Report Number: ICRR13634

IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted: 06/23/2011		
PROJ ID :	P096205		Appraisal	Actual
Project Name:	Development Policy Loan (dpl)	Project Costs (US$M):	10	10
Country:	Albania	Loan/Credit (US$M):	10	10
Sector Board:	EP	Cofinancing (US$M):		
Sector(s):	General public administration sector (43%) General industry and trade sector (29%) General finance sector (14%) Health (8%) Compulsory health finance (6%)			
Theme(s):	Regulation and competition policy (29% - P) Public expenditure financial management and procurement (29% - P) Health system performance (14% - S) Legal institutions for a market economy (14% - S) Administrative and civil service reform (14% - S)			
L/C Number:	C4282			
		Board Approval Date :		03/29/2007
Partners involved :		Closing Date:	12/31/2007	12/31/2007

Evaluator:	Panel Reviewer:	Group Manager:	Group:
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2. Project Objectives and Components:

a. Objectives:

The program document (par. 31) states the objective as follows:

The key objectives of the government program supported through a series of proposed development policy operations (DPOs) follow directly from the government program and the CAS objectives, and are:

- Improving the investment climate for private sector-led growth.
- Improving fiscal sustainability of public service delivery, in the health, social insurance and water sectors .

- Improving government effectiveness, following the governance principles enumerated in the CAS .

The financing agreement did not state the DPO's objectives. The review takes the objectives listed in the three bullets as the loan objectives.

The ICR covers the first DPO (DPO1) as well as the implementation of prior actions under the second DPO (DPO2). This review covers the entire program as implemented.

b.Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The DPO was the first in a programmatic series of three loans that sought to support key aspects of the government's program. The Government carried out most of the prior actions for DPO 2 but the Bank stopped this operation because the Government failed to establish a sustainable medium -term macroeconomic framework.

The DPO covered three pillars (policy areas): investment climate, fiscal policy, and government effectiveness. On the investment climate the DPO included business regulations, land markets, and oversight of the non -bank financial sector. On fiscal policy the DPO contained the health sector's regulatory framework, pension policy, and the water sector's policy and incentives. On government effectiveness the DPO covered public financial management, public administration, and local finances.

The Government completed the seven prior actions agreed to for DPO 1. It also completed 10 prior actions for the DPO2, which did not materialize.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The loan, for US$10 million, was disbursed in one tranche in August 8, 2007, some four and half months after being approved. It closed on December 31, 2007, as planned.

3. Relevance of Objectives & Design:

Relevance of objectives. The objectives of the loan had substantial relevance. First, the private sector accounted for most of the seven percent annual growth of Albania during 1999-2005, a growth which induced a rapid decline in the poverty rate from 25 percent to 18.2 percent between 2002 and 2005. Second, a sound fiscal management led to a reduction in the overall fiscal deficit from 13.5 percent of GDP in 1993 to 3.7 percent in 2005; the improved fiscal management, coupled with the rapid economic growth, contributed to reduce the public debt from 80 percent of GDP at the end of 2007 to 57 percent at the end of 2005. To improve fiscal performance and deliver better service the government sought to deal with problems in water, electricity, health and social insurance. Although the DPO excluded electricity, seeking fiscal sustainability in the three sectors was still relevant. Third, government effectiveness improved steadily since 2000, but the evidence indicated that there was room for improvement; for example, the World Governance Indicators showed that in 2007 Albania was ranked on the 25th - 50th percentile of the countries surveyed. Fourth, the DPO was consistent with the CAS. It was the main vehicle for implementing the CAS, which in turn reflected the government's program. Therefore, the objectives selected had substantial relevance.

Relevance of Design. Unlike the three PRSCs that preceded the DPO, this loan avoided the "catch all" character of the PRSCs and had more focused objectives. It also had fewer conditions and sought more realistic, achievable results, such as improving the implementation of existing laws and guidelines. The results indicators reflected the loan's aim of ensuring continued compliance with existing rules. The review considers that relevance of design was substantial.

4. Achievement of Objectives (Efficacy):

Pillar 1: Improving the Investment Climate for Private Sector-led Growth

This pillar covered three areas: business regulations, land markets and oversight of the non-financial sector.

Strengthen the regulatory environment for businesses. The prior actions related to this objective dealt with superfluous licensing requirements in about 14 sectors and enacting a new concession law to promote competitive bidding systems. These recommendations were based on a FIAS report that the Prime Minister requested and that led, among other measures, to: (a) establish a "regulatory guillotine" to review and eliminate unnecessary licensing; (b) enact a new Concessions Law to improve competition in bidding systems; and (c) establish a credit bureau and create a national registration center for businesses. In part as a result of these measures, the number of procedures to start a business and the time to open it fell (from 11 to 6 procedures and from 41 to 8 days), the public registry increased its coverage (from nothing to 8.3 percent), concession contracts were published, and the percentage of unsolicited bids awarded to non-original bidders reached 22 percent in 2008. The credit bureau reduced the cost of assessing credit risks, and made it easier for people with good credit record to get loans.

Improve the functioning of land markets. The prior action related to this objective was the one dealing with superfluous licensing requirements. Although the time required to register a property fell from 47 to 30 days, the cost of registering it remained essentially unchanged, 3.4-3.5 percent of the property value. The ICR does not inform what happened with the collection of property taxes in 2008, another indicator of the program's development outcome.

Improve oversight of the non-bank financial sector. The prior action dealt with the establishment of one integrated non-bank financial regulator. With that action it was expected that the insurance sector and the supervisory role of the Financial Supervisory Authority (FSA) would strengthen. The indicators show that performance of the insurance sector improved. Between 2006 and 2008 the value of claims received increased 37 percent, the expense ratio fell from 60 to 59 percent, the solvency coverage increased from 190 percent to 494 percent, and the number of companies out of compliance with the 20 percent limit on risk retention fell from 5 to zero. These indicators suggest that the system improved, but the expense ratio did not meet its target value of 55 percent for 2008, and the ICR does not inform on the claims ratio, which was expected to reach 45 percent in 2008.

Efficacy in achieving this objective was *substantial.*

Pillar 2: Improving Fiscal Sustainability and Effectiveness of Public Service Delivery

This pillar covered three areas: social insurance, health financing and water services. The initial program expected to achieve this objective through prior actions carried out under DPO 1 and DPO2. Under DPO1 the prior action covered the Health Insurance Institute, and under the DPO 2 the prior actions would have covered the pension system and a new health care law. For water no prior action was taken.

Strengthen financial sustainability and effectiveness of social insurance. Before the DPO1 the pension administration could not track pensioners and their contribution. Actions supported by DPO1 and during the preparation of DPO2 helped to reverse this situation. At the end of 2008 the following results could be noted:

- Some 467,000 pensioners had a social security number, compared with none before DPO 1;
- The review of pension cases for fraud reached 47,000 compared with none before DPO1;
- The authorities linked the death and pension registries, so deaths were reported automatically to the pension institute;
- The review of pension cases and the pruning of the pension rolls created a fiscal gain that permitted to reduce the social security tax from 29.5 percent to 24.5 percent.

Improve fiscal sustainability and effectiveness of health financing. The two main indicators for this objective were achieved but the Health Financing Law which was expected to improve the regulatory framework of the health system was not even drafted. The revenues of the Health Insurance Institute reached 10.9 billion lek in 2008, exceeding by a substantial margin the baseline value of 2005, 5.9 billion lek, and its revenue in 2006, 6.4 billion lek. Also, the Health Insurance Institute did not have an operating deficit in 2007 and 2008 (as well as in 2006) but increased its transfers to the reserve fund from 125 million lek in 2006 to 868 million lek and 600 million lek in 2007 and 2008.

Improve fiscal sustainability of water services. This objective was not achieved, as the operating deficit of the utilities increased 31 percent, exceeding the 10 percent target set in the program.

Efficacy in achieving this objective is rated *modest.*

Pillar 3: Improving Government Effectiveness.

The pillar covered three areas: public spending, public administration and local finances. Prior actions under DPO1 and prior actions carried out during the preparation of DPO 2 covered these areas.

Increase efficiency and accountability of public spending. The DPO supported the establishment of public investment management procedures to improve the quality of budget decision -making and of public investment planning and execution. Prior to establishing these procedures government agencies would submit long list of projects without any priority for financing. After the procedures were put in place, the average project size increased from 13 million lek in 2006 to 37 million lek at the end of 2008 and the number of projects submitted fell from 1,832 in 2006 to 1,010 in the 2009 budget. As a result of the changes, weaker and smaller projects were weeded out and others were grouped together or consolidated.

The DPO also supported actions to improve transparency and efficiency in resource utilization. The actions referred to enacting a new Public Procurement Law and preparing drafts and doing consultations for a new Organic Budget Law. On procurement, the most significant achievement of the DPO 1 and the incomplete DPO2, was the enactment of the new Public Procurement Law. The Law made open tenders the default procedure, required publishing tender documents and outcomes on a timely basis, and granted civil service status to the head of the Public Procurement Agency. After the law started operating, during 2008 the public procurement negotiated without announcement declined by 3 percent of the total value and by 8.8 percent of the total number of procurement processes. Also, the use of electronic procurement procedures increased 4.5 percent, and these procedures accounted for 34 percent of value in 2008. The organic budget law of 2008 stipulated the steps to follow when preparing the budget; as a result of the new rules, budget preparation started earlier, giving more time for discussion in the parliamentary budget committee. A better budget preparation helped to reduce the number of virements (the incidence of moving funds from one project to another) from almost 12,000 in 2007 to about 7,000 at the end of 2008.

Improve efficiency and continue de-politicization of public administration. Actions supporting this objective covered civil service. The actions aimed at encouraging a better implementation of the reforms and preventing backsliding on the reforms in place. This objective was achieved in part. The turnover rates in civil service fell from 2.7 percent from the baseline value (for 2000-03) to 1.1 percent for the first nine months of 2008, and the number of people hired on a temporary basis fell from 161 in 2006 to 93 and 42 by December 2007 and 2008. Maintaining and improving compliance with the civil service law was difficult, and particularly so for dismissals, where the Bank intervened actively to achieve a satisfactory resolution. The Bank sought to ensure that the government would comply with court decisions upholding the appeal of 5 civil servants that appealed their removal in court.

Strengthen local finance. The actions for this objective supported the completion of analytical work to inform the formulation of the Local Government Finance law and the preparation of draft legislation on local borrowing and insolvency. The ICR reports that unconditional transfers remain at 3.5 percent of central government expenditure but does not inform on whether there are consolidated and detailed data on local government finance for the fiscal year 2007, the PDO indicator associated with this intervention.

Efficacy in achieving this objective was *modest*.

Although the program helped to achieve these objectives, it should be noted that the government's commitment to membership of the European Union (EU) also helped to trigger some of the changes reviewed.

5. Efficiency (not applicable to DPLs):

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The DPO1 succeeded in strengthening the regulatory environment for businesses, improving the oversight of the non-banking financial sector, strengthening the social insurance system, and increasing the accountability of public spending. It had modest success in improving the functioning of land markets, improving the fiscal sustainability of health financing, and in strengthening local finance . It failed to improve the fiscal sustainability of water services. Among the main outcomes to mention are the enactment and functioning of the procurement law, the pruning of pensions and the reduction of the social security tax, the improvement in the financial situation of the Health Insurance Institute, and the pruning of investment projects presented by government agencies for budget financing. In sum, the program had substantial relevance, and substantial efficacy in Pillar 1 and modest efficacy in Pillars 2 and 3.

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The review agrees with the ICR assessment that the government 's commitment to achieve EU membership makes the risk to development outcome moderate. Although the macroeconomic framework at program closure seemed unstable, the attraction of EU membership will cause the authorities to come to terms with a framework consistent with Albania's aspirations.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

Ensuring Quality-at-Entry. The preparation of the operation benefited substantially from the Bank 's experience with the previous PRSC operations. As a result, the Bank prepared an operation that sought achievable objectives and selected reasonable results indicators for its duration and the duration of the program. The Bank selected areas for intervention where reforms were necessary and picked actions that could be implemented, avoiding the temptation of preparing an ambitious program with many objectives and conditions but low chance of success. The Bank also prepared a good results framework that specified what it expected to achieve from the operation and from the program of the three DPOs . Selecting few reforms helped the government focus on key reforms and complete them .

Quality of Supervision. Although the DPO1 did not have to be supervised, the Bank maintained a continuous dialogue with the government for the preparation of the DPO 2. The dialogue contributed to prepare what would have been the DPO2 and to strengthen the reforms that DPO 1 supported. The dialogue stopped when the Bank decided to not continue with DPO 2 because the government's macroeconomic framework did not guarantee fiscal sustainability.

a. Ensuring Quality -at-Entry: Satisfactory

b. Quality of Supervision : Satisfactory

c. Overall Bank Performance : Satisfactory

9. Assessment of Borrower Performance:

Government performance. The government carried out important actions agreed to in the program, with the Procurement Law perhaps the most significant of them and an essential step to improve governance and public sector performance. Other important actions were establishing the credit bureau, enacting the Concessions and Health Care Laws, issuing social security numbers and auditing pensions, and improving the licensing regime for business. Two shortcomings should be noted. First, the government resisted to accept the decisions of the Civil Service Commission and of the High Court regarding the dismissal of five civil servants, thereby jeopardizing the credibility of the Commission and the High Court . Second, it decided to expand government spending without reason, when Albania was performing reasonably well after the global crisis erupted.

Implementing Agencies Performance. All of the agencies but the Ministry of Water/Water Utilities carried out the actions they were committed to under the program.

a. Government Performance : Moderately Satisfactory

b. Implementing Agency Performance : Satisfactory

c. Overall Borrower Performance : Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

Design. The program document set clear objectives and selected indicators that reflected the objectives, and could be measure and timed. The document specified clear baseline values and defined the expected values for the outcome indicators at Board presentation time for each loan.

Implementation. The authorities collected the monitoring indicators enumerated in the program and the agencies in charge of collecting them did their work well.

Utilization. The Bank and the authorities used the data to follow on the DPO 1 and to prepare the DPO 2. That effort allowed the Bank to see that the government's decision to increase expenditure prevented having a sustainable macroeconomic framework, which led to the Bank's decision of not continuing with the DPO 2.

a. M&E Quality Rating : Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

12. Ratings:	ICR	IEG Review	Reason for Disagreement/Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The experience of the DPO 1 indicates that for governments committed to improving economic policy the size of the loan may be of secondary importance, as their main objective is to signal the direction of policy to the private sector, government agencies, and development partners.

The DPO teaches that programs with a small number of conditions and focused and achievable objectives are more likely to succeed than "catch-all" operations with broad objectives and large number of conditions (like

the previous PRSCs). It also shows that such design lends itself to having a results framework that makes it easier to manage and assess the program. The experience with this program design also shows the wisdom of leaving sectors with difficult problems (e.g., electricity) out of the program and dealing with them in sector specific operations that permit testing the authorities' commitment to deal with them.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR assesses the loan in a clear, succinct and straightforward manner. Its information is credible and its judgments are fair. The ICR could have been rated exemplary if it had: (a) followed more closely the monitoring indicators in the program document (Annex 4); (b) compared expected outcomes or baseline values with actual outcomes in section 3; (c) been more consistent in presenting ratings and evidence in section 3; (d) been consistent in rating overall outcome and government performance in section 3.3 and in the ratings summary data sheet; and (e) prepared a short section on the macroeconomic framework.

a.Quality of ICR Rating : Satisfactory