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Albania – World Bank

20 Years of Working Together



THE WORLD BANK

TIRANA, 2012

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Abbreviations and Acronyms

CAS	Country Assistance Strategy for Albania	IDA	International Development Association
CEDB	Council of Europe Development Bank	IDF	Institutional Development Fund
CPS	Country Partnership Strategy	IFC	International Finance Corporation
CRIF	Catastrophe Risk Insurance Facility	IFIs	International Financial Institutions
DPL	Development Policy Lending	IPRO	Immovable Property Registration Offices
EIB	European Investment Bank	IPS	Integrated Planning System
EU	European Union	JSDF	Japan Social Development Fund
FIAS	Foreign Investment Advisory Service	KESH	Albanian Power Corporation
FSAC	Financial Sector Adjustment Credit	MIGA	Multilateral Investment Guarantee Agency
GDP	Gross Domestic Production	NSSED	National Strategy for Social and Economic Development
GEF	Global Environment Facility	PEFA	Public Expenditure and Financial Accountability
GFDRR	Global Facility for Disaster Reduction and Recovery	PRG	Partial Risk Guarantee
GPF	Governance Partnership Facility	PRSC	Poverty Reduction Strategy Credit
GPRS	Growth and Poverty Reduction Strategy	RER	Regular Economic Report
IBRD	International Bank for Reconstruction and Development	SME	Small Medium Enterprises
ICSID	International Centre for Settlement of Investment Disputes	TF	Trust Fund
		WRIP	Water Resources and Irrigation Project

This booklet was produced for 20 year anniversary of the World Bank in Albania based on compilation of information from various World Bank Group reports and staff, and does not represent the views of World Bank executive directors, nor member countries.

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**SALI BERISHA***Prime Minister of Albania*

On November 28th 2012, Albanians will celebrate the 100th anniversary of our nation's independence. Throughout these hundred years, our nation has suffered from major partitions, brutal occupation, ethnic cleansing, and Orwellian dictatorships. But today, my country's difficult yet successful journey toward building freedom, democracy, respect for the rule of law, and an open society that respects human and minority rights has managed to accomplish two fundamental objectives: NATO membership and solid progress in the process of integration into the EU.

Two decades ago Albania was considered one of the three poorest countries in the world. Today Albania is ranked among the high-middle-income countries. Albania has made a quantum leap forward. Comprehensive reforms carried out in the country in the fields of economy, healthcare, education, social policies, and, particularly, our zero-tolerance fight against corruption, have transformed Albania into a secure country

in Europe, and into one of the most attractive places for foreign investment. Albania is rapidly changing with each passing day. As ever, we remain committed to regional integration in the Western Balkans and to the further advancement of its EU prospective. Throughout the past two decades Albania's international credibility certainly has grown.

Throughout the last 20 years on the road to building a democratic system and a free market economy, Albania and its people have had the precious help and solidarity of many friendly countries around the world. Albania has been privileged to have the support of a good number of donors and international financial institutions. The World Bank has always been an excellent partner for Albania. It has played a major role in supporting reforms, strengthening institutions, and financing investments across a wide range of sectors, such as infrastructure, healthcare, agriculture, education, finance, environment, and governance.



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It is without doubt that the economic crisis has created a setback for our efforts – not only for Albania, not only for the EU, but also for the whole world. The Albanian economy has survived the crisis without falling into recession primarily because of its model. This model is based on low taxes, the most liberal standards of the market, small public administrations, and a favorable business climate. Albania has the lowest tax levels in all of Europe. It has one of the 10 smallest governments and least interfering administrations in the world. Over the past five years the Albanian economy has grown 22 percent, a figure four times higher than the regional average. Albania is building one of the most modern infrastructures in the region; Albania's exports doubled between 2009 and 2011. Furthermore, Foreign Direct Investment increased by 316 percent in four years.

The World Bank has been and remains an important source of expertise for Albania for the modernization of the budget sector and the public administration, as

well as the nurturing of good governance.

The government of Albania is determined to implement complete and properly timed reforms that are imperative for growth, competitiveness, and European integration in the short and long terms. Let us all work together so that our children can always find hope of a better future. ■



PHILIPPE H. LE HOUEIROU

World Bank Vice President of Europe and Central Asia

The past 20 years have been among the most dynamic and transformational in the history of humankind. After communism fell in Eastern European countries, they rapidly built modern economies and democratic societies, linking their future with the European Union (EU). Across the world, developing countries have become engines for global growth. They have driven innovation and fostered cutting-edge knowledge in a multitude of disciplines, all while moderating the woes of the 2008 global financial crisis. The global marketplace has changed profoundly with respect to economic governance and the role of development institutions such as the World Bank.

Albania's economic and social transformation has been particularly exceptional. In record time, Albania has transformed itself from one of the poorest countries in Europe into a dynamic, middle-income economy with a thriving private sector; from one of the most isolated countries in modern history into an aspiring EU member, whose citizens can travel freely to Europe; and a country whose natural beauty, hospitality, and entrepreneurship

have made it a blooming tourist destination.

The World Bank is proud and privileged to have been one of Albania's key partners along this amazing 20-year journey, and to have contributed to Albania's economic, human, and institutional progress. Throughout the past 20 years, the World Bank Group has been able to assist Albania technically, financially, and through policy advice on virtually every aspect of its development needs. Our common successes are many. Our joint policy work has been critical to the successful transformation of the country in terms of financial sector development, business environment, and economic management. From the investment perspective, we have obtained countless visible results. Just to name a few, we have helped to repair or construct 1,700 km of national and rural roads; rehabilitated and upgraded 270,000 hectares of Albania's irrigation and drainage system (which represents two-thirds of Albania's irrigated land); enhanced productivity and incomes by improving natural resource management in about 210 communes in mountainous areas prone to



Widely referred to as “a development success story” and “one of the fastest growing countries in Europe” in World Bank reports, Albania is an excellent example of an effective and fruitful partnership between a country and our institution. As in every partnership, both parties have been learning, changing, and adapting to new realities

erosion; built or reconstructed more than 300 schools in priority areas; and equipped over 2,000 elementary and secondary schools with computers.

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Certainly much remains to be done. Just as the standards of living had started to improve visibly in Albania, the difficult European recovery in the aftermath of the global financial crisis slowed the pace of progress painfully, as elsewhere in Europe. Maintaining macro-economic stability is critical for Albania even as the unstable external environment complicates this task. Broadening the sources of productivity growth and creating a business climate that will result in the creation of new jobs are also key challenges for Albania’s economic development in the coming years. ■



RIDVAN BODE

Minister of Finance

“ *World Bank brought in Albania not only much needed financial resources for the country’s recovery, but also introduced and supported the development of human resources and social sectors as the engines for growth and reducing poverty* ”

It is my great pleasure to express the gratitude and appreciation for this long and successful partnership between World Bank Group and the government of Albania. In celebrating 20 years of cooperation, our government greatly appreciates the World Bank’s contribution in ensuring sustainable economic and social development and the development of administrative capacity.

We can all testify that in the past two decades, progress and development have been remarkable. Albania has been a development success story in many respects. The country has taken enormous steps in establishing a credible multi-party democracy and market economy; and Albania is rapidly being re-integrated into the international and European communities. Over the past decade, Albania has been one of the fastest-growing countries in Europe, enjoying average annual real growth rates of 6 percent, accompanied by rapid reductions in poverty.

The World Bank Group has provided a valuable contribution to this success. World Bank brought in Al-

bania not only much needed financial resources for the country’s recovery, but also introduced and supported the development of human resources and social sectors as the engines for growth and reducing poverty. It has been playing a major role in supporting financial reforms, strengthening institutions, and financing investments across a full range of sectors. The financial portfolio of the World Bank has been a vital support to the main industries of the economy. The World Bank has had a unique role in introducing Albania to the best practices for business environment improvements, social sector development, regulatory framework, and human development, especially the education and healthcare sectors, providing advisory services to the government concerning development challenges throughout the past years.

Let the 20th anniversary of the presence of World Bank in Albania not only be celebrated for the achievements, but let it also mark the mutual commitment for further partnership in fulfilling the objectives of fostering economic growth and policies in accordance with European integration agenda. ■



Albania: Two Decades of Progress

Albania's development over the past 20 years is an excellent source of inspiration and optimism for moving forward.

Albania remained unknown to the broader community of nations for many decades. The tiny Balkan country started appearing in international media headlines only after the beginning of the 1990s, following a half century of virtual anonymity. There was a good reason for that. In 1991, Albania had finally emerged from 50 years of harsh communist rule with widespread poverty and a nearly devastated economy. A combination of strict central planning, isolationism, and totalitarian control over every aspect of life had devastated economic and social development. Moreover, Albania was the most isolated country in Europe with virtually no ties or cooperation with any other nation, and dependent solely on its own crippled industry and agriculture.

The fall of the totalitarian regime brought Albania's already weak economy to the brink of collapse. The abrupt transition from a centrally planned economy to a market-oriented economy caused an initial shock. Albania's GDP per capita of US \$2630 in 1990 dropped by 39 percent (cumulatively) by 1992. Inflation soared into the double digits and prices skyrocketed to inconceivable levels. That same year, the country's foreign currency reserve could cover just 10 days worth of imports. Everyday life, as well as public institutions, switched to survival mode.

During the first half of the 1990s, abundant international direct aid, coupled with strategic assistance, helped Albania to begin to stand on its feet. In 1991, Albania became a member of the World Bank and the International Monetary Fund at its own request, thus

qualifying for receipt of much-needed international assistance. The World Bank played an important role in easing people's hardships through immediate interventions and structural reform programs. Albania was not only in immediate need of goods and resources; it also lacked the necessary institutions and experience to build the foundations of a market economy.

Albania's progress during the early transition years was rapid. From 1993 to 1995, GDP growth was an impressive 10 percent per year, while inflation fell back to single digits. The economy was doing well and improvements were clearly visible.

However, the capacity of the state to regulate was still in its infancy, allowing unfettered actions by private individuals and businesses. A stark example of this lack of experience and institutional weakness were the notorious pyramid schemes of the 1994–1996 period which robbed the society of many of its achievements. Emergency international aid and tailored assistance poured in to address the situation and rebuild institutions and respect for the rule of law.

In 1999, Albania faced a different kind of emergency. More than half a million Kosovar refugees poured into Albania because of the war. Once again, Albania had to rely upon international assistance to cope with this new and unexpected challenge. It was not easy for a low-income country, as Albania was then, to cope with the needs of the displaced Kosovars. Yet Albania showed remarkable resilience by recommitting to its long-term goals of achieving sustainable growth and a higher standard of living for its people.

At the start of the new millennium, Albania began to place major emphasis on addressing the issues of poverty in a more comprehensive way. Poverty mani-



fested itself not only through low household incomes, but also in limited access to and poor quality of basic services such as education, healthcare, water, and sewerage. Many Albanians left the country to seek better lives abroad. To improve living conditions for the vast majority who remained, high priority was given not only to income growth but also ensuring access to basic social services. The massive emigration of Albanian citizens to surrounding countries, while leading to brain drain and a decrease in population, also helped improve people's lives by providing much needed hard currency that financed both household consumption and private investment.

Development of Albania's private sector desperately needed improved transport infrastructure connecting less accessible areas in Albania with its larger cities and the country itself to neighboring countries. As a result the country made huge investments in infrastructure

between 1998 and 2010 -- rehabilitating key transport arteries, building new secondary roads and connecting many remote rural areas to the road network.

Dramatic shifts occurred in the labor market, contributing to productivity growth. Formal non-agricultural employment in the private sector more than doubled in the period between 1999 and 2011, fuelled largely by foreign investment. Emigration and urbanization brought a structural shift away from agriculture and towards industry and services -- between the early 1990s and the present the share of agriculture in GDP has been falling rapidly, from over 50 percent to only around 19 percent today. Initially, the unskilled or semi-skilled workforce was absorbed principally by emerging manufacturing enterprises. Gradually, as skill levels increased, the economy began to produce a variety of services as well, ranging from banking to telecommunications and tourism.



Throughout the decade preceding 2009, Albania maintained steady growth and achieved broad-based development in many areas. Partnering closely with international agencies, Albania overcame previous limitations to open fresh paths to progress through broad structural reforms and improved standards of governance. Reform didn't stop at improvements in macroeconomic management. Indeed, several programs and strategic interventions were implemented to create tools and incentives for private sector growth, improve management of public enterprises, improve the quality and coverage of social services and establish a more effective safety net for the most vulnerable households.

As a result of these efforts, impressive gains were made with respect to both economic performance and poverty reduction. Per capita GDP increased three-

fold in just one decade and real growth was even stronger, averaging 6 percent per annum in real terms between 1998 and 2008. This growth produced tangible gains in living standards. The poverty rate in Albania more than halved from 25.4 percent in 2002 to 12.4 percent in 2008 – implying that the number of people struggling with poverty was reduced by more than 200,000.

Spurred by the prospect of joining the EU, attracting more investment to Albania and responding to citizens' demands for accountability, fundamental improvements have been made in public institutions and governance – though much more effort is still needed. In a ranking of the business climate, Albania improved from 136th place out of 183 countries in 2007 to 82nd in 2011. In 2008, on account of its strong achievements in economic growth and social welfare, Albania joined



200.000 PEOPLE
WERE LIFTED OUT OF POVERTY
BETWEEN 2002-2008

12.4 PERCENT
DECREASED POVERTY RATE FROM 25.4 PERCENT
TO 12.4 PERCENT BETWEEN 2002-2008

the ranks of Middle Income Countries, graduating from International Development Association (IDA) to International Bank for Reconstruction and Development (IBRD) lending, thereby sending a positive signal to investors and the financial markets about the economic prospects of the country.

Since the global financial and economic crisis hit the region in 2009, followed by the economic turmoil in the Eurozone, these positive trends have slowed down. Albania has, so far, avoided recession, maintaining low but positive growth. The challenge going forward is to find ways of picking up the pace of growth, despite a tougher external environment, growing international competition and a constrained budget. In parallel, it will be crucial to continue to protect the poor and the vulnerable by building human capital and providing an efficient safety net. ■



Albania - World Bank Group Partnership

Albania became a member of the World Bank in October 15, 1991, soon after the country emerged from isolation. The local office opened in Tirana in August of 1992. Albania became a member of the International Development Association (IDA), the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA), all of which form parts of the World Bank Group (WBG). The WBG became one of the country's main sources of development support. Since then, the Bank has financed 71 projects in different sectors totaling over US\$ 1.2 billion. If other trust fund resources financed or managed by the World Bank are included, the WBG's overall support to Albania is estimated at US \$1.4 billion. The assistance ranges from contributing to macro-level development strategies formulation and execution to addressing people's immediate basic needs. The World Bank also provides technical assistance and policy advice.

On June 25, 1992, only eight weeks after the newly-elected democratic government took office, the World Bank provided a first (emergency) loan (US \$41.1 million) to Albania, to provide Albanians with basic infrastructure and other necessities. The project financed parts and equipment to restore roads, ports, and other infrastructure, mend local irrigation systems, repair energy transmission and distribution systems, and promote agriculture production.

Albania was so underdeveloped that any kind of assistance at the time was welcomed. Food and other vital supplies for the country were provided accordingly, yet problems persisted in many aspects. An estimated

one third of the country's 750,000 plus dwellings had no piped water. About 400 villages, with a combined population of approximately 1 million people – nearly one third of the total population at the time – were inaccessible to motor vehicles for at least part of the year. There were only 46,000 telephone connections in the country – an average of 1.4 connections per 100 inhabitants – with most calls being manually connected. These were issues that needed to be addressed. Therefore, the World Bank's assistance that initially reflected immediate needs was later upgraded to full-fledged strategic support. The first World Bank Country Assistance Strategy for Albania (CAS) in 1993 responded to Albania's emergency situation during its early transition years. With the assistance of the World Bank, the Albanian government developed a three-year Public Investment Program. A group of senior economists from the World Bank prepared a comprehensive strategic document (*Albania - Building a new economy*, 1994) that drafted the main orientations of building a new functional economy on the remains of the newly collapsed centrally-planned economy.

After 1992, the World Bank started to develop another set of projects that sought to bring about improvements of a more systemic nature. The first of these projects helped build a social safety net in order to deal with widespread poverty, and offered assistance to those who ended up jobless after the collapse of the socialist economy (*Social Safety Net Project*, 1994). The breakdown of Albanian industry caused widespread and unexpected unemployment; therefore, these interventions in the labor market and the creation of a social safety net were indispensable and urgent.

71 PROJECTS
FINANCED IN DIFFERENT SECTORS
TOTALING OVER US\$ 1.2 BILLION

US\$ 1.2 BILLION
FINANCING BETWEEN 1992-2012

The population that was forcibly displaced on political grounds during the time of the communist regime benefited from the housing project (*Housing Project, 1993*).

Basic infrastructure, from roads to ports, water and electricity, were developed through World Bank financing, while extensive technical assistance was provided to build government capacities in legislative reform, staff training, tax collection and macroeconomic analysis (*Technical Assistance Project, 1993, Agriculture Sector Adjustment Credit, 1993, Transport & Infrastructure Project, 1993, Enterprise & Financial Sector Adjustment Credit, 1994, Labor Market Development Project, Tax Administration Modernization Project, 1994*).

The World Bank has supported a number of projects that were aimed not just at delivering an immediate alleviation of poverty, but most significantly, at providing sustainable tools and long-lasting development to foster further growth. From 1992 until 1996, Albania received US\$1.53 billion in foreign assistance, of which IDA provided US \$272.5 million, or 18 percent of the total assistance.

Major achievements in the first half of 1990s included extensive support for agriculture production through irrigation development and inputs (*Irrigation Rehabilitation Project, 1994*). By that time, more than 90 percent of Small Medium Enterprises (SME) in agriculture production and distribution was privatized. Among the most successful projects of this period was the program of rural credit (*Poverty Alleviation Project, 1993, Rural Development Project, 1995*). Agricultural production increased by 57 percent in constant

prices between 1991 and 1995. Poverty was alleviated through the creation of the social safety net, from which roughly 1 in every 5 Albanian families benefited. In tandem with such developments, between 1993 and 1995 IDA helped with the rehabilitation of public schools (*School Rehabilitation Project, 1994*) and health centers (*Health Services Rehabilitation Project, 1994*).

World Bank Group

THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

Provides interest-free credits to the world's poorest countries. Established in 1960, IDA aims to reduce poverty by providing loans and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions. IDA has financed 69 projects in Albania during 1992-2008 totaling US \$950 million.

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

IBRD was established in 1944 and lends to governments of middle-income and creditworthy low-income countries aiming to reduce poverty by promoting sustainable development. Since Albania graduated from IDA, IBRD has financed 8 projects totaling US \$228 million.

THE INTERNATIONAL FINANCE CORPORATION

IFC was established in 1956 and provides loans, equity, and technical assistance to stimulate private sector investment in developing countries. IFC in Albania operates in investment and advisory services. IFC has committed US \$255 million in the country for 14 projects in the renewable energy, financial, information, and manufacturing sectors and 35 projects in advisory services.

MULTILATERAL INVESTMENT GUARANTEE AGENCY

MIGA was established in 1988 and provides guarantees against losses caused by non-commercial risks to investors in developing countries. So far, MIGA has issued guarantees for three projects in Albania. MIGA's total expenditure for projects in Albania is US \$186 million.

INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

ICSID established in 1966, provides international facilities for conciliation and arbitration of investment disputes.



Albania's progress during the early transition years was impressive. Between 1993 and 1995 GDP growth was close to 10 percent per year, while inflation fell sharply to single digits. The economy was doing well and improvements were evident in many respects. The notable macroeconomic performance reflected the progress achieved quickly in private sector development and improved financial discipline in the public sector.

While the term "market economy" became an overarching slogan, state regulation in many areas was yet to be established. Many problems had been left unaddressed. Structural reform fell short in many sectors, especially in the critical area of banking. The three Albanian state-owned banks accounted for over 90 percent of deposits. Banks could not be relied upon to provide even the most basic services for private sec-

tor growth. Even simple transactions could routinely take one to two weeks to be completed. Lending was inadequate, and the volume of nonperforming loans amounted to almost 30 percent by 1995. Such limitations led to a thriving informal credit market. The lack of experience and institutional weaknesses steered this informal market toward the fast development of fraudulent savings schemes, known as pyramid schemes, between 1994 and 1996.

In 1997, World Bank assisted Albania in yet another emergency situation. The collapse of the pyramid schemes resulted in a serious macroeconomic shock and widespread civil unrest.



“...We were trying to assist Albania in so many areas: roads, schools, building job centers, water supply, irrigation, agriculture, micro-credit...the list goes on. It was all perhaps more than they or we could handle all at once. As I familiarized myself with this extensive portfolio, I discovered, unsurprisingly, that some of the projects were success stories, some not so much, and there was more than one failure. We had suspended budgetary support, I recall, because of certain fiscal issues. These were soon to be exacerbated, dramatically, by the financial pyramids that resulted in civil conflict and a total breakdown of law and order.

Albania had opened up its economy some years before and the public sector was institutionally very weak. Those projects that found a strong (Albanian) leader and had strong constituency, did well. Absent those elements, projects were less than successful. It did not take me long to confirm in practice what I already knew in principle: the best thing we could do for Albania was to accompany the efforts of Albanians themselves. Beyond this, our presence there was not really that important!

I left my assignment as Country Manager near the end of 1999. In a period of something over three years, I had witnessed political crises and the resulting failure of law and order. The war in Kosovo had a powerful impact on Albania; more than half a million Kosovars took refuge in the country and were there for several months. In tandem with other donors, we resumed support for Albania's budget, particularly when the Kosovo War resulted in unforeseen expenditures. With this help the government was able to keep functioning in very trying conditions. In a notable achievement, the pyramids schemes were investigated, closed down, and some of the operators were prosecuted. The financial sector stabilized again; a state bank was privatized with the assistance of the World Bank and IFC.

All the time I was in Albania, the private sector never lost its dynamism. As a more peaceful environment prevailed, life started to get better. Construction picked up, new schools opened. Public institutions, however, were still weak so the Bank decided to offer targeted assistance there also, particularly on matters pertaining to public sector management. Gradually, the institutional framework started to show signs of improvement, albeit tentative at first. As Albania's economic growth subsequently accelerated, we again did our modest part. That is to say, we accompanied the country's own efforts...”



“...In 1997, I was just appointed country director. Albania then was a small country in Southeast Europe, but a center of attention of the international community. The collapse of the financial pyramid scheme in early 1997 created massive internal civil unrest. With continued regional instabilities as a result of the Balkan wars, there was much concern about Albania’s internal stability. As events after the pyramid scheme collapse cooled down and internal order began to be restored, Albania was taken into the grip of events in Kosovo and Serbia. Would there be another Balkan war, this time involving Albania? Would Albania erupt in flames in light of regional and internal instabilities? But when the Kosovo war erupted in 1999, Albania was well prepared. Huge numbers of refugees from Kosovo entered the country. They were received and supported with great hospitality. It was touching to witness this act of solidarity and generosity of the Albanian people. But fortunately the war was very short. We returned to the Albania we knew – with pride and satisfaction about how well the Albanian people managed these highly unusual times.

And these were unusual times for the World Bank and Albania as well. The World Bank was an exceptionally active partner at that time. Albania received large amounts of support for many different operations, such as health, education, micro financing systems, agricultural development, and infrastructure. Budget support measures were important so that fiscal resources were sufficient for the administration to continue functioning. Given political and regional fragilities, timing mattered and we managed to get loans approved and disbursed with very few delays. The often-bureaucratic, cumbersome World Bank showed that it could act quickly and be responsive in exceptional circumstances. The task was to support Albania quickly, as the danger of system collapse was serious. I was a regular visitor at the World Bank Executive Board explaining the unusual development challenges of Albania and to ask for support for this little and formerly rather unknown country.

And collaboration with Albanian authorities was excellent during these tumultuous times. There was much mutual appreciation and collaboration based on partnership and trust. And Albanian authorities were excellent in putting us to work. There was a large World Bank team working on Albania in a very large number of sectors, virtually always, on any day, during any hour. I was officially stationed then in Washington, DC, but together with my youngest children lived many weeks during the year in an apartment in Tirana, so I could be closer to the team. We were asked to work hard, and we enjoyed it. Working on Albania during these difficult times was adventurous, exciting but also very rewarding. There was much passion, commitment and drive to get things done in the joint Albanian World Bank team. Rarely have I experienced such trusting and collaborative cooperation between country authorities and a financial institution...”



After the events of the late 1990s, efforts were concentrated on strengthening feeble institutions and improving governance. Learning from past mistakes, the banking sector was placed at the focus of structural reforms. One of the key achievements was support provided for the creation of the modern Central Bank of Albania by the World Bank and International Monetary Fund (*Recovery Program Technical Assistance, 1997* and *Rehabilitation Project, 1997*). Starting in 1998, the Bank of Albania operated independently of the government in accordance with international standards. The basic concept of the Central Bank as monetary authority and supervisor for the financial sector was new for the country.

During this period, Albania developed tax collection capacity and laid the groundwork for medium-

term expenditure planning that helped to better prioritize expenditure in the most important and highest yielding sectors. The World Bank also provided a wide range of immediate and much-needed financial support to relieve budgetary pressures. Within a record time of 30 days a *Public Expenditure Support Credit* (1999) in the amount of US \$30 million was disbursed. The World Bank increased the amount of the *Structural Adjustment Credit* (1999) from US \$20 million to US \$45 million. The Bank also assisted the government in providing aid and services to Kosovar refugees and to the local population in the affected areas through a *Post-Conflict Grant*, and a *Supplemental Credit* (1999) to the *Community Works Project*. Two additional projects, *Emergency Road Repair* (1999) and *Emergency Water Supply* (2000) were designed to address further post-conflict needs.

US\$ 125 MILLION
FINANCIAL SUPPORT
FOR SIX PROJECTS IN 1999,
SOME FOR IMMEDIATE NEEDS



“Banking Sector Reform represents one of the most successful collaborations between Albania and the World Bank. It envisaged a long term vision and immediate action. Dissolution of pyramid schemes (Ponzi schemes), the establishment of non-performing loans agency, restructuring and privatization of state owned banks, growth of domestic and foreign banks and the establishment of Deposit Insurance Scheme, set the premises for the development and modernization of our banking system. This complex reform encouraged and supported the development of the private business in the real reactors of our economy, impacting positively our long term development agenda.”

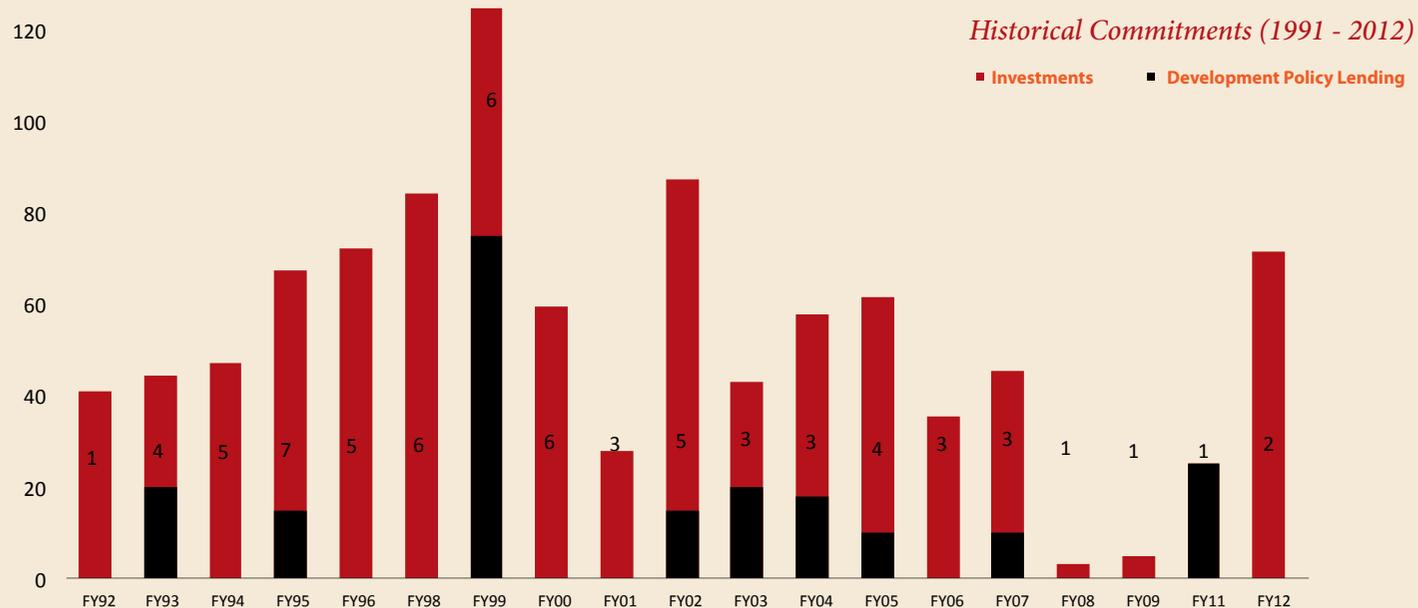
ARBEN MALAJ *Minister of Finance 1997-1998, 2003-2005*

The second Country Assistance Strategy (CAS) followed Albania’s civil crisis of 1997 and covered the period from 1999 until 2001. This strategy was introduced at a time when Albania had an opportunity to move from short-term crisis management toward a long-term vision of sustainable development. It supported government efforts to improve governance and strengthen institutions by building efficient and inclusive public institutions. Despite important improvements, the country’s institutions were far from meeting the desired standards. The Bank’s strategy also targeted improvements in private sector growth and business environment, while emphasizing social progress in terms of human development, social insurance, education, and healthcare.

With the macroeconomic situation more stable by 2000, Albania began to place a major emphasis on addressing the issues of poverty and growth in a structured way. World Bank studies identified poverty in Albania as a multidimensional phenomenon. Poverty, defined in terms of low income and/or consumption in Albania, was relatively high (a quarter of the population lived in poverty and about 5 percent in extreme

poverty) mainly due to limited job opportunities and low income, particularly in agriculture. Poverty manifested itself not only in income deficits, but also in limited access to and poor quality of basic services like education, healthcare, water, and sewerage. The revised Strategy in early 2000 tackled poverty in a cross-sectoral way, with due attention paid to social cohesion and inclusive institutions. Several projects supported this comprehensive approach (*Microcredit Project, 1999, Poverty Reduction Strategy Credit, 2000, Education Project, 1999, Agriculture Services Project, 2001, Social Services Delivery Project, 2001*).

In 2000, the World Bank assisted the government in the preparation of the Growth and Poverty Reduction Strategy (GPRS), a multi-sectoral approach to the reduction of poverty. The GPRS presented a long-term vision of Albania’s EU integration, and a medium-term strategy for 2002 to 2004. The strategy was based on two pillars: improved governance and strong economic growth. The strategy also identified healthcare, education, and infrastructure as priorities. During this period several results were achieved. Albania succeeded in



sustaining high rates of economic growth and pursuing structural reforms. After a slowdown in 2002 caused by electricity shortages and floods, the economy was once again on the road to growth.

This was a time when Albania had a real opportunity to move from short-term crisis management toward a long-term vision of sustainability. *The 2003-2005 World Bank Country Assistance Strategy* was formulated in this context. It underlined the fact that Albania needed to move aggressively toward establishing creditworthiness and eventually gain access to international financial markets. To achieve this, Albania had to address macroeconomic imbalances, speed up essential reforms in the business environment, and improve debt management. The poor state of Albania's electricity sector also required intervention.

However, none of the aforementioned steps could

be implemented adequately without competent and responsible public institutions. Albania's fourth CAS was aimed at supporting government's efforts in the improvement of governance and the strengthening of institutions by building efficient and inclusive public institutions, while simultaneously providing increased transparency and accountability. It also sought to promote sustainable private sector growth and to foster human development by improving access to and quality of education and healthcare, strengthening the social insurance system, and improving social assistance. The CAS supported Albania's National Strategy for Social and Economic Development (NSSD) as well as the goal of EU integration.

Since the beginning of the transition period Albania has articulated its long-term vision of joining the EU. Successive Albanian governments have placed Eu-



“...In 2003 when I started working in the region, and particularly in Albania, the challenges of poverty, social exclusion, fiscal management, governance, and environmental management were enormous. There were no easy solutions and the politics—local and regional—complicated things even more. Yet, the people and the governments were determined to succeed. They listened to the Bank, they listened to the advice we provided, they mastered the analysis we carried out, and together we tried to find solutions and to implement them. Year after year, as I came back to Tirana for my quarterly visit I would see the difference: the Lana River in Tirana will be a beautiful green oasis, the city will be full of life and economic activity, people will be smiling, new buildings, shops and restaurants will change the city skyline.

By 2008, when I was about to transfer to Central Europe, it would take me and Julian—our driver—half the time to go from Tirana to Podgorica, or to arrive in Macedonia for a meeting, or even to visit Saranda and Korça!...”

ORSALIA KALANZOPOULOS Country Director and Regional Coordinator for Southeast Europe, 2003-2008

US\$ 130 MILLION
FINANCING FOR THE PERIOD
2003-2005

ropean accession at the top of their agendas. The vision for European integration and NATO membership has helped motivate institutional reforms.

To achieve these goals, the World Bank made available approximately US \$130 million for the period 2003-2005. The implementation of this three-year program brought major progress, especially in privatization, trade liberalization, and the building of a sound financial sector (*Poverty Reduction Support Credit, 2004, Financial Sector Adjustment Credit, 2002, Municipal Water and Waste Water Project, 2003, Trade and Transport Facilitation in South East Europe, 2000*).

Things had already gained speed by the mid-2000s. Growth continued at a steady pace and the institutional basis was consolidated as Albania was showing sound macroeconomic performance. With so much progress

achieved thus far, priorities had also been upgraded to more demanding heights. The World Bank's assistance was tailored to build on previous achievements and to address the challenges ahead. The 2006-2009 CAS program sought to support Albania's efforts in improving governance while increasing selectivity. The CAS placed an emphasis on more coherent efforts in addressing the challenge of poor governance in Albania and introduced a 'Governance Filter'. This new CAS program focused on two pillars: continued economic growth through support to private sector development and improving the delivery of public services, particularly in the social sectors.

By the end of 2008, ten projects totalling more than US \$170 million were delivered under this CAS from IDA, while IFC committed US \$55.2 million. Progress was notable in several areas, including policy,



“IFC worked hand in hand with the relevant government agencies, mobilized top local and international experts, and committed itself to timely and quality delivery of assistance. We focused on cutting red tape, the downsizing of licenses and permits, and improving regulations and processes. The challenges were many and it took time to diagnose, review, compare, advise, and to coordinate, but most of all, to maintain the momentum for all actors involved. To our satisfaction these efforts paid off: The Doing Business 2009 report ranked Albania second among top ten reformers. As the runner-up in reforming regulations, Albania rose from 135th place to 86th in the global ranking. Furthermore, the Doing Business 2010 report once again ranked Albania among the best reformers, rising from 86th place to 82nd in the global ranking.

And as the saying goes, there is no need to reinvent the wheel; it is sufficient to continue to introduce business reforms that have been implemented successfully in other places. IFC is there to offer support to reformers to follow a long-term agenda and introduce business reforms every year. IFC involves all relevant actors and helps institutionalize the reform effort. We believe that reform-minded governments are interested in improving their regulatory environment to enhance the chances for success. IFC is there to accompany them.”

ELIRA SAKIQI IFC country representative for Albania

institutional and legal reform for strengthening public expenditure management, land management and business regulations, improvements in transport, community and agricultural infrastructure, delivery of social care, and municipal water supply services.

During this period Albania's economy maintained high growth rates of up to 7 percent of GDP, which resulted not only in middle-income status in 2008 and Albania's full graduation from IDA to IBRD in 2009, but also a significant reduction in poverty between 2002 and 2008.

The private sector also had a strong impetus all along, and the IFC played a key role in introducing the best practices for public-private partnerships. The IFC

assisted entrepreneurs in vital sectors to become more competitive in the market by introducing international standards, corporate governance, alternative dispute resolution instruments, recycling linkages, and waste management. A strong signal was sent to private investors in Albania and the region when the IFC gave support to Antea Cement, (among the largest Foreign Direct Investment (FDI) in the country) in 2008. In 2009 IFC supported the project to rehabilitate the Patos-Marinza oil field and helped to address significant environmental remediation needs.

IFC has used the *Doing Business Report* to inspire governments to initiate reform and to help policy makers identify and adopt good practices. Albania has



much to gain from the best regulations and practices that are working elsewhere in the region and beyond to make the country attractive for the private sector as an engine of growth.

In the second decade of this century, the World Bank has concentrated on supporting the *National Strategy for Development and Integration* through strategic priorities for better governance through institutional development, transparency and efficiency, private sector development for growth and poverty reduction, and human development. These priorities set the framework for the current World Bank Group *Country Partnership Strategy* (CPS) for Albania, which covers the period from 2011 until 2014 and will be the first CPS to be presented following Albania's graduation from IDA in mid-2008.

The current CPS aims to further advance the implementation of the *National Strategy for Development and Integration* through three strategic pillars: i) supporting economic recovery and growth in a difficult external environment; ii) broadening and sustaining Albania's social gains; and iii) reducing vulnerability to climate change, particularly through improved water resource management. The CPS program also continues to support governance improvements in Albania. Mid-term review of the CPS, while affirming the priorities that had been agreed upon, recognized the need for an increased emphasis on the first pillar. As part of its initiative to help several countries in Central and South-Eastern Europe mitigate the impacts of the on-going Eurozone crisis, the World Bank has also increased the financing envelope available to Albania, primarily for strengthening financial stability, growth, and macro-economic management.

82ND PLACE
ALBANIA IMPROVED FROM 136TH PLACE IN 2007 TO 82ND IN 2011. THE DOING BUSINESS 2009 REPORT RANKED ALBANIA SECOND AMONG TOP TEN REFORMERS



“...I learned a lot about leadership during my time in Albania. I learned it from my staff, my management, and Albania’s leaders. I also learned about leadership from a very, young village headman who walked two hours down the side of the mountain to take a ferry on the Drini and then a bus into town... all to reach a meeting with some World Bank officials who only asked him to repeat, again, the seemingly perpetual travails of his tiny remote hillside village. The meeting, of course, started late and he had missed the return ferry. Don’t worry, he would enjoy the night with his city cousin and return tomorrow, he assured us. I also learned some things about leadership from reading Kadare.

In Albania, I learned that leadership is about passion, it’s about people, and it’s about proof. To be a leader, you have to have the passion to create a vision and to believe in it. Maybe the vision is a simple one: a vision of a small rural road, long promised but never delivered, that will connect a tiny hamlet – one that is often lost in the winter snow – to a main road whose keepers dust and sweep it year round, like the red carpet for a prince.

In Albania, I learned that to be a leader you have to reach people -- to listen to them and to talk to them (in that order, by the way). I learned about listening to your neighbors, to your constituents, to your staff, to your audience. They may challenge you, “Do something!” but it is they who usually have all the answers about what to do or how to do it. You may be the leader, but really you are simply the pivot that makes the vision come true. When we gave him the chance, he talked to us, our young headman, about his village, his people, his life, and about their dreams of a tiny road. He was neither shy nor aggressive, just firm with the weight of his listening to them and to us. And he touched us in a way that no campaign speech, no crusade, no development pitch really can or should.

So we acted, carefully and credibly... I think, by now, that the community of that young man has their road. It’s the proof of his good leadership, for me anyway.”

CAMILLE NUAMAH Country Manager in Albania, 2007-2010

The CPS highlights the importance of resuming fiscal consolidation after the strong fiscal stimuli pursued by the government between 2008 and 2010. This is even more important today given the continued volatility in European economies. The CPS also emphasizes the

strengthening of public expenditure management. The return to strong growth rates needs further regulatory and institutional reforms in order to improve competitiveness and increase investment flows. Since the growth induced by structural shifts in the economy is



“At the end of 2012 after almost five incredibly exciting years I shall pass the responsibility for the World Bank’s program in Albania to a new Country Director. I have taken advantage of the breadth and diversity of our portfolio in Albania to travel to almost every corner of the country - visiting schools, hospitals, laboratories, irrigation systems, power plants, sewage plants, markets, roads, bridges, lakes, dams and forests. I shall leave with a heavy heart, taking with me so many unforgettable memories -the breathtaking coast and spectacular mountains, the ancient fortresses and castles that recall Albania’s heroic struggles against invaders, the unique charm of the old stone cities of Berat and Gjirokaster, not to mention the best sea-food I have ever eaten. And more importantly, the memories of the hard working, creative, entrepreneurial Albanians I have met through our projects and the friendships I have developed with the many talented and committed people I have had the privilege to work with...”

JANE ARMITAGE Country Director and Regional Coordinator for Southeast Europe

almost exhausted, improvements in education levels and adaption of skills to meet the demand of the labor market are imperative. The World Bank and IFC continue to help to reduce the infrastructure deficit in a fiscally sustainable way, namely by increasing private

investment and fostering public-private partnerships. Improving the effectiveness of social protection systems and key health services in order to make economic growth inclusive to everyone has further growth in priority at the time of weaker economic outlook. ■

LOOKING AHEAD

I have gone back to Albania several times since my assignment there as Country Manager. Each time I find myself quite lost in the new Tirana. Happily lost. It is now a lively city, most would agree. I have revisited some of the other major centers as well, Durres for example, and have witnessed the same dynamism and progress at work. Going from place to place by road is the way to see this. There is activity everywhere. Albania still faces problems and challenges, but it is going forward... and we continue to do what we can do best: we accompany!

Carlos Elbirt

Last year I have returned to Albania, as a private visitor. I travelled along the new roads to the North, I travelled along the sea shore to the South. I remembered our long and cumbersome travels from Tirana to Kukes in 1998 and 1999. The country I visited last year was a different Albania. It was a different country – much more developed, with much higher standards of living. Development can happen and it happens fast in Albania... I hope that some of my Albanian students will assume leadership for country's further economic and social development.

Arntraud Hartmann

On every occasion, this remarkable country and its people will continue to amaze me with their ability to engage, speak languages with no accent and to learn, learn really fast. Our country office is an example of this evolution as their good practices and innovations are shared across the Bank and international institutions seek their views and expertise!

Orsalia Kalanzopoulos

I shall continue to follow Albania's progress closely, and plan to come back regularly as a tourist, to share with my family the special places I have discovered and to reconnect with old friends. One of my personal goals is to read every one of Kadare's books - I think I am about half way through so far. Thank-you to the wonderful staff in our Tirana Office, I shall miss you all immensely and please make sure to invite me back for the 25th Year celebration!

Jane Armitage



Results by Sectors

Throughout the past 20 years World Bank support for Albania has extended to a large variety of programs and initiatives, providing assistance to virtually each and every economic sector. It is difficult, if not impossible, to mention an area linked to sustainable development, growth, and poverty alleviation to which the World Bank Group has not made a contribution. Collaboration between Albania and the World Bank Group has also contributed to the social, environmental, and cultural advancement of the country.

During these 20 years World Bank funds have helped to build new roads, bridges, ports, water and sanitation infrastructure, energy capacities, schools, hospitals;

improve public sector management, strengthen the financial sector and encourage private sector development. World Bank engagement has been often used to mobilize financing from the community of development partners. At the same time, the World Bank has provided knowledge and advice at an institutional level, contributing to improvements in governance, accountability and institution building, legal framework development, structural reform, and EU integration.

Education

Education is universally recognized as key to fostering economic growth and alleviating poverty at both local and national levels. Sustaining growth in the Albanian economy needs a more sophisticated labor force equipped with competencies, knowledge, and workplace skills that cannot be developed through basic education alone. The Bank has supported three projects in the education sector (*School Rehabilitation and Capacity building, 1994, Education Reform Project, 2000, Education Excellence and Equity Project, 2006*). These projects have helped to build or reconstruct more than 300 schools in priority areas, in which 100,000 children have benefited from new schools.

Major, wide-ranging education reforms were initiated in 2006. These reforms included curriculum reform, improved teacher training, a more equitable distribution of resources across regions, improvement of learning conditions, less-crowded classrooms, an increase in teachers' average salaries and the renewal of the content and administration of the Matura examination (the secondary school-leaving examination) to ensure objective results. Reforms continue to be implemented successfully.

ALBANIA E-SCHOOLS

As Albania improves and modernizes primary and secondary education, the government is providing students—including those in remote and rural schools—with computers, internet connections and lessons on how to use them.

In the farming community of Fushas, Baldushk kids walk to class in a school that draws water from a well, and heat from a woodstove. Remote, yes. Cut off, no longer. Since the beginning of the school year, students have been learning to use computers and have been navigating the internet on eleven new computers. It's the most popular class of the week.

Albania is working to educate a more sophisticated workforce, and to give kids in rural areas the same chances as those in cities. The Ministry of Education—with 15 million dollars of support from several donors, including the World Bank—is providing 17,000 computers to all of its fifth to twelfth graders—more than half a million students. It is training teachers and updating its curriculum to include computer classes.

“For several years, teaching classes were routine, everything was limited and tied to the same book. But now the geography classes, can be associated with a variety of information downloaded from the informatics lab. It is the students who ask for it”, says Klementina Ferhati, geography and computer teacher.

Computers have brought the outside world to this community and dozens like it. And the kids want more.

Education Excellence and Equity Project, 2006



Throughout the last four years, the Excellence and Equity Project, jointly financed by the Government, the World Bank, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEDB), has helped to improve the quality of learning conditions for students and to increase enrollment in general secondary education, especially for the poor. 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. 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. The project has also supported a comprehensive range of reforms in the education sector.

Health

Healthcare services have been improving, but more must be done to ensure that poor households have access to good healthcare. Albania spends about 6 percent on healthcare, in line with the average for countries at similar income levels. The public sector contribution is relatively low and 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 healthcare 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 emergencies. The poor population faces an economic barrier when it comes to accessing quality healthcare services, a problem that is exacerbated by the lack of

300 SCHOOLS
BUILT OR RECONSTRUCTED

100.000
CHILDREN BENEFITED

AN ALTERNATIVE TO POVERTY OR IMMIGRATION

A project launched experimentally in 1992 offered a welcome alternative to dire poverty or hard-knock immigration. The idea was simple: offer small loans to trustworthy villagers and wait for their investments to bear fruit. This micro-credit scheme, supported with additional World Bank funds in 1999, has grown into a successful network of rural micro-credit associations serving over 10,000 members.

Zana Konini, now head of the Albanian Savings and Credit Federation, was there at the project's beginning when \$50 and \$100 loans were dispensed to villagers in cash "under the shade of a tree." "We helped thousands of farmers buy their first cow, sheep or farming equipment. People would use the cow's milk to feed their children and sell the calf to pay back their loan once a year," she says.

Explaining the advantages of borrowing and investing capital was a challenge. People didn't understand why the World Bank - such a rich institution - was coming to poor villages offering loans rather than flour, sugar, or grants. "Our program not only helped start a profitable rural economy but also introduced the basic concepts of a market economy," she says.

Micro-credit institutions, based on individual trust and solidarity between villagers, filled an important gap in the financial fabric of the country. Together with remittances sent by workers overseas, small loans helped Albanians emerge from the deep crisis of the 1990s.

total health insurance coverage. The government is committed to making improvements and is currently working to develop a health-financing policy that will address these problems.

The Bank has supported the healthcare sector in Albania through three projects (*Health Service Rehabilitation Project, 1994, Health Recovery Project, 1998, Health System Modernization Project, 2008*). By financing the construction, reconstruction, and equipping of 115 centers in the poorest areas of the country, the Bank funds have contributed to improving the quality of basic preventive and curative health services. With the assistance of the Bank and other donors, the government has established new hospital services in three major cities, and has completed the general master plan for the future of development of the single tertiary hospital in the capital. The government has also supported the complete renovation of healthcare equipment. Considerable support has been given to advance reforms in key policy areas such as decentralization, health insurance, and transparency in sector expenditures.

The recently closed *Health System Modernization Project* assisted the government in improving physical and financial access to high quality primary health care services, as well as strengthening institutions. The national plan for development of hospital sector, at national level, has been developed and currently under implementation. All regional hospitals as well as primary health care centers have been supported with main medical equipment. The Health Insurance Institute has been supplied with required IT equipment for the central and regional offices. In addition, a comprehensive range of reforms have been supported through the project. The *Social Sector DPL* supported reforms

to enhance the efficiency and equity of health spending. It also aimed to better protect the poor in times of health emergencies, including health insurance reforms in a fiscally sustainable environment.

Poverty Reduction and Social Protection

Albania's strong economic performance over the decade preceding the 2008-2009 global financial crisis was accompanied by positive changes in unemployment and a sharp reduction in the poverty rate. The World Bank has provided continuous strategic support to alleviate poverty in the country through budget support credits (*Poverty Reduction Strategy Credit (PRSC) (2002-2004) Social Sector Reform Development Policy Loan (2011), Rural Poverty Alleviation Project, (1993)*) and community based projects (*Microcredit, Community Works, Transport Projects*) as well as continuous assistance to the government (*Capacity building and sustainability of Agricultural Statistics Service, 2005*).

The preparation of Albania's Poverty Reduction Strategy Paper, known in Albania as the National Strategy for Social and Economic Development (NSSED), was the first national development strategy that explicitly addressed poverty. It emphasized policy interventions to improve education, healthcare, and infrastructure, while calling for stronger public accountability and increased public participation in decision making to empower the poor. The NSSED created a better environment for advancing reforms and reducing poverty by strengthening country ownership of the reform program, reinforcing a long-term vision, focusing on results, and encouraging partnerships.

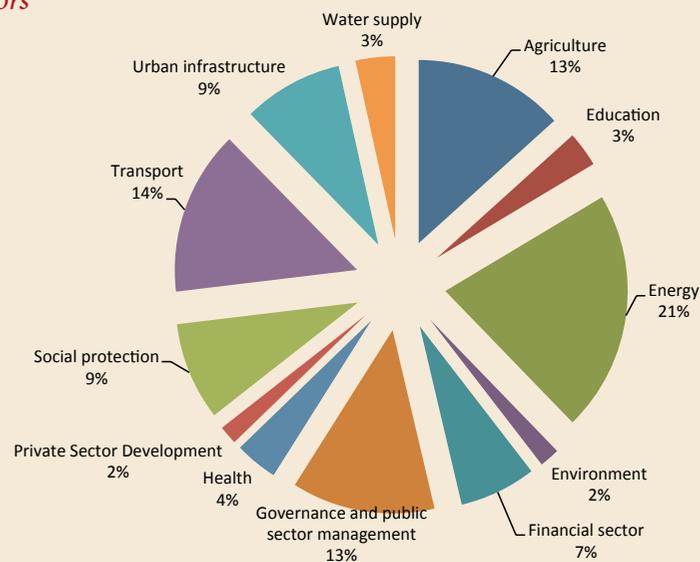
The NSSED was followed by a quick disbursing

Poverty Reduction Support Credit (PRSC) aimed at supporting its implementation. The three phases of the PRSC helped to develop and implement fiscally sustainable policies within the framework of the government's strategy. It supported more effective and efficient policy formulation and implementation, improved access to social services, better targeting of scarce fiscal resources to those most in need and policies conducive to sustained growth. The PRSC also helped consolidate reforms in public administration, public expenditure management and accountability, and social sector service delivery as a means of increasing government accountability, responsiveness, and effectiveness.

Between 2002 and 2008, the unemployment rate decreased from approximately 17 percent to 12.8 percent, and the poverty headcount rate decreased from 25.4 percent to 12.4 percent, implying that about 200,000 people were lifted out of poverty. Poverty reduction 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 between 2002 and 2005. The extremely poor population, defined as people facing difficulty in meeting basic nutritional needs, decreased from about 5 percent in 2002 to 3.5 percent in 2005 to 1.2 percent in 2008. The next challenges include reducing the incidence of poverty in the mountain areas and speeding up the reduction of pockets of poverty in urban areas. There are also concerns that poverty reduction may have stagnated in the past few years, due to the slow-down in growth.

A new Living Standard Measurement Survey (LSMS) is planned to take place in the next months with support from the World Bank and other donors. The survey is expected to provide an accurate measure

Lending by sectors



of what has happened to the poverty rate since 2008.

Meanwhile, 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 of the use of resources for social protection. The Bank has supported social protection in Albania through the *Social Services Delivery Project (2000)*, 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. The *Social Sector Development Policy Loan (DPL, 2011)* supported policy and institutional changes to improve the effectiveness of social safety nets. The

12.8 PERCENT
BETWEEN 2002 AND 2008, THE
UNEMPLOYMENT RATE IN THE
COUNTRY DECREASED FROM
APPROXIMATELY 17 PERCENT TO
12.8 PERCENT

recently approved *Social Assistance Modernization Project (2012)* is assisting with social-assistance and disability reform. In addition, the Japanese Social Development Facility grant, administered by the World Bank, supports *Youth empowerment and employment* programs in two major Albanian cities, Tirana and Durrës.

A RELIABLE OUTLET FOR PRODUCE TRIGGERS A RISE IN PRODUCTIVITY

The Agricultural Services Project, the World Bank helped fund four professionally-organized fruit and vegetable markets. The first market was established in Lushnje. There, farmers have found a reliable outlet for their produce, eliminating the need to drive for hours looking for buyers scattered in different towns. Since the market opened, production in the area has doubled both in open fields and in the hundreds of new greenhouses.

“As the quantities have increased, so have the diversity and quality of the produce on sale. Production in the area has doubled”, says Enkes Shundi, a market specialist.

Trifon Stambolliu, president of a farmer’s association in the Lushnje region says that before the creation of a central market, he grew only cucumbers and only in 6% of his small plot of land while now a third of his land is covered by them. He grows cucumbers but also tomatoes, melons, cauliflower and salad.

“My production has increased tenfold,” says Stambolliu, 54, “partly because I use better technology but mostly because I now have a place to sell. Before, we would sell our produce straight out of a van. It was muddy in the winter and dusty in the summer,” he recalls. The new market is paved and divided in clear sections. A light roof provides shade that helps produce stay fresh longer.

Seminars are held to inform farmers of the demand and orient their production in sensible ways. Other efforts are being made to better package and label produce for export. In time, a market like Lushnje could assemble the volume and quality of produce necessary for mass export to neighboring countries like Italy. Traders from Kosovo, Macedonia and Montenegro show up regularly at the market.

Agriculture Services Project (2001-2007)

Agriculture

Agriculture is still one of the largest and most important sectors of the Albanian economy. According to the most recent census (2011), the rural population amounted to 46 percent of the total. Agriculture is a main source of employment and income in the rural areas, contributing around 20 percent of Gross Domestic Product (GDP) and accounting for about half of total employment. Albania’s agricultural sector continues to face a number of challenges, including small farm size and land fragmentation, poor infrastructure, market limitations, limited access to credit and grants and inadequate rural institutions.

The Bank has supported agriculture in Albania through investments in irrigation, exposure to new technologies and practices, and through the piloting of a small grant program that was subsequently scaled-up by the government (*Irrigation Rehabilitation Project, 1994, Rural Development Project, 1995, Agroprocessing Development Project, 1995, Community Works Projects, 1999, 2003, Irrigation and Drainage 2 Project, 1999, Agriculture Services Project, 2001, Water Resources Management Project, 2004, Natural Resources Development Project, 2005*).

The agriculture sector has benefited from both physical intervention and from capacity building initiatives. One of the main achievements in this sector has been the implementation of a demand-driven, community-based approach, which has empowered rural communities. Small loans and grants were provided to local organizations in rural areas that helped to regulate water usage on market basis, thus providing cohesive management of water resources and in-



infrastructure maintenance. Competitive grants were awarded to farmers that had feasible ideas but lacked startup capital.

Three successive irrigation projects focused on increasing agricultural production by raising farm productivity through the rapid rehabilitation of the existing irrigation and drainage infrastructure. They also had a positive impact in poverty reduction by increasing the income of small private farmers and creating employment opportunities for dependent farm labor in rural areas. These projects also contributed to sustainability of irrigation and drainage investments through farmer participation in operation and maintenance, efficient system management and greater cost recovery. More than 335,000 hectares of Albania's irrigation and drainage system was rehabilitated or upgraded. This represents two-thirds of irrigated land. Thirty-three dams were rehabilitated. More than 100,000 families

have benefited from the irrigation schemes.

The Rural Development Project, and later, the *Micro-credit Project*, promoted small on-farm and off-farm activities to help accelerate rural economic growth. The microfinance program provided over 47,000 loans for income-generation activities in 380 villages and 8 districts. About 150,000 individuals have benefited from the program.

The Agriculture Services Project helped to create an environment conducive to rural income growth by addressing key constraints faced by Albania's emerging small-holder farmers in agricultural production, trade, and the functioning of land markets. The project orientation was of an all-inclusive nature; it addressed comprehensive seed market development, land market development, agriculture market development, community-based rural productivity, and marketing improvement. Support to farmers in production and

335.000
HECTARES OF IRRIGATION AND
DRAINAGE SYSTEM
REHABILITATED OR UPGRADED

100.000
FAMILIES BENEFITED

trade contributed to rural income growth. Through this project the availability of high quality seeds improved. Four wholesale markets built in Korca, Lushnja, Vlora and Shkodra facilitated the marketing of local agriculture products. A total of 145 grants were awarded to farmers with an impact on more than 20,000 farmers who were exposed to new technologies.

Now 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 EU requirements, including harmonization with EU legislation and standards, and taking account of the need for an integrated approach to water resource management and adaptation to climate change.

In this context, a new *Water Resources and Irrigation Project* (WRIP) has been prepared and will be approved and launched in the coming months. The project aims to strengthen the Government's capacity to manage water resources at the both national, river basin and local levels, to improve the performance and sustainability of irrigation systems in the Drin-Buna and Semani river basins, and to pilot public-private partnerships for operating and maintaining the irrigation systems in the tree areas.

HELPING COMMUNITIES TAKE CHARGE OF THEIR NATURAL RESOURCES

Decades of logging and overgrazing devastated many of Albania's forests, leading to poor soils and erosion. The Albanian government is working with communities to plant new trees and to let forests grow undisturbed so they can one day become a sustainable source of income and jobs.

Three years ago the acacia forest above Rubik city was clear cut—a result of years of acid rain from a nearby copper plant and overuse by citizens. Now the plant is closed, and the forest is coming back to life, thanks to the same citizens who once stripped the land bare.

A government program supported by the World Bank and the Swedish government is helping Rubik and 251 other communities plant trees and to better manage forests and pasturelands—resources used by almost a million people. The project has helped transfer hundreds of thousands hectares forest more to other local governments across Albania. The main aim was to stop the further degradation of the forests. Villagers receive a little cash to tend their orchard but also to thin the forest to grow better. There has been 8% increase in income earned from forest activities in communal forest and pasture lands and 28% increase from forest and agriculture activities in micro-catchments. Erosion has been reduced by approximately 220,000 ton.

We have a lot of needs and a lot of challenges especially to know better the huge possibilities of the forest to generate employment, to reduce erosion and flooding" says Haki Kola, forest engineer.

Sixty percent of Albania's forests are now being managed by local governments. As the forest cover grows along with new attitudes, this sustainable resource can offer benefits for this generation and the next.

Forestry, Natural Resources Development Projects (1996, 2006)

Environment

In partnership with the Global Environment Facility (GEF) and several donors, the Bank has helped to preserve important natural and environmental assets of Albania and to foster local economic growth through a number of projects (*Forestry Project, 1996, Integrated Water and Ecosystems Management Project, 2004, Natural Resources Development Project, 2005, Integrated Coastal Zone Management and Clean-up Project, 2006, Afforestation & Reforestation of Refused Lands in Albania BioCarbon Fund Project, 2007, Butrint Global Biodiversity and Heritage Conservation 2007*).

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 gradual approximation of its laws with the environmental legislation of the EU. Challenges include limited enforcement (due to the weak capacity of the environment authorities both at central and regional levels) and a lack of resources for monitoring and ensuring full compliance with environmental standards.

The recently completed *Natural Resources and Development Project* helped reduce upstream risks of erosion by improving the management of Albania's wetlands, forest, and pasture resources, as well as creating water catchments. This project enhanced productivity and incomes by improving community-based natural resource management in 251 communes in mountainous areas prone to erosion. Land erosion has fallen by 220,000 tons. The implemen-

tation of the plans has involved the employment of some 6000 workers, including 1900 women and 1900 beneficiary families. A follow-up project is being prepared to improve and promote the value of ecosystem services, in partnership with SIDA. Through biomass regeneration, forest-dependent communities successfully participated in the global BioCarbon Fund program, which supports, on a pilot basis, reducing GHG emissions through improved biodiversity and natural resource management improvements and provides additional resources to local communities.

The on-going *Integrated Coastal Zone Management Project* supports the improvement of critical public environmental infrastructure and municipal services of the southern coast. The component that supported, with the help of the grant from the Government of Netherlands, the reduction of environ-

220.000
TONS
LAND EROSION REDUCED BY
220,000 TONS

CLEANING UP AND REVITALIZING PORTO ROMANO IN ALBANIA

Hundreds of tons of chemicals and pesticides from an abandoned lindane factory were left unattended, and contaminated the surrounding land, water and air in Porto Romano area. A project, supported by the World Bank and the Government of the Netherlands, invested in the cleanup of Porto Romano, close to Durres. What once was a highly contaminated area of about 24.6 hectares, by the end of May, 2011 was clean and will soon be green.

After the plant closed in early 90s, 5,000 people who emigrated from remote and poor areas of North East Albania settled here and built houses around the empty buildings. Their livelihoods depends on fishing, farming and cattle breeding, which were precisely endangered by the contamination on site.

“The smell in the area was horrible and my second son was getting sick very often. But we were lucky to get assistance and move from the area, thanks to this project,” says Thellenxa Dalipi. Now, her family and the four others have been moved from the contaminated site to apartments in Shkozet.

Almost 750 tons of incinerated chemicals were repackaged in the storage site and transported to a specialized German disposal site in 2006. A local NGO informed the inhabitants and school children about the risks of the contaminated area and how to avoid them. Frequent free tests of milk, water, and meat were offered to inhabitants.

Results of the cleanup are visible and landscaping is taking shape. Trees are planted and a playground will be constructed so that over 400 children of the Met Hasa Elementary School can play safely.

“I like Porto Romano better now, the trees and the fresh air,” says Xhesi Hodo, student. Their parents are also confident that their kids will not suffer from respiratory or skin diseases anymore. They hope that a revitalized area will bring more jobs and prosperity for their families.

Integrated Coastal Zone Management and Clean-up Project, 2006

mental and health risks from industrial pollution in Porto Romano, was completed in 2011. The *Lake Shkodër Integrated Ecosystem Management Project* is helping to maintain and enhance the long-term value and environmental services of Lake Shkodra and its natural resources.

Urban Infrastructure

Albania is endowed with a variety of fascinating and distinctive places to visit, including a range of seacoast towns along the Adriatic, historic cities, and cultural heritage destinations featured on UNESCO’s World Heritage List. Years of under-financing of 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. Such problems 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 *Urban Land Development Project (1996)* has provided essential urban infrastructure to informal settlements on the outskirts of Tirana. About 3,000 families have benefited from this project.

The *Land Administration and Management Project (LAMP)* is assisting to survey and register an estimated 400,000 properties in urban areas, providing residents and businesses with secure property rights. So far, it is completed the registration of over 28,900 titles and the digitization of property records at some Immovable Property Registration Offices (IPRO), has reduced property registration time from 47 days to less than 10 days. Full automated property registration system is operational in Tirana, with an on-line connection to notaries. Eight cities and towns in Albania will now be guided by Comprehensive Territorial Plans that were completed under the Project, based on extensive community consultations.

Municipal investment programs to upgrade and rehabilitate essential urban infrastructure services are



supporting four cities. The investments helped provide retail market space for small-scale businesses previously operating under make-shift structures on sidewalks on the main street of the town of Berat; paved streets to improve commuter and pedestrian mobility and access in the city of Shkodra and Kamza; and improved and restored building facades and downtown amenities in the town of Elbasan. A comprehensive street addressing system was installed in 13 towns, improving the ability to provide municipal services and to enhance tax collection.

In response to the emergent needs of flooded areas of Shkoder and Lezhe, the Bank has been helping to restore damaged facilities and services, such as construction of storm-water collectors and rehabilitation/protection of Water Supply Pumping Stations and Drainage Pumping Stations, serving to more than 150,000 residents, as well as numerous homes

and business of the area. The construction and protection works have been completed for the after-the-flood restorations of Dobrac and Bahcallek Water Supply Pumping Stations, and 1 km storm-water collector in the main boulevard of Shkoder.

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 (2008)* which aims to strengthen institutional capacity, 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

LESSTHAN **10** DAYS
PROPERTY REGISTRATION TIME
REDUCED FROM 47 DAYS TO LESS
THAN 10 DAYS

Emergency Command and Control Center was established in Tirana, and the disaster response capacity of the government is being gradually strengthened through the provision of specialized equipment for the emergency response units. In parallel, with grant resources from the Global Facility for Disaster Reduction and Recovery (GFDRR) assist the government in the development of the medium- and long-term flood risk mitigation options for Drini-Buna river basin.

Water Supply and Sanitation

Albania is endowed with water resources of 8,600 m³ per capita, of which only 6% is withdrawn annually. This generous allowance helps the country to provide high coverage of water supply and sewerage services. But the relatively high coverage is negated by the poor quality of service. The country has been suffering limitations in water supply with the demand constantly increasing due to rapid economic development, urbanization, and increased levels of water losses (estimated to be greater than 50 percent in all cities).

The water sector is plagued by problems similar to those being faced by the power sector, including: high consumption, wastage and misuse, illegal connections, below-cost tariffs, inadequate revenue collection, uncontrolled extraction of underground waters, and insufficient investment in physical infrastructure. Consequently, despite Albania's abundant water resources, water supply in urban areas is intermittent, and less than half of the rural population has access to piped water. The lack of reliable water supply hampers private investment and endangers public health, especially that of the poor. Without reform and investment in

physical infrastructure, the ongoing deterioration will lead to crisis situations in many urban and rural areas.

The World Bank has been involved in the Albanian water and sanitation sector since 1994. Alongside other donors, the Bank has provided a steady stream of investments to help improve water and sanitation services, while contributing to institution building measures. The *Durrës Water Supply Rehabilitation Project*, followed by *Water Supply Urgent Rehabilitation Project (2000)* supported the government in its effort to improve the water supply services of four municipalities (Durrës, Fier, Lezha, and Saranda). Both projects focused primarily on the rehabilitation of the existing water supply facilities to eliminate water shortages and associated health risks. The Urgent Rehabilitation project was more of a stop-gap operation linked to the Kosovo refugee crisis, thus addressing immediate and urgent constraints in water supply in these cities.

In close cooperation with other donors, the Bank is taking the lead in helping the government carry out policy reforms, focus on cost recovery, and to foster private sector and community involvement. At the beginning of 2000, with the assistance of the World Bank the Albanian government has prepared a Water Supply Action Plan and a comprehensive Water Supply and Sanitation Strategy.

The Municipal Water and Wastewater Project (2003) supported investments in improving water supply and sanitation services in four participating cities (Durrës, Fier, Lezha and Saranda), and tried to assist water utilities to introduce a new incentive-based multi-city management contract approach, with the objective of increasing their financial viability. In parallel, *The Integrated Water & Ecosystems Management*

3 PLANTS
FOR WASTEWATER TREATMENT
PLANTS BUILT IN THE COASTAL
CITIES OF DURRËS, LEZHA AND SARANDA



Project (2004) built wastewater treatment plants in the coastal cities of Durrës, Lezha and Saranda. The wastewater treatment plants, complemented by EU and Government of Albania projects in sewerage collectors and secondary networks, will improve the municipal wastewater services and the quality of wastewaters discharged in Adriatic and Ionian Sea.

Following the sector decentralization initiative and adoption of the National Strategy for Development and European Integration, the Bank provided further assistance to the Government of Albania in preparing the new National Water and Sanitation Strategy, which articulates the reform agenda and, at the same time, supports a more programmatic approach among donors and IFIs, financing the majority of investment in the sector, today. *The Water Sector Investment Project (WSIP)* is currently being prepared and will support priority WSS investments to improve the quality of wa-

ter utility performance and services, for both local residents and prospective tourists in the Durrës region, as well as key institutional reform and activities orienting utility towards operational cost recovery, improvement of sector governance and regulation, etc.

Transport

The country's swift transition to a market-oriented economy made necessary a functional transport system in order to cope with the ever-increasing demand for the circulation of goods, services, and people. The World Bank concentrated significant financing and expertise on assisting Albania's transport system by establishing a modern infrastructure network. This support helped facilitate growth, increase efficiency of cost recovery, increase road safety, increase environmental protection, and promote cooperation with the private sector.

CONNECTING RURAL ROADS IN ALBANIA

The on-going Secondary and Rural Roads Project (2008) is revitalizing remote areas by connecting rural population with markets and essential services. The road has made life a lot easier for small businessmen like Arben Muca—a cheese monger who was born in a village of Dumre and still lives there. He knows about long days. Every morning after milking his own cows, Arben hops in his van to collect buckets of still-warm milk from small farmers. His truck has no refrigeration—the milk needs to reach the small processing farm before it spoils. With the new road, the trip is five times faster than before. “The new road shortens the work day, it takes less travel time and less fuel. All these are expenses—and work gets done faster,” says Arben.

Secondary and Local Roads Project (2008)

Since the beginning of the Bank’s intervention in the sector, nine projects have been implemented and brought positive changes in access to education, healthcare, postal and banking services, and in connecting the major urban centers with the international market.

Old roads were paved, extended, or upgraded; and

new roads were built through various projects that targeted national and rural networks. *The National Road Project (1996)* helped rehabilitate and construct of national roads, including the improvement of strategic connections between Albania and its neighboring countries. The project also included investment in road maintenance and safety. About 90 km of national roads in the East-West and Northern corridors were rebuilt in order to connect the major urban centers to the international market through port of Durrës and neighboring countries such as Macedonia and Greece.

The Emergency Road Repair Project (1999) helped Albania to overcome the difficulties created during the Kosovo crisis when heavy refugee convoys damaged roads, humanitarian aid was transported, and NATO vehicles passed frequently. The project aimed at restoring the serviceability of the main route connecting the Adriatic Sea (Port of Durrës) to Kosovo, and other key Albanian cities.



“In 2007 the government requested World Bank’s assistance for the establishment of a program for the modernization of the rural road network in the country. Until that time, about 80% of rural roads in the country were in a bad or a very bad condition and frequently even impassable. Such a depreciated road network was converted into higher costs for the transportation of agricultural products, lack of conditions for development of tourist areas, and a poor quality of education and healthcare services, including the emergency ones. Five years later, one of the largest programs for the improvement of rural networks was set up with the support of the World Bank. This program has managed to mobilize about US \$380 million from several international donors and is being implemented by the Albanian Development Fund. It has helped to establish a detailed database for rural road networks, prepared detailed studies of about 1,300 km of roads, funded the construction of about 1,100 km of roads, with the aim of reconstructing an additional 400 km by 2015. The roads are reconstructed based on modern standards and this has provided a tremendous impetus to the development of rural areas in Albania.”

BENET BECI Director of Albanian Development Fund



The Rural Roads Project (1995) improved around 975 km of rural roads, while *The Road Maintenance Project* (2007) contributed to the repair and maintenance of 500 km of roads. These projects also addressed poverty and the need for increased employment by creating temporary or permanent jobs.

The Albania Transport Project (2007) supported improvement of access for hinterland population and construction of 26 kilometers of Durres - Morine Corridor. In addition, it introduced innovation in road maintenance on pilot basis (about 10% of the national road network), and contributed to the development of the institutional framework and implementation of road safety activities

The Secondary and Local Roads Project (2008) is currently close to completing about 110 km of secondary and local roads. Through this project, the Bank prepared an overall program for the entire secondary and local roads network, which in addition to its own financing (US\$20

million) leveraged about US\$350 million from other donors and International Financial Institutions (IFIs). The project is providing an all-weather connection to many communities and improving access to essential services and economic markets for the resident population in the hinterland of the project roads.

Energy

Whereas the country was a net electricity exporter in 1992, electricity demand grew rapidly from then until 2000. Since 1998 Albania has become increasingly dependent on electricity imports. In 1992, the country's yearly consumption per capita was around 700 kWh, whereas in 2011 it had already bounced to more than 2,000 kWh.

This increase was due mainly to a sustained surge in consumption, much of which was not paid for, by households and small commercial establishments.

1700 KM
NATIONAL AND RURAL ROADS,
REPAIRED, CONSTRUCTED
OR MAINTAINED

26 COMMUNITIES
HAVE ACCESS TO ALL-WEATHER
ROADS FOR THE FIRST TIME

Emergency repairs financed by donors and IFIs, including IDA, temporarily improved the quality of electricity supply. However, the country was unable to get all the imported electricity it needed because of transmission and financial constraints. The result was large load shedding, which had adverse effects on national economic output, businesses and families, who were left without electricity for many hours of each day.

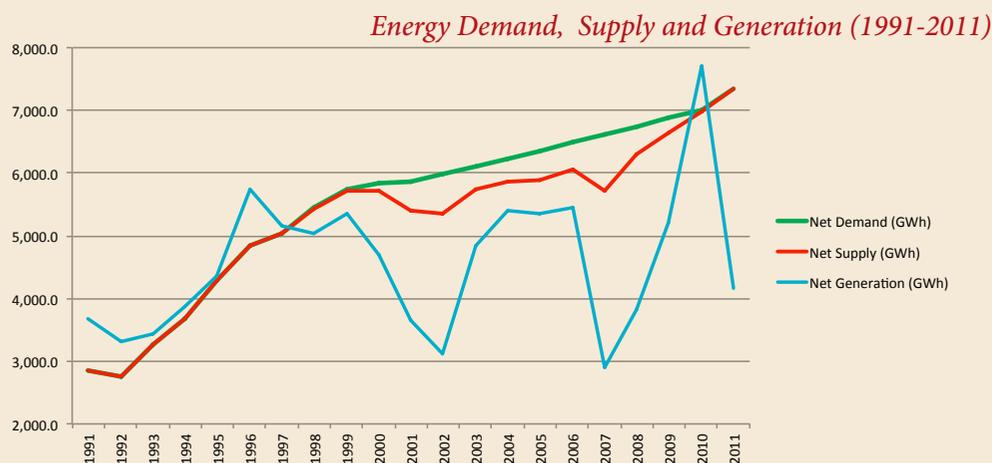
The World Bank Group took a leading role in supporting power sector development through several projects that helped increase energy supply and security, while also reforming and restructuring the sector as to operate in a market-based environment.

Support from the World Bank began with a power component of the *Critical Imports Project* (1992) that financed urgent system repairs. It continued through three successive projects (*Power Loss Reduction Project*, 1995, *Power Transmission & Distribution Project* 1996, *Power Sector Rehabilitation and Restructuring Project*,

2002). That helped reduce electricity losses through investments in the grid, and improve transmission and distribution capacities. These projects played a key role in improving the overall standard, reliability, and efficiency of the electric power supply, and enhancing the efficiency of electricity interchanges with neighboring countries. This led to the reduction of unbilled electricity consumption and the establishment of a regulatory framework for the power sector, and laid the ground for unbundling the Albanian Power Corporation (KESH) in an efficient and non-disruptive way with subsequent privatization of the distribution segment.

Following the 2001 electricity crisis, it was imperative to build new power generation capacities and diversify energy supply which is almost entirely based on hydropower generation (*Power Sector Generation & Restructuring Project*, 2004). *The Transmission Project* (2005) was a major regional initiative that helped to build the missing links in the electricity links in South East Europe by creating an integrated regional market that would bring improvements to energy efficiency and cost savings.

The World Bank's current support for the energy sector includes the *Energy Community of South East Europe Dam Safety Project* (2008) that is helping Albania to rehabilitate and improve operations of its main hydropower plants in the Drin River, thus increasing the efficiency of water resources and production. The World Bank Group, including its private sector arm, the International Finance Corporation, supported distribution privatization, through advice from IFC and Partial Risk Guarantee (PRG) from IBRD. The IFC program also supports private sector engagement in small hy-





dro-development projects, new renewable energy projects, and residential energy efficiency initiatives.

While major progress has been made, the remaining challenges are plentiful: to complete the reform agenda, further improve security of supply to meet growing demand while strengthening demand-side management, clarify and better enforce market rules, maintain the network, and continue strengthening the institutions in the sector.

Private and Financial Sector Development

As measured by “Doing Business” indicators, Albania moved from the 136th ranking in 2007 to 82nd in 2011 as a result of completing business regulatory reforms in various areas.

The World Bank has provided extensive support to private sector development, considering such development as the driving force behind growth. Relative po-

litical stability and commitment to reforms after 2000 have led to robust growth in private sector activity. The Bank supported the government’s efforts to improve the institutional and legal framework by assessing administrative barriers to investment (FIAS) and subsequently streamlining administrative procedures (*PRSC II, 2003*); improving the legal framework for bankruptcy, resolution of debt, and commercial disputes through the *Financial Sector Adjustment Credit, FSAC, 2002 and PRSC I and II, 2002-2003*; and through the *Private Industry Recovery Project (1998)* establishing an investment guarantee agency with the help of the Multilateral Investment Guarantee Agency (MIGA).

Micro, small, and medium enterprises dominate Albania’s economy. The need for a good business climate extends to rural areas, where infrastructure is also essential for enabling business environment. Many donors and IFIs, including the World Bank Group, pro-

5 DAYS

TO REGISTER A BUSINESS IN 2011
FROM 36 DAYS IN 2008

vided assistance to these clients.

IFC and the Bank collaborated closely in the privatization of the electricity distributor – with IFC financing in the private electricity distributor linked to the conditions of IBRD's indemnity agreement under its Partial Risk Guarantee. IFC played an important role in introducing the best practices for Public Private Partnerships. They helped entrepreneurs in different sectors to become competitive by introducing international standards and thus increasing sales and exports. The IFC support in 2008 to Antea Cement, among the largest FDIs in the country, was a strong signal to other private investors in Albania and the region. In 2009 IFC supported the project to rehabilitate the Patos-Marinza oil field and addressed significant environmental remediation needs. Currently, IFC is assisting the Albanian Government on the privatization of medium size existing hydro power plants which

supplemented by the ongoing Balkan Renewable Energy advisory program that helped the GoA to draft a new Renewable Energy Law will enable the private sector to develop and construct feasible plants. IFC is also supporting financial sector in the country by providing guarantee facility for enhancing trade finance capacities of the banks as well as providing long term financing targeting investments in the field of renewable energy and energy efficiency. IFC is also providing advisory services to the government in three main areas: *Tax Simplification and Transparency, Debt Resolution and Trade Logistics*.

Most recently, the Bank supported private sector development in Albania through the *Business Environment Reform and Institutional Strengthening Project (BERIS, 2008)*. The project has contributed to an improved legal framework for the regulatory impact assessment and inspection regime, and financed the construction of a modern Metrology Laboratory that meets the EU standards.

In parallel, tangible progress has continued in the financial sector. The Bank has placed an important focus on developing Albania's financial sector, from addressing poverty in the country through microcredit programs (*Microcredit, 1999*) to major interventions such as restructuring the banking sector (*Financial Sector Institution Building Technical Assistance Project, 2000, Financial Sector Adjustment Credit, 2002*). Since 1997, with support from the World Bank, the government has liquidated the insolvent state-owned Rural Commercial Bank, privatized the National Commercial Bank (BKT) to an investor consortium that included the IFC and EBRD, prepared the privatization of the Savings Bank - the last remaining state-owned and Albania's largest – now

INVESTING IN ALBANIA'S FUTURE

Flamur, 36, the younger Biduli brother from Pinet village, was among the first villagers to take the leap when he borrowed \$600 in 1994 from the World Bank funds. Over the years, the two brothers borrowed repeatedly to plant new saplings and to build the structures on which the grapevines now grow.

Success did not come at once. Vineyards mature slowly so the investment had to be paid off with other crops, melon by melon, peach by peach. Now they had to work from dawn to dusk. There were hard years when the brothers went separately to Greece and Italy to work as waiters. "It was a waste of time and spiritual torture," remembers Dashnor, 41. Like other unhappy immigrants, they came home determined to succeed. "My family is here and so are the investment opportunities," says Dashnor.

The brothers' dream is to move from bottling unlabelled wine, which they now sell to friends and acquaintances in the capital, to full-fledged wine production. Commercial banks are ready to do business in small towns now. Flamur is sure that his dream will come true, "this is our family's future," he says raising a glass of wine.

Microcredit Project, 1999



known as Raiffeisen Bank. Close IDA-IFC cooperation has been instrumental in helping Albania move forward with financial sector privatization.

Governance and Public Sector Management

Institution building has been one of the key priorities for Albania, especially urgent during the first years of transition, with a number of issues in need to be addressed to the present day. Improving governance and strengthening institutions has been a permanent objective in all Country Assistance Strategies (CAS) for Albania in and the current CPS.

The World Bank, in close coordination with other development partners, has focused on building critical central capacities, including public administration and the civil service, public expenditure management,

and legal and judicial institutions (*Public Administration Reform Project, 2000, Legal and Judicial Reform Project, 2000, Tirana Transparency Project, 2001*). In the following years, the Bank extended institution-building efforts to selected priority sectors - education, healthcare, power, water, and transport - through sector-specific operations. Several projects were also designed to support Albania's decentralization process, and to build capacity at local levels.

Since 1998, as part of a broad governance and anti-corruption agenda, the Bank has helped the government develop and implement its Anti-Corruption Plan, which includes numerous actions affecting economic policy, rule of law, public administration, public finance, customs administration, procurement, audit, and public awareness. Its support continued through a number of operations (*PRSC II and III*) and several studies. Building on the National Strategy for Integra-

AN EMPOWERING EXPERIENCE - TIRANA INFORMATION CENTER

Years ago when a resident of Tirana needed an official answer from the municipality's information center, he would have to join a line outside a corrugated iron shipping container and wait for one of its small windows to open. As the city grows, getting information was a pitched battle of nerves.

When the new mayor of Tirana, Edi Rama took office in 2000, he took members of a World Bank team to observe the scene. "If you want to help us," Rama said, "let us work on building a modern information center."

A World Bank project funded by the governments of the Netherlands (US \$ 614,000) and Norway (US \$25,000) were used to build a new online information center, a new city council meeting hall, three pilot information centers in the suburbs, and to conduct a citizen survey.

A spacious and bright hall has come up and serves as a new information center, making things easier for residents. "I asked about a water pipe that is causing problems in my building and they directed me to the appropriate office. They were very quick," says a resident. "I do not care what party governs here; they really helped me."

Citizens can use the report card to monitor improvements in municipal services and influence the process by providing feedback. All in all, it is an empowering experience.

Tirana Transparency Project, (2001-2003)



tion and Development the Bank has introduced a governance filter in all programs, including policy advice and dialogue to contribute to Albania's goal of improving governance and reducing corruption.

Albania's efforts on the road to EU integration require a sound public sector performance. The Bank has supported better public expenditure management, which is essential to poverty reduction. The Bank has also supported better budget execution and financial accountability by improving the treasury, accounting, and internal auditing. In partnership with several donors, it is supporting the *Integrated Planning System Project (IPS, 2000)*. The multi-donor trust fund, which has recently moved to the second phase, serves to help

the Government of Albania's to make core policy and financial processes function in a coherent, efficient, and integrated manner. The national *REPARIS program*, also financed by donor funding, was recently launched with the aim of bringing financial reporting into line with EU requirements.

Further support to selected issues and sectors was provided through the *Governance Partnership Facility (GPF, 2009-2012)*, including the successful piloting of the *country e-procurement* system in one of the World Bank projects and a *development marketplace on good governance* that promoted innovative ideas among civil society for the improvement of governance and accountability. ■

WORKING IN PARTNERSHIP

Reflecting strong donor coordination and partnership, with government leadership in promoting such coordination, the World Bank program in Albania is enhanced by several trust funds (TF) co-financing projects. They make a valuable contribution to strengthening the dialogue and results in priority areas. Several trust funds support self-standing projects administered by the Bank such as the Integrated Planning System (IPS-2), the REPARIS program to improve financial reporting, the Japan Social Development Fund (JPDF) grant for youth empowerment, a grant from the GFDRR for flood risk mitigation, and a Swedish grant for Improved Natural Resource Management.

KNOWLEDGE BANK

In addition to providing financing for fostering development of Albania through investment and other projects, the World Bank plays an important role in providing policy advice and technical assistance to the Government. This advice relies upon the Bank's long-term experience in working on economies of countries in the region and in economies that have successfully carried out structural reforms in and outside the region.

The most recent Bank studies on Albania focus on strengthening future sources of growth and competitiveness (*The New Growth Agenda, 2010*), improving the efficiency and effectiveness of public spending *Debt Management Assessment*, and *Public Expenditure and Financial Accountability (PEFA)*, and improving governance. With support from the GPF, the Bank prepared and disseminated several reports in 2011: an overall *governance profile, property rights, water sector,*



and education. Two issues of the semi-annual *Regular Economic Report (RER) for South-Eastern Europe* were launched in November 2011 and June 2012. Jointly with UNDP, the Bank has prepared a study on public utility governance in water and electricity sectors.

Analytical work and technical assistance is carried out, through regional programs, such as on the financial sector, corporate accounting, poverty monitoring, pension reform, health sector, energy sector, water utilities, urban management, and environment. ■

PIC
PUBLIC INFORMATION CENTER
OF THE WB OFFICE IN TIRANA
FACULTY OF ECONOMICS,
UNIVERSITY OF TIRANA



KSENIYA LVOVSKY

Country Manager in Albania

Learning Together

Coming to work in Albania was one of the best decisions I made. I will always remember my first day on duty which coincided with the opening of a new school in Kamza, financed through the on-going education project. A modern, wonderful building, full of light and opportunities for young Albanians to build the life their grandparents could not even dream of...

A breathtakingly beautiful and welcoming country with vast yet-to-achieve potential, Albania has forged one of the most rewarding partnerships with the World Bank, one through which both have learned and improved. When the country joined the World Bank 20 years ago as one of its poorest members, the Bank's overarching focus was on fighting poverty and lifting low-income countries to the next league. In the global effort to eradicate poverty, Albania performed spectacularly, moving up the development ladder at a record pace. When I settled in Tirana about two years ago, the country faced a

different set of challenges – that of mobilizing business-friendly policies, good governance, innovation, human talent, and regional cooperation to propel Albania from the middle-income to the advanced economy status. It was also the time when the World Bank began re-assessing its role and comparative advantage on the global stage by increasing attention to the needs of middle-income countries - a fast growing group by numbers and influence - in leveraging financing and accessing cutting-edge knowledge. Over the past 20 years, both Albania and the World Bank have expanded partnerships with other multilateral and bi-lateral development institutions and non-government players as the key for keeping abreast of new ideas and experience, and both have placed trust into the EU integration process as the best facilitator of Albania's continued economic and social progress.

Having travelled extensively across the country to follow the projects we finance, I find great inspira-



After 20 years full of achievements and lessons, we are better prepared to work together on the next phase of Albania's development and EU integration agenda - and I look forward to celebrating the country's future successes

tion in the commitment and perseverance of the Albanian people to build a better country for the next generations. It is most impressive to listen to commune leaders, health practitioners, teachers, farmers, engineers and small businessmen learning from their strength and vision. It is most encouraging to talk to students and see enthusiasm and expectations of a brighter future in their eyes. As recovery from the 2008 global financial crisis has taken longer than initially hoped for across Europe, including Albania, it has not changed, rather amplified, the priorities and challenges going forward, including nurturing human capital for the 21st century world. It has also amplified the importance and value of our collaboration. I feel very privileged to be with an excellent team of World Bank staff at the Tirana office, at the forefront of our evolving partnership at this unprecedented time.

After 20 years full of achievements and lessons, we are better prepared to work together on the next

phase of Albania's development and EU integration agenda - and I look forward to celebrating the country's future successes. ■

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