Statement by Matthias Meyer  
Date of Meeting: March 21, 2000

**Albania - Country Assistance Strategy Progress Report**

We welcome the opportunity of discussing this CAS Progress Report for Albania and would like to thank staff for preparing a concise and candid document.

We commend the authorities for achieving remarkable progress in the recovery from the refugee emergency in the second half of 1999 and we welcome the active role Albania had begun to play in the process of post-crisis regional integration within the framework of the South-East Europe Stability Pact. Both the Majko and Meta governments have made progress in tackling crime and widespread lawlessness, in particular the situation in the north of the country has improved. Nevertheless internal security and criminality are still major concerns.

We fully agree with the estimation made that Albania has experienced relative - albeit fragile - domestic stability that allows stronger efforts to reduce poverty with special attention to poverty alleviation and social cohesion. But as mentioned there are still bigger risks, the state is still very weak, the political environment is volatile and unsettled, criminality and corruption are all pervasive.

We are particularly concerned that there exists a big gap between Albania's high expectations for the exercise of the Stability Pact, and the readiness of donors to allocate funds. In fact the EBRD will promote only 8 of 28 projects proposed by the Albanian Government. It must be emphasized that even though additional development funding might become available in the framework of the Stability Pact, it will depend on the commitment of the recipient countries to perform economic and structural reforms. In the case of the Albanian Power Sector, the required sector reforms have been unsatisfactory despite strong recommendations from the multilateral as well as bilateral donors (among others Switzerland) supporting this sector. Measures taken have led to a suspension of EBRD and WB loans. In connection with the awarding of the Management contract to the Albanian Electricity company KESH, the WB now threatens to cancel the IDA-credit for its Power Transmission and Distribution Project. Even though we support a strong position towards KESH and the Government, we wonder if the WB would withdraw completely from the energy sector, and if not, what type of action the WB is envisaging for the future cooperation in this sector. Further, we would like to know what investments have already been made that would be lost if the project cannot be completed.
Despite the return to Parliament of the main Democratic Party in July 99, politics in Albania remained polarized, personalities rather than politics dominated the political debate. The change of the Government at the end of 1999 shows Albania's growing political maturity. The new Government's openness to dialog with the parliamentary opposition as an essential institution of a modern democratic state is another positive sign. Nevertheless, a number of institutions essential to the proper monitoring and oversight of the democratic process remain inactive because of disagreement between the opposition parties and the governing majority over their composition or status. Parties will have to dialogue in the run up to local government elections, due in Albania later this year. Free, fair and undisputed elections are of crucial importance as a measure of prospects for international integration. We are ready to support preparing and running of a countrywide census. Cofinancing of a joint program of EC/EFTA is under preparation. The Swiss Federal Statistical office will be the Swiss partner, funded by SDC.

We noted following risks for implementation of CAS in Albania.

- Some progress can be noted in stemming the cross-border trade of illicit goods and human beings. Nevertheless the number of illegal immigrants seeking to use Albania as a transit point is increasing and the flow of illegal immigrants from Albania in and outside the region continues to grow.

- The Progress Report mentions that developments in Albania and the region over the last twenty months allow stronger efforts to reduce poverty. We do have some doubts that existing data's are trustworthy enough and give sufficient consistent information on poverty aspects and income distribution. Transparent baseline data are needed to target aid support.

- Civil Service still has to fight with its insufficient capacity to absorb project assistance. This is due partly to a lack of training and partly to staffing shortage, caused to a significant extent by brain drain towards international operators or towards foreign countries. The negative impact of insufficient capacities of civil services is increased by the unsatisfactory donor coordination; there is more talk and an exchange of information than action.

- Budget allocations have to be harmonized with the financial needs of maintenance of development projects once these projects have been transferred into Albania's responsibility. The investment budget has to be integrated into the general process of budget formulation.

- The problem of organized crime is not mentioned in the report. The Albanian Government has mounted up some pressure against smugglers, but in some places the government and criminal gangs still appear to cohabit. Other mechanisms of corruption should also be analyzed further. This would allow to a better definition of measures, which are needed urgently to combat corruption.

The Albanian authorities should redouble their efforts towards achieving confidence of various groups of population in the government. While the confidence building process may take time, it is crucial for minimizing the social and political costs of the reforms. In this regard, we believe that Bank assistance to the government will be of vital importance at this juncture of the country's transformation process. The World Bank Institute could play a very important role by organizing workshops and seminars for the civil society and NGOs to sensitize them the benefits of reform and helping the authorities to muster the support of diverse groups of population.
We are pleased to see the importance assigned to the governance and corruption in the CAS. We fully agree that resolving these issues is the key to long-term sustainable growth and poverty reduction in Albania. However, addressing the corruption will require strong political leadership as well as broad coalition of forces inside and outside of the government.

Finally, we support the Bank's readiness to continue to support Albania’s reform agenda and wish the authorities success in implementing it.