

Project Name Albania-Enterprise and Financial Sector...
Adjustment Credit

Region Europe and Central Asia

Sector Enterprise and Finance

Project ID No. ALPA8257

Principal Government and Bank of Albania

Date PID Prepared May 17, 1994

Appraisal Date May 23-27, 1994

Board Date August 2, 1994

Background

1. Albania has been implementing a stabilization program since mid-1992. In 1993 Albania enjoyed one of the highest growth rates in Europe (11 percent), while inflation stabilized at less than 2 percent a month since the middle of the year. These results have been achieved despite very difficult starting conditions. The collapse of production output in Albania was among the most extreme in Eastern Europe: it is estimated that output fell by about 40 percent between 1990-1992. This resulted in a fiscal crisis of unprecedented dimensions with monthly inflation between the 10-15 percent range. Government expenditures rose to about 58 percent of GDP in the first half of 1992 with the deficit exploding to 52 percent of GDP. The high inflation and the collapse of production in export earning sectors led to the virtual exhaustion of foreign exchange reserves. Albania, which used to be a net exporter of food products, became heavily dependent on food aid.

2. In mid-1992, a newly elected Government engaged in a program to restore public order and economic stabilization, supported by a rapid mobilization of international aid that included a 12 month Stand-By Arrangement with the International Monetary Fund (IMF) in July 1992; a three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF) of IMF which began in July 1993; balance of payments and emergency support from EU/G24; and critical imports and sector adjustment credits from the World Bank. The stabilization program consisted of: fiscal consolidation, tight monetary policy and structural reform (pricing, exchange and trade system liberalization, banking reform and privatization).

3. The results of the program have been much better than expected. Besides the lowering of inflation and GDP growth, the ratio of the deficit to GDP fell from 44 percent in the first half of 1992 to 16 percent in 1993. Construction, transportation and service sectors have been growing rapidly and urban unemployment had fallen to less than 15 percent by 1993.

Description

4. The basic objective of the proposed credit is to support the

development of a strong and efficient private sector, in all areas of economy. The Government's program for the enterprise sector, which is to be supported by the proposed EFSAC, continues work on the actions taken so far and introduces necessary adjustments to accelerate privatization (including liquidation) of as many enterprises as possible. The program is based on three main areas of action: (i) streamlining budgetary support for SOEs, by clearly identifying which enterprises are to be allowed access to public resources and under which conditions; (ii) restructuring and privatizing of SOEs including the use of the Enterprise Restructuring Agency (ERA) for orderly downsizing and preparing of a number of socially important SOEs; and (iii) improving the monitoring and coordinating of the privatization process.

5. The Government's long-term view for the financial sector is one of a banking system consisting of small and medium-size private banks, which will mobilize deposits and lend primarily to small and medium - size enterprises, complemented by a number of non-banking financial intermediaries, facilitating commerce and investment.

6. The strategy to develop the financial sector will entail three components: first, reforming and restructuring the state-owned banks; second, providing an appropriate framework for creating new private banks and encouraging informal money lenders and non-bank financial intermediaries to enter the formal financial intermediation circuit; and third, improving the overall banking infrastructure by strengthening the supervisory and regulatory framework in the financial sector.

7. Over the past two years, both the Government and Parliament have introduced a rather large number of new laws addressing various aspects of economic reform. Due to the size of the task that was initiated, however, there remain major weaknesses in the legal system, including some contradictions, particularly in the areas of bankruptcy and loan recovery.

8. Under the EFSAC Program, the first phase of the legal framework reform will be completed by early 1996, at which time Albania will have the appropriate set of laws, including accounting and auditing, bankruptcies and loan recovery, as well as Civil and Commercial Codes. The Government will complete the inventory of legislation pertaining to the enterprise and financial sector. This inventory will be used as a starting point to assess the extent and appropriateness of the existing laws, given the needs of the enterprise and banking sector in Albania.

The Proposed Credit

9. The proposed IDA credit, in an amount equivalent of SDR10.6 million (US\$15 million equivalent) will be disbursed in two tranches and will conform to the usual procurement procedures for such operations. Technical assistance required for both the preparation and implementation of this operation are being provided through the IDA-financed Technical Assistance Project for Economic Reform (2492-ALB), as well as through a Japanese grant.

10. The Ministry of Finance and Economy (MoF) will administer the credit through its existing Project Implementation Unit (PIU) which is administering other IDA credits.

11. Coordination and implementation of the reform program will be monitored by a Committee for Modernization of the Financial Sector (CMFS), composed of the Deputy Prime Minister, the Governor of BoA, the Minister of Finance, the Director of the Agency for External Aid Coordination and Public Investment Coordination and the Financial Advisor to the President. The World Bank will monitor the implementation of the project, with the help of monitoring reports and procedures agreed with the Government, the Committee's reports and supervision missions.

Environmental Aspects

12. The proposed operation has been placed in Category "U" according to the Bank's Operational Directive on Environmental Assessment. This operation does not require an environmental assessment.

Contact Point: Public Information Center
The World Bank
1818 H Street N.W.
Washington D.C. 20433
Telephone No.: (202)458-5454
Fax No.: (202)522-1500

Note: This is information on an evolving project. Certain components may not necessarily be included in the final project.