GEF) and other development partners. The Natural Resources and Development Project helped reduce upstream risks of erosion by improving the management of Albania’s wetlands, forest, and pasture resources and creating water catchments. A follow-up project is being prepared to improve and promote the value of ecosystem services, in partnership with the Swedish International Development Cooperation Agency (SIDA). Through biomass regeneration, forest-dependent communities successfully participated in the pilot BioCarbon Fund program, reducing greenhouse gas emissions and obtaining additional resources for local needs. The Integrated Coastal Zone Management Project supports improving the critical public environmental infrastructure and municipal services of the southern coast and reducing environmental and health risks from industrial pollution. The Lake Shkoder Integrated Ecosystem Management Project is helping to maintain and enhance the long-term value and environmental services of Lake Shkoder and its natural resources.

Disaster Risk Management

Albania is vulnerable to a number of natural disaster risks such as earthquakes, floods, and drought. The Albanian economy is especially sensitive to weather conditions, given the importance of agriculture, hydropower, and tourism.

The World Bank supports the Disaster Risk Mitigation and Adaptation Project aiming to strengthen institutional capacities, reduce Albania’s vulnerability to natural and man-made hazards, and limit human, economic, and financial losses due to catastrophic events. Albania was the first member and contributor to the regional Catastrophe Risk Insurance Facility (CRIF). With project support, a national Emergency Command and Control Center was established in Tirana, and the Government’s disaster response capacity is being gradually strengthened through the provision of specialized equipment for emergency response units. In parallel, grant resources from the Global Facility for Disaster Reduction and Recovery (GFDRR) are assisting the Government in the development of medium- and long-term flood risk mitigation options for the Drini-Buna river basin.

Urban Infrastructure

Albania was the first choice of The Lonely Planet Guide’s Top 10 Destinations for travelers in 2011. It is not difficult to understand why. With a range of seacoast towns along the Adriatic, historic cities, and cultural heritage destinations featured on UNESCO’s World Heritage List, Albania is endowed with a variety of fascinating and distinctive places to visit. Years of underfinancing of the city and town infrastructure, however, has left a backlog of critical investment needs in water and sanitation systems, solid waste management, inner-city road rehabilitation, and urban amenities that can undermine the prospects for tourism, as well as the living standards for Albanian citizens.

The World Bank’s Urban Infrastructure Portfolio is helping to address these deficiencies. The Land Administration and Management Project (LAMP) is assisting in surveying and registering an estimated 400,000 properties in urban areas, providing residents and businesses with secure property rights. Four cities are being supported with municipal investment programs to upgrade and rehabilitate essential urban infrastructure services. The Water Sector Investment Project (WSIP), under preparation, will help to improve water utility performance and services for both local residents and prospective tourists. Several national and regional workshops were held in Albania over the past year under the Sustainable Cities World Bank Institute (WBI)-ECA program.

Transport

The expansion, improvement, safety and management of the road network are among the top priorities of the government. With support from several development partners, the condition of the road network has been improving. The first five-
year review of the Albania National Transport Plan shows that the actual conditions are the following: one-third (31 percent) of the primary sections and half (49 percent) of the secondary sections of the national roads network are in less than good condition, with 55 percent and 5 percent, respectively, in good and very good condition. This is a significant improvement from 2005, when 67 percent of the national road network was in poor or very poor condition. Regional and local roads have been found to be in particularly bad condition, and the government is focused on a considerable investment program to improve access for rural communities. In addition, there is much work to be done on implementing the new Albania Design and Construction standards, which would improve the quality of the network and bring in modern operation and maintenance standards.

In partnership with several European institutions, the World Bank is supporting the transport sector through the Secondary and Local Roads Project. The key objectives of this support are to: (i) improve road conditions and the sustainability of road investments, including the provision of improved road access to services and market for 26 communities; (ii) increase the share of regional and local roads that are in good condition; (iii) increase the percentage of the national road network covered by performance-based maintenance contracts; and (iv) set up asset management systems for secondary local roads and support the establishment of the Albania Road Authority.

The key issue over the medium term is to maintain the network and to continue strengthening the institutions in the sector. The focus in the transport sector requires a difficult balance between continuing to “de-bottleneck” the network where economically viable, while also ensuring that sufficient resources are allocated to preserving the assets. This is essentially an economic management problem, that is, putting mechanisms in place to ensure that the costs and benefits of future investments in transport infrastructure are fully evaluated, that capacity to maintain the road network is developed, that efforts are well coordinated both internally and regionally, and that the work to be done is properly sequenced as part of a fiscally sustainable budgetary envelope. These issues are to be addressed by the new results-based Road Maintenance and Safety Project.

Energy

Over the past five years, major efforts were undertaken to improve the electricity supply. The reforms originated from a need to address systemic problems in the sector, which became clear in the mid-2000s, as economic growth stretched the existing electricity supply system to the limits. In the last decade, during years of low rainfall, the combination of dry weather, below-cost retail tariffs, high network losses (technical and nontechnical), poor collection rates, and growing demand meant that the unbundled power sector could only maintain electricity supply at a loss, or implement extensive load shedding. During the last year, a combination of drought and harsh winter once again decreased the security of supply and necessitated significant energy imports at a loss to power utilities and the state.

Albanian Power System Performance 2001–2011 (Demand and Supply)

A key challenge after the privatization of the distribution arm is to establish the viability of the new structure. In 2008, the Government embarked on a major reform of the power sector, including unbundling the state-owned electricity company (separate generation, transmission, and
distribution companies) and privatizing its distribution and retail supply activity. However, the privatization of the distribution has not yet yielded results with respect to service improvements and collection. Further efforts are needed to restore the sector’s financial viability, not only to reduce pressures on the budget, but also to enhance the security of supply and maximize revenue management.

Another challenge is to diversify the sources of energy supply and reduce the sector’s vulnerability to changes in rainfall and climate. Hydropower constitutes on average 98 percent of Albania’s current domestic electricity generation. It also presents an opportunity for the country to become a regional hydropower hub, bringing substantial revenues during wet years. There was some progress made on improving the security of the energy supply, principally through the construction of a new 400-kilovolt interconnection line with Montenegro, as well as other transmission network improvements, including through the SEE Energy Community Transmission Project co-financed by the World Bank and the EBRD that closed in June 2012 and successfully achieved its objectives. Operation of the newly constructed thermal power plant, financed by the EBRD, EIB, and World Bank, was delayed due to technical problems with off-shore installations.

The World Bank’s current support to the energy sector includes a dam safety project, as well as a Partial Risk Guarantee for distribution privatization. The main objectives of the Bank program are to improve the domestic energy supply, the operation of the transmissions system, the safety and operational efficiency of hydropower dams, and the distribution system cost recovery. The Bank works in close collaboration with its private sector arm—the International Finance Corporation (IFC)—as well as with other multilateral and bilateral development partners to support small hydro development, new renewable energy, and residential energy efficiency.

Coordination between the Bank and IFC has been strong, especially in the energy sector. IFC and the Bank collaborated closely on the privatization of the electricity distributor, with IFC financing to the private electricity distributor linked to the conditions of the International Bank for Reconstruction and Development’s (IBRD) indemnity agreement under its Partial Risk Guarantee. Similarly, IFC is assisting the Albanian Government on the privatization of medium-sized existing hydropower plants and on an ongoing Balkans Renewable Energy advisory program that helped the Government to draft a new renewable energy law enabling the private sector to develop and construct feasible plants.

Private Sector Development

As measured by the Doing Business indicators, Albania moved from the 136th ranking in 2007 to 82nd in 2011, as a result of carrying out business regulatory reforms in various areas. The Government has also embarked on a comprehensive inspection reform.

Domestic private investment increased from 19 percent of GDP in 2005 to an estimated 21 percent in 2009, mostly in the construction sector. The improved ranking was predicated on significant reductions in the time (from 36 to 5 days between 2008 and 2012) and cost of registering a business, trading across borders, and improvements in the regulations for getting credit and protecting shareholders (the disclosure index rose from 0 in 2008 to 8 in 2012, and the investor protection index rose from 2.7 in 2008 to 7.3 in 2012).

The World Bank has been supporting private sector development in Albania through the recently closed Business Environment Reform and Institutional Strengthening Project and technical assistance to Doing Business reforms. The project has contributed to an improved legal framework for the regulatory impact assessment and inspection regime.
IFC activities are expanding and aim to improve competitiveness, address climate change issues, and mobilize other funds, especially for private participation in infrastructure through its advisory services. IFC has been using its Public-Private Partnership Transaction Advisory to facilitate private financing for public-private partnerships (PPP) transactions for hydropower privatization and generation facilities, road operation and maintenance, and solid waste management. IFC has been providing its advisory support to further improve the investment climate in line with the country’s overall EU accession aspirations. IFC focuses on strengthening Bank Group synergies, including by involving Bank staff in the concept phases of IFC advisory services, and supporting Bank-IFC consultations on key knowledge and analytical activities. The Bank and IFC have been working towards an integrated approach to business climate reforms in activities promoting energy efficiency and renewable energy and key Doing Business indicators.

Governance and Public Sector Management

Public sector performance is crucial to the country’s ambition to gain EU membership. Albania has made significant progress on improving its budget framework and financial management system. The World Bank has continued its support toward improved public administration, public financial management, and governance.

The Bank, in partnership with several donors, is supporting the Integrated Planning System (IPS). The multidenor trust fund, which has recently moved to the second phase, aims to ensure that the Government of Albania’s core policy and financial processes function in a coherent, efficient, and integrated manner. The national REPARIS program, also financed by donors, has been launched with the aim of bringing financial reporting in line with EU requirements.

Further support to selected issues and sectors has been provided through the Governance Partnership Facility (GPF), including the successful piloting—the first in ECA—of a country e-procurement system in one of the Bank projects. The Government of Albania hosted the Regional Procurement Forum in Tirana in May 2012, which focused on e-procurement. Good progress was made over the past year with Albania’s participation in the Extractive Industries Transparency Initiative (EITI).

THE WORLD BANK PROGRAM IN ALBANIA

Since Albania joined the World Bank in 1992, the Bank has financed 71 projects in different sectors totaling roughly US$1.2 billion in International Development Association (IDA) and IBRD. Adding GEF and other trust fund resources managed by the World Bank, its overall financing to Albania is estimated at US$1.4 billion.

The current Bank Group Country Partnership Strategy (CPS) for 2011–14 supports the Government’s National Strategy for Development and Integration by focusing on three strategic objectives: (i) supporting Albania’s economic recovery and growth in a crisis-affected Europe; (ii) broadening and sustaining Albania’s social gains; and (iii) reducing vulnerability to climate change. The CPS program also continues to support governance improvements in Albania. It focuses on accelerating the implementation of the ongoing program, while selectively introducing new IBRD lending in strategic areas, increasing IFC financing for the private sector to US$120–150 million, strengthening partnerships with other international financial institutions (IFIs) and donors, and expanding its knowledge program through regional and national activities. As part of its initiative to help several countries in Central, Eastern, and South East Europe mitigate the impacts of the Eurozone crisis, the IBRD has increased the financing envelope available to Albania under the CPS, initially set at around US$300 million, to US$575 million, mainly for strengthening financial stability, macroeconomic management, and growth. A Progress Report is being prepared to assess the implementation of this strategy for the first two years.
Analytical and Advisory Program. “The New Growth Agenda,” known also as the Country Economic Memorandum for Albania, was issued in 2010. With support from the GPF, the Bank disseminated several reports in 2011 on governance issues: the overall governance profile, property rights, water sector, and education. Other reports include Debt Management Assessment, and Public Expenditure and Financial Accountability (PEFA). Two issues of the semi-annual Regular Economic Report (RER) for South-Eastern Europe, including Albania, were launched in November 2011 and June 2012. A Public Finance and Expenditure Review is planned for FY13. Analytical work and technical assistance have also been carried out, often through regional programs, on the financial sector, corporate accounting, poverty monitoring, Aarhus Convention compliance, pension reform, the energy sector, water utilities, urban management, and the environment.

The current portfolio consists of eight projects totaling US$218.5 million IDA credits and IBRD loans, and about US$25 million in Trust Funds. The portfolio has been consolidating significantly in the last few years, from 18 projects at the end of FY09 to eight projects by end-FY12. Portfolio performance as measured by disbursement has shown steady improvement over the last two years, 22 and 24 percent in FY11 and 12, respectively. This progress was the result of a number of steps taken in collaboration with the Government to simplify and streamline the portfolio, restructure problem projects, and introduce regular portfolio performance reviews.

![Disbursements in USD by Fiscal Years](chart)

Disbursements in USD by Fiscal Years

**Additional Financing for Dam Safety** (US$21.6 million) and the **Social Assistance Modernization Project** (US$50 million)—the first results-based operations in Albania—were delivered in FY12. Plans for FY13 include two investment operations under preparation: the **Water Resources and Irrigation Project** (US$40 million) and the **Water Sector Investment Project** (US$40 million). In view of the continued deterioration in the external climate and slowing growth, the Government and the Bank agreed to increase the CPS’ emphasis on supporting the economic recovery and reducing vulnerabilities to the Eurozone crisis. The **Financial Sector Modernization** investment loan (tentatively at US$200–250 million) is being prepared on an accelerated basis to strengthen the financial sector. A development policy operation to support fiscal consolidation and public debt reduction is also considered, for such time when the government is ready to undertake the necessary macro-fiscal measures. In addition, the **Energy Emergency and Preparedness** loan is being prepared for delivery in FY13.

A broad Trust Fund portfolio makes a valuable contribution to strengthening the dialogue and results in the CPS priority areas. It includes the second Multi-Donor Trust Fund for the Integrated Planning System (IPS-2), currently at about US$3.5 million; a Multi-Donor Trust Fund of US$1.95 million under the REPARIS program to improve financial reporting; a JSDF grant of US$1.1 million for youth empowerment; an IDF grant of US$370,000 for implementing the Aarhus Convention; a grant of US$1.1 million from the GFDRR for flood risk mitigation; a Swedish trust fund for Improved Natural Resource Management of about US$2.8 million; and a US$740,000 fee-based service from the United Nations Development Programme (UNDP) on public utility governance in water and electricity.

Reflecting strong donor coordination and partnership, with Government leadership in promoting such coordination, the World Bank program in Albania is enhanced by several cofinancing trust funds directly linked to the projects.

For the last 11 years, the World Bank has been providing grants to civil society organizations in Albania in the context of the Civil Society Fund (CSF), amounting to US$436,000. The CSF aimed to promote dialogue and provide information on development, and to enhance the partnership with civil society. In 2011–12, the World Bank also supported, within the GPF program, a development marketplace on good governance that promoted
innovative ideas among civil society on improving governance and accountability.

The World Bank's Public Information Center, located at Tirana University, facilitates access by students, academia, and civil society to information about development issues and World Bank reports and activities globally, within the region, and in Albania. It serves as an important knowledge center, and offers free online access to visitors. The Bank office in Tirana has also been promoting the Open Data initiative by undertaking several tours to universities across the country.
The insufficient cohesion of Albanian society, lack of social capital, and social exclusion of vulnerable people were key issues during the last decade in Albania. The vulnerable population has been facing isolation, a negative public perception, insufficient information of their rights, etc., which, coupled with the lack of accessible services and poor coverage (especially in rural areas), have further exacerbated the problems. There has been an increased risk from the high levels of migration, such as the problems of elderly people living alone in rural areas, households headed by women, an increased number of children left without parental care, etc. Based on the Albanian Government’s program, the World Bank is providing support to better formulate policies and implement a framework for addressing the financing, quality, and delivery of social care. Given the weaknesses in the pension system and the Government’s priority in reforming pension system administration, additional financing was provided by the Bank (in May 2009), aimed at improving the effectiveness and efficiency of the pension system in Albania.

The Project Development Objective, including the additional financing, is to improve the standards of living of poor and vulnerable population groups in Albania by increasing their access to well-targeted and effective social care services; assisting the Government in developing effective social care policy and improving its capacity for delivery; and monitoring social care services. In addition, it aims to improve the efficiency and effectiveness of the pension system in Albania.

Results achieved:
- The entire legal framework has been completed and is currently under implementation.
- Three Living Standard Measurement Surveys and a Household Budget Survey (carried out by INSTAT) have been supported and completed successfully.
- Positive results have been achieved in capacity building at the central and local levels. The State Social Services Institute (SII) has been transformed into an Inspectorate for the monitoring, management, and delivery of social services.
- 44 daily centers were established with project support in several cities.
- Support to the Government strategy on decentralization/deinstitutionalization and transforming the residential care centers has been delivered.
- The SII Archive building has successfully been rehabilitated.
- Four SII regional offices have completed the physical rehabilitation of their buildings, while eight others are near completion.

Key Partners: The Bank team works closely with the Ministry of Labor, Social Affairs, and Equal Opportunities, as a leader in reforming social policies and managing project implementation; Social Insurance Institute, charged with the implementation of the activities under the project’s additional financing; and the Ministry of Finance, responsible for overall policy reform in the pension system. Key Development Partners include UNICEF and the European Union.
ALBANIA: SOCIAL ASSISTANCE MODERNIZATION PROJECT

Key Dates:
Approved: March 7, 2012
Effectiveness: not yet effective

Financing in million Euro:

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Total Project Cost 185.82

* as of August 2012.

The objective of the Social Assistance Modernization Project for Albania is to support country’s implementation of reforms to improve the equity and efficiency of its social assistance programs. The project has two components:

(1) Strengthening the implementation and performance of social assistance programs. The objective of this component is to support the results of the implementation of improvements in the main social assistance programs. The component will support improved implementation of both the Ndihma Ekonomike (NE) program and disability assistance benefits in the main areas identified in the broad roadmap for reforms: (a) program parameters (eligibility criteria and intake processes); (b) benefits administration (business processes, management of information, payments mechanisms, and reporting and monitoring); and (c) oversight and controls.

(2) Technical assistance to strengthen the implementation capacity of social assistance programs. The objectives of this component are to strengthen the capacity for implementing improvements in the delivery of social assistance benefits. This component will finance select technical assistance and investment activities.

Results achieved: NA

Key Partners: The Bank team works closely with the Ministry of Labor, Social Affairs, and Equal Opportunities.

Key Development Partners: European Union.
ALBANIA: EXCELLENCE AND EQUITY PROJECT

Key Dates:
Approved: June 1, 2006
Effective: October 4, 2006
Closing: June 30, 2013

Financing from all co-financiers, million US Dollars:

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World Bank Disbursements, million US Dollars *:

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* as of August 2012.
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

To maintain growth, narrow regional disparities, and fulfill its aspiration to join the EU, Albania is strengthening its education sector so that it produces school graduates who can function effectively in labor markets, become active citizens, and contribute to strengthening Albania’s competitiveness. Despite significant improvements in education performance as measured by the latest PISA, Albania’s educational outcomes remain generally poor, particularly when measured against labor market needs and achievements in other countries in the region. The average number of years of schooling of Albanian children falls behind the EU average, the secondary enrollment rates are relatively low, schools are overcrowded, and there are quality concerns. The project supports the Government’s strategic priorities for the sector.

The objectives of the project are to support the Government of Albania’s program: (a) to improve the quality of learning conditions for students; (b) to increase the enrollment of students in general secondary education; and (c) to initiate higher education reform.

Results achieved:
- Between 2006 and 2011, participation rates at all levels increased. In primary education, the completion rate increased from 86.1 to 93.91 percent, and in the lower secondary from 83.6 to 92.6 percent.
- The upper secondary gross enrollment rate increased from 53 percent in 2006 to 76 percent in 2011.
- Reforms of preuniversity education include the introduction of market forces and school-based choice in textbook publishing and purchasing, curriculum of general secondary schools introducing the subject of choices, the introduction of a teacher professional development scheme, and the development of a centralized assessment of achievements and a university entrance system. Most of these reforms are now legally grounded on the recently approved preuniversity law by parliament.
- Training was provided to all school principals in management and education leadership skills, as well as professional development for one-fourth of teachers, and 90 percent of primary and secondary schools have functioning boards.
- Teacher job satisfaction, according to a MoES survey, shows signs of improvement from 2006 to 2011.
- All primary schools are reported to be using the new curriculum and textbooks.
- An information technology curriculum has been introduced. Computers have been purchased for over 2,000 basic and secondary-level schools and Internet access is widely available. The student-per-computer ratio in general secondary schools decreased from 61 to 16 students per computer.
- Improvements are noted in the availability of school space, with the percentage of basic schools with multiple shifts dropping from 36 to 16 and for secondary schools from 15 to 8 (partially attributable to project interventions).
- 250 chemistry labs and 250 biology labs were provided to basic education schools, and 100 chemistry labs and 100 biology labs were provided to general secondary education schools.
- Important reforms are taking place in higher education, which are expected to increase the efficiency and accountability of the institutions.

Key Partners: The Bank team is working closely with the Ministry of Education and Science; and indirectly supported by municipal authorities. Key Development Partners: EIB and Clean Energy Development Bank (CEDB).
ALBANIA: JSDF GRANT FOR YOUTH EMPOWERMENT THROUGH COMMUNITY DEVELOPMENT

Key Dates:
Approved: November 6, 2009
Effective: November 6, 2009
Closing: November 6, 2013

Financing from all cofinanciers, million US Dollars:

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World Bank Disbursements, million US Dollars *:

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* as of August 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The objective of the project is to enhance young men and women’s access to opportunities in education, employment, civic participation, and community development by increasing skills that support the transition from the secondary school level into the labor force; increasing access to livelihood and employment opportunities through grants that support youth entrepreneurial activities; and increasing youth inclusion in civic affairs through community development grants. The project consists of the following parts:

**Part A: Capacity Building for Youth:** Activities to support capacity building of youth NGOs and local government agencies to develop and refine the policies and programs that assist young men and women to acquire life skills and livelihood skills to enable them to meet the demands of the labor market.

**Part B: Youth Livelihood Grants:** Provision of micro-grants to youth and youth groups to finance selected livelihood activities to kindle a self-help and entrepreneurial spirit in young men and women.

**Part C: Community Development Grants:** Activities to build the capacity of youth to identify community and neighborhood development priorities and to promote youth inclusion in community decision making, leadership, and enterprise.

Results achieved:

- Rapid Assessment of local employment and training needs of youth in Tirana and Durres completed in October 2010.
- Outreach activities were organized between December 2010 and June 2011, identifying the neediest youth.
- By July 2012, life skills training were delivered to about 243 young people from the poorest neighborhoods of Tirana and Durres.
- From March 2011 to August 2012, about 170 young people received training services in vocational training centers and 40 others apprenticeship services near local businesses. About 20 percent of vocational courses trainees are young people from minority groups such as ethnic Roma, disabled persons, trafficked girls, and ex-drug users.
- Vocational training courses were delivered in such subjects as foreign languages (English and German); computer skills; social animators; tourist guide animators; electric installations; home electric/electronic appliances repair; and tailor, cook, and finance and accounting specialists, while apprenticeships were issued in cosmetology and electrical wiring for city decor and lights.
- Needs assessment study for community development projects was completed in January–February 2011, and in July 2011, the consultation process with youth groups was completed. Several workshops in three administrative units of Tirana and Durres municipality were organized during first six months of 2011. In these workshops, youth organizations and local government representatives worked together and defined a list of community development project ideas, which later will serve as sources for community development projects. Three community projects (in Tirana) that started implementation procedures in November 2011 have already finished and another six projects (two in Durres) are under the implementation process.

**Key Partners:** The Bank team is working closely with the National Albanian Center for Social Studies (NACSS) and indirectly supports the municipal authorities of Tirana and Durres. **Key Development Partners:** Local youth NGOs.

ALBANIA: INTEGRATED COASTAL ZONE MANAGEMENT AND CLEAN UP PROGRAM
Key Dates:
Approved: June 29, 2005
Effective: November 25, 2002
Restructured: March 22, 2010
Closing: December 31, 2012

Financing in million US Dollars:

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<td>6.9</td>
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* as of August 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

In 2002, Albania embarked on an integrated coastal-zone management initiative to protect the coastal area for current and future generations, and formally adopted the principle recommendations of the Barcelona Convention for Protecting the Mediterranean Sea. The Integrated Coastal Zone Management and Cleanup project plays a catalytic role in mobilizing development assistance and improving environmental and sanitary conditions essential for long-term coastal development and tourism. The Project Development Objective is to assist the Government of Albania in developing, on a sustainable basis, tourism on the South Albania coast by improving critical public environmental infrastructure and municipal services, remediating and containing pollution hazards from a former chemical plant in Porto Romano near Durres, improving community infrastructure, and enhancing architectural and cultural resources. The project was restructured in 2010.

Results achieved:
- The Southern Coast Development Plan and Regulation was approved in July 2008, following a dialogue among stakeholders from the central, regional, and local levels.
- The cleanup of the Porto Romano hotspot was completed in 2011, with more than 45,000 cubic meters of hazardous waste safely disposed of and encapsulated, thus protecting the population of Porto Romano from health hazards.
- Phase two of the Coastal Village Conservation and Development Program (CVCD-2) is under implementation. It includes small infrastructure improvements, such as village roads and squares, and water supply systems in 12 villages in Saranda and Himara municipalities. A roof and facade rehabilitation program is under implementation in selected villages.
- Phase one of CVCD program, completed in 2010, supported village infrastructure investment in three coastal municipalities and 12 coastal villages, which includes: building a new water supply system to serve more than 400 families in Gjilek; rehabilitating a water supply system for 167 families in Vuno; providing water supply for 315 families in Piqeras; building a 1.3-kilometer access road in Orikum for daily tourists and residents; rehabilitating a 1.2-kilometer access road serving 132 families and tourists in Palasa; building pedestrian paths in vernacular stone and stone steps that provide access to 500 residents and tourists in Dhermi; upgrading a 2.6-kilometer scenic road to the Monastery of Saint Theodhor with landscaping in the Gjipe Canyon; and building a 0.6-kilometer pedestrian access road to the Borshi castle for visitors and pilgrims.
- Major rehabilitation works of Saranda Gateway Passenger Terminal are under implementation to improve the capacity of the passenger port to receive larger cruise boats and port surface infrastructure.

Key Partners: The Ministry of Public Works and Transport is responsible for overall project coordination and management; the Ministry of Environment, Forestry and Water Administration is responsible for cleanup of the hazardous hot spot near Durres; the Ministry of Tourism, Culture, Youth and Sports; the Costal District and Municipal administration, village councils in coastal communities, and local NGOs. Key Development Partners include the Governments of the Netherlands, Austria, and Japan, the European Commission, and the Global Environment Facility.
Key Dates:
Approved: May 27, 2008
Effective: September 29, 2008
Closing: September 30, 2012

Financing in million US Dollars*:

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* as of August 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The project was based on the joint Strategic Action Plan (SAP) for Lake Shkoder, which represents a long-term program of ongoing and proposed activities financed by the Governments of Albania and Montenegro and by external donors. Some of the activities were implemented jointly by the two countries through a bilateral Lake Management Committee (BLMC) and associated working groups. Other activities were carried out in each country, having lake-wide benefits.

The Project Development Objective was to help establish and strengthen institutional mechanisms for transboundary cooperation through joint efforts to improve the sustainable management of Lake Shkoder. The global development objective was to maintain and enhance the long-term value and environmental services of Lake Shkoder and its natural resources.

The project included the following components and activities: (1) building capacity for improved understanding and joint management of Lake Shkoder; (2) promoting sustainable use of Lake Shkoder and supporting environmentally and socially sustainable approaches to tourism and fisheries management; and (3) catalyzing pollution reduction investments to: (a) develop a small-scale wastewater treatment system at Vranjina; (b) support the preparation of an environmental remediation plan for the KAP solid waste dumpsite; and (c) restore the lakeshore ecosystem.

Results achieved:
- Establishment of the Joint Shkoder Lake Commission, including four relevant tranboundary working groups on Monitoring and Research, Water Management, Planning and Legal Communication, and Sustainable Tourism Development. Bilateral agreement of technical specialists and local stakeholders helped prioritize and facilitate actions across the two countries;
- Technical studies related to sustainability of the lake ecosystem including maintenance/improvement of the water quality baseline levels (e.g., Predictive Hydrological Model; Joint monitoring program and database; and Lake Management Strategy including National Fisheries Management Plans);
- Small-scale investments for restoration of streams that enter the lake; reforestation area of 18.5 hectares with pine trees in an erosion prone mountainous area in Albania;
- Agreement on preferred solution for hazardous waste dump remediation at the KAP site in Podgorica (draft Feasibility Study and Environmental Impact Assessment finalized);
- Enhancement of Fisheries Management Organization capacity and overall activity, including reduction in the number of fishermen using illegal fishing methods;
- Increased local understanding of and engagement in sustainable tourism and natural resource management through enhanced public awareness campaigns; development and follow-up on the project socioeconomic study; preparation of educational kits; joint lake events, etc.
- Several targeted tourism infrastructure renovations completed for attracting tourists (renovation of cultural property facades in the Shkodra center in Albania; finalization of general design for restoration of the Besac Fortress in Montenegro, based on which restoration works will be financed by EU.

Key Partners: Ministry of Environment, Forestry and Water Administration in Albania and Ministry of Sustainable Tourism Development in Montenegro, local government units and communities.
Albania is vulnerable to a number of natural disaster risks such as earthquakes, floods, and drought. Compounded with the lack of catastrophe insurance, these risks can have devastating effects on Albania’s population, precarious economy, and growth prospects. Albania has one of the highest seismicity ratings in Europe. Considering that many of Albania’s buildings have not been built to construction standards, the impact of earthquakes on the built environment is of major concern. Weather forecasting is difficult, with precipitation that varies widely from week to week and from year to year. Flooding can occur with little or no warning. The Albanian economy is especially sensitive to weather conditions, given the importance of agriculture, hydropower, pisciculture, and tourism. The country’s capacity to forecast weather is currently constrained by the rundown state of the national weather and hydrological monitoring network and by the telecoms’ deficient capacity to collect the inputs needed for daily forecasting.

The Project Development Objective is to strengthen institutional capacities to reduce Albania’s vulnerability to natural and man-made hazards, and limit human, economic and financial losses due to catastrophic events. The project has four main components: Disaster Risk Management and Preparedness, Strengthening of Hydrometeorological Service, Development and Enforcement of Building Codes, and Catastrophe Risk Insurance through participation in a regional catastrophe risk reinsurance facility.

Results achieved:

- As the first shareholder of the Regional Catastrophe Risk Insurance Facility (CRIF), Albania is the first country in South East Europe to provide access to affordable insurance in the near future for home owners, farmers, and small and medium-sized enterprises against the risk of flood, earthquake, and weather-related disasters.
- The emergency response units have been equipped, including vehicles for assessment teams and swift rescue boats for flood response.
- The Government has finalized the development of a feasibility study to create an integrated 112 emergency call and communications system in Albania.
- The emergency management and hydromet operations centers were established with state-of-the-art software for the monitoring and forecasting of wild fires and floods, and daily weather bulletins for these hazards are being issued to emergency response authorities.

Key Partners: The Bank team works closely with the Ministry of Interior; the Institute for Energy, Water and Environment; the Ministry of Public Works, Transport, and Telecommunications; and the Ministry of Finance for the catastrophe risk insurance component. The Italian Civil Protection Department is the key bilateral donor agency providing parallel support to the project.
The Government of Albania recognized the problems associated with the poor road situation and engaged in a discussion with the World Bank, which at that time, was providing technical assistance to Albania.

The governments of pharmaceuticals and sophisticated land administration. Well-functioning land and property markets in any country. These, in turn, provide incentives for local and international businesses, households, and the individuals to invest in land and property. Well-established land records and ownership rights constitute the basic condition for the ease of transaction and transfer of property. Inadequate access to these markets makes it difficult for farmers to reach markets, consume for rural areas where maintenance is not carried out, as agricultural land and property markets make a significant contribution to the standard of living.

The Project Development Objective is to improve access to essential services and economic markets via the provision of secondary and local roads. The project will achieve this objective by (i) improved management, funding, and construction of regional and local roads; (ii) introduction of the private sector in the maintenance of regional and local roads, and (iii) act as a catalyst for other donors in the sector and play a leading role in both program preparation and attracting other international financing institutions to contribute; and (iv) strengthening of the management of the secondary and local road network.

Results achieved:

- An independent evaluation of IPR services indicates that customer satisfaction has improved from being “very poor” at the project outset to “good” at the end of the project monitoring.
- The implementation of the infrastructure development in the sector has made more road services available to the population, which has improved access to essential services and economic markets.
- The project has also contributed to the improvement of the institutional and legal framework for the management of roads, which has led to better maintenance of road networks.
- The development of the project has resulted in the creation of new job opportunities and the stimulation of local economic development.

Key Partners: Ministry of Public Works and Transport and the Ministry of Finance of Albania, and the Albanian Road Authority (ARA), Tackling the Challenge of Poverty through Land and Property Markets
The last Albanian hydropower dam was completed in the mid-1980s. These major infrastructure facilities have been inadequately monitored and maintained for more than 15 years, and there may now be a risk of a dam failure. Following the World Bank’s warning on this issue, a “Dam Safety Survey for Hydropower Plants Located on the Drin and Mat River Cascades” was funded by the Swiss Secretariat of Economic Affairs (SECO) and completed in late 2006. The report identified serious deficiencies and concluded that “the present state of the dam safety is uncertain, and a disaster could be considered as possible, if matters are left to deteriorate further.” Support for Albania’s hydropower will also improve the country’s overall hydropower operation and benefit the entire regional electricity system. Most important for the regional electricity market is the significant storage capacity of the dams, which can provide considerable benefits for the South East Europe electricity grid. Storage of electricity in hydropower dams can promote economic efficiency in the regional market.

The Project Development Objective is the development of a functioning regional electricity market in South East Europe and its integration into the internal electricity market of the European Union through the implementation of priority investments supporting electricity market and power system operations in electricity generation. The project will contribute to safeguarding the major hydroelectric dams of Albania and improve their operational efficiency, and also enhance the stability of the power supply for the regional electricity market. The project will help Albania to maximize its benefits from existing hydropower by improving the operational practices of existing facilities and enabling more effective participation in the regional electricity market. The project will also promote private sector investment in hydropower by collecting, organizing, and making available better data and studies on the country’s hydropower potential.

Results achieved: The project has achieved several intermediate outputs:
• Study for the design of remedial works in the Dam Safety Project has been finalized (carried out by Consultant Poryty and financed by SECO Swiss);
• The Dam Safety Expert Panel was selected and has been active since 2009;
• An assessment of rehabilitation works at Drin Cascade hydrogenerating plants, in light of the flooding in early and late 2010, have highlighted the urgent need to expand the scope of these efforts and provide additional investment to scale up the project’s impact and achieve development objectives;
• Additional financing was approved that will allow accelerated implementation of major civil works;
• The implementation of major civil works has been started.

Key Partners: Albanian Ministry of Economy, Trade and Energy and the Albanian Power Corporation (KESh), the implementing agency of the project. Key Development Partners include SECO Swiss, EBRD, and KfW.
ALBANIA: PARTIAL RISK GUARANTEE (PRG) FOR THE PRIVATIZATION OF THE POWER DISTRIBUTION SYSTEM OPERATOR

Key Dates:
Approved: May 5, 2009
Effective: May 15, 2009
Closing: May 31, 2017

Financing from all co-financiers, million US Dollars:

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</table>

* as of August 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Albania has been facing a major electricity crisis since the summer of 2000. The crisis was initially the result of excessive demand stemming from the failure to curb the illegal use of electricity and nonpayment of bills. At the root of the electricity sector’s problems has been the Distribution System Operator (OSSH), recently incorporated as a separate company. The Government, recognizing the importance of improving the performance of power distribution and the long-standing inability of a state-owned structure to make significant progress, has decided to privatize it. The potential investors expressed concerns about the regulatory risks associated with the OSSH privatization; IFC recommended that the Government request the World Bank’s Partial Risk Guarantee (PRG) instrument to help facilitate the transaction.

The Project Development Objective of the Partial Risk Guarantee (PRG) operation is to facilitate the privatization of the Distribution System Operator (DSO) and Retail Supplier (RS) in the context of a new and untested regulatory framework, put in place in July 2008, only a few months prior to the privatization, and in the absence of a regulatory track record with a private Distribution System Operator and current market structures.

Outcomes: The project's intermediate outcome indicators are: (i) the initial equity investments are made by the investor for the purchase of shares from the Government; and (ii) the operation of the DSO and RS are in accordance with its license obligations and the implementation of the investment programs approved by the Energy Regulatory Entity (ERE). Key outcome indicators are: (i) reduction in electricity distribution losses; and (ii) improvement in collections in accordance with parameters set out in the Regulatory Framework.

Results achieved:

- The situation in the Distribution System and Retail Public Supply is improving and the reliability of supply has increased. The net supply in Albania has increased by 5 percent annually in the last four years and achieved the value of 7,340 gigawatt hours in 2011.
- The CEZ Shperndarje and the ERE worked in a collaborative spirit to achieve agreements based on the Regulatory Statement so the approved tariffs could achieve the required revenues.
- The two main parameters (level of distribution loss and bad debt levels) are agreed on without being in breach of the Regulatory Statement and triggering a call of the PRG.
- The wholesale and retail tariffs are approved for the third regulatory period 2012–14.
- However, the privatization of the distribution has not yet yielded results with respect to service improvements and collection. Further efforts are needed to restore the sector’s financial viability, not only to reduce pressures on the budget, but also to enhance the security of supply and maximize revenue management.

Key Partners: The Ministry of Finance; the Ministry of Economy, Trade and Energy; the Albanian Distribution System Operator (CEZ Shperndarje); the Albanian Energy Regulatory Authority; and KESh and OST.

Key Development partners: IFC.
In November 2005, the Government of Albania adopted the Integrated Planning System (IPS), a set of operating principles to ensure that government policy planning and monitoring are undertaken in an efficient and harmonized way. The IPS Trust Fund, managed by the World Bank, was established with the financial contributions of seven donors in order to support the Government’s commitments towards a harmonized and structured way of planning, implementing, and monitoring budget and non-budget activities.

The Project Development Objective was to ensure that the Government of Albania’s core policy and financial processes function in a coherent, efficient, and integrated manner. This was to be accomplished by building the sufficient and sustainable capacity in line ministries.

Results achieved: The IPS made a significant difference in the national planning system. Main results include:

- Strategic planning has improved at both government and ministry level. Project components 5 and 6 have supported the improvement of the IPS and of the National Strategy for Development and Integration.
- Public administration capacity has been improved, although the Human Resources Management Information System module is not yet fully operational and is not linked to the Treasury system, which undermines the results.
- Medium-term budgeting has improved through better integration of strategic planning, Mid-Term Budget Planning (MTBP), and budget allocations. The project provided support to improving the macro-fiscal framework by developing a forecasting model and improving debt management; and by conducting a major a capacity-building effort for both the Ministry of Finance and line ministries’ staff to improve the MTBP process.
- External assistance management has improved considerably, though some weaknesses remain. Component 7 of the project was aimed at strengthening aid management with the Department for Strategy and Donor Coordination (DSDC) as a main beneficiary. It provided technical assistance and training to the DSDC in establishing external aid planning procedures and managing donor coordination mechanisms. It also assisted the DSDC in monitoring compliance with the Paris Declaration and conducting annual evaluations of external assistance.
- Although the project failed to establish the Albanian Financial Management Information System due to procurement difficulties as discussed above, it indirectly supported the full-scale launch of the treasury system, which has had a major impact on the transparency and control of budget execution.

Key Partners: The Ministry of Finance is responsible for overall contract and financial management of the Trust Fund, Department of Strategy and Donor coordination (at the Council of Ministers) is the main beneficiary of most of the components, and the Department of Public Administration and the National Agency for Information Society work on improving planning, execution, and monitoring skills, as well as in infrastructure investment.

Key Development Partners The European Union, SDC, Cooperazione Italiana, Austrian Development Agency, SIDA, the Government of the Netherlands, and the UK Department for International Development (DfID).
ALBANIA: IMPROVED NATURAL RESOURCES MANAGEMENT PROJECT

Key Dates:
Approved: April 3, 2012
Effectiveness: May 31, 2012

Financing in million dollars:

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<tbody>
<tr>
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</table>

The objective of the project is (i) to provide continuous support for improved community-based management of natural resources in upland and mountainous erosion-prone lands in Albania through participatory planning and investments and (ii) to prepare the proposed Environmental Service Project. The project will:

(i) Support the scaling-up preparation of participatory forest and pasture management plans and micro-catchments plans, as already supported under the Natural Resources Development Project (NRDP) financed by the Bank and the Swedish Government;

(ii) Support the scaling-up implementation of forest and pasture, carbon sequestration, and micro-catchment works, as is already supported under NRDP;

(iii) Support the preparation of the proposed Environmental Service Project; and

(iv) Pilot competitive grant schemes for watershed management to support target measures and areas for agri-environmental measures and community-based approaches to agri-environment.

Results achieved: NA

Key Partners: The World Bank is acting as administrator of grant funds provided by the Government of Sweden. The Ministry of Environment, Forests and Water Administration has overall responsibility for the project, and the Directorate for Forests and Pastures is responsible for its implementation through its Project Management Team.