Board Meeting of July 30, 1998
Statement by Surendra Singh

Albania – Country Assistance Strategy

We welcome this discussion of the Country Assistance Strategy for Albania. I would like to begin with commending those who have prepared this very balanced and candid document. It sets out very clearly the challenges and opportunities that characterize Albanian socio-economic circumstances. The country has faced serious difficulties in the process of transition, and local social systems still continue to distract from basic societal commitment to nation building. Social and economic stability reached a trough during the crisis of 1997, when security broke down and economic activities were severely disrupted. It is heartening to see that the new government has taken earnest steps to control the situation and to bring about a measure of macroeconomic stability. The government has demonstrated its resolve by adopting difficult measures such as a large increase in VAT. The process of recovery and reform yet remains tenuous, given both external and internal vulnerabilities.

In the overall background and context presented, we broadly agree with the proposed IDA strategy. The priorities of institution building, promoting private sector growth and human development, as outlined in the document are seem to be appropriate. We are particularly pleased with the experience with the development of the agriculture sector. 60% of the country’s GDP is derived from this sector, with a large population dependent on this activity. We therefore fully support the proposed initiatives for further assistance to the agro-economy, including the development and expansion of infrastructure such as irrigation systems. Similarly, we note the importance of human development and poverty alleviation, and endorse the proposed steps for the health and education sectors, including partnerships with other donors.

Albania faces the problems of the fragility of the state and weak loyalties towards public institutions. The CAS therefore appropriately focuses on strengthening governance and institution building. We are happy to note the participatory approach proposed to be taken. We recognize that ownership in domestic governance and institutional issues is of paramount importance and, therefore, fully support this initiative.
The document highlights the various factors constraining growth and development in the country. These are significant external and domestic uncertainties. Given this, it is not very clear how private sector growth is to be successfully fostered. We do note that there has been some success in the areas of small businesses, trade and service activities. At the same time, given the circumstances of the banking industry, most entrepreneurs have to be self reliant to finance their businesses. Given this, it would appear that there is need for setting up good micro enterprise credit institutions. Yet, as per the document, there does not appear to be any move in that direction. Perhaps staff can explain and clarify the position in this regard.

Overall, we endorse the proposed strategy, and the areas of priority identified. We also agree with the two lending scenarios outlined in the paper, and the use of selectivity in designing the portfolio.