Board Meeting of July 30, 1998
Statement by Matthias Meyer

Albania - Country Assistance Strategy

Our chair endorses the IDA Country Assistance Strategy for Albania as we find it to be very informative and comprehensive. This well written report contains a thoughtful analysis of the recent dramatic economic and social developments in Albania, as well as outlining the challenges the country is facing. We also share the Bank’s optimism that the high-case lending scenario is the most likely, even in such a fragile internal and external situation. Having said this, we have some comments on the document:

- **Kosovo Emergency Situation.** We are strongly concerned about the current situation of ethnic Albanians in Kosovo. The emergency assistance provided by international aid agencies is presently no longer restricted to northeast Albania, as stated in the document, but is going to cover practically the whole territory of the country. As far as we know, international agencies plan to cover food shortages and also alleviate the severely strained infrastructure in the central districts as well as in the coastal area. The inflow of dozens of thousands of refugees has been a great challenge.

- **Performance Criteria.** Taking into account the specific situation of Albania, we are of the opinion that the CAS does not present concretely enough the performance criteria between the high and low case scenarios. Triggers are not specific enough in critical sectors where reforms are strongly needed, like building up capacities of public institutions, increasing a participatory approach, and gender issues. As the example of energy policy indicates (Power Transmission and Distribution Project), the Albanian Government was able to focus on a problem and adjust firmly in a short period, once it was convinced that the external advice was beneficial.

- **Banking Sector.** The reform of the banking sector is a crucial part of the economic restructuring process and a pre-requisite for growth. We strongly welcome IDA’s support for the Government program to restructure the weak banking system in Albania. In our opinion, however, the need for reforms in this sector should be stressed even more and not appear as one of several development priorities.

- **Improving Infrastructure.** We support all measures aiming at strengthening the emerging and vulnerable private sector. However,
we do not support the mass privatization of critical public utilities, such as water and power. We are convinced that only a balanced approach combining the responsibility of consumers, decentralization, well-monitored technical assistance and new investments may lead to sustainable solutions. Moreover, we wish to underline that a sector strategy is needed, both for water and energy, which gives a clear picture of the current situation, before partial privatization, management contracts, etc. are undertaken. Water supply in Albania is sporadic and cost recovery, as stated in the document, is insufficient. Water has its price, but this view does not seem to be fully shared by the population. There are even divergencies on this issue among donors. A consolidated approach on tariffs should be reached to strengthen links between water service provision and cost recovery. Therefore, we are looking forward to the IDA’s Water Privatization and Municipal Water Projects, which we expect will respond to these urgent reform needs.

- **Ownership Issues.** Damages resulting from last year’s civil unrest were, among others, a consequence of poorly or insufficiently promoted ownership among the Albanian population. We would welcome a program of the Bank aiming at the promotion of ownership rules among the Albanian society. This problem has not been adequately considered in the CAS document and at the same time plays a significant role in the future successful transformation towards a market economy.

- **Coordination of Work.** IDA and leading donors jointly monitor the implementation of key structural reforms by Albania. However, technical ministries and the Ministry for Economic Cooperation and Trade do not seem to always benefit from the consultation mechanisms. These institutions should be strengthened in their capacity to perform coordination functions. In our view, special attention should also be paid to regular evaluation of the coordination instruments. We are well aware of the fact that this situation stems mostly from the structural weakness of the Albanian State. Nevertheless, further efforts in this area are strongly recommended.