

APPROACH PAPER

ALBANIA: COUNTRY ASSISTANCE EVALUATION

Country Background

1. In the early 1990s, starting as one of the poorest countries in Eastern Europe, with a per capita income (GNI) of US\$680 in 1990, early initial reforms induced rapid growth, which made Albania one of the leading reformers in the Balkans. However, incomplete reforms, especially in the financial sector, spurred the collapse of a financial pyramid scheme and provoked general unrest that brought Albania to the brink of anarchy in 1996-1997, causing the collapse of the government. A newly elected government took immediate steps to stabilize the economy. That effort, supported by aid flows, paid off: the economy stabilized and growth resumed, in spite of the additional shock of almost 500,000 refugees from the war in Kosovo. GDP has grown at about 6 percent per year since 1997, and inflation has been low, averaging 2.8 percent per year since 1999.
2. Albania has already entered into the Stabilization and Association Agreement (SAA) process with the European Union. Key issues for accession are security, governance, law enforcement and macroeconomic stabilization. Recent European Community assistance to Albania has gone to: strengthening the state and the rule of law; large infrastructure (roads, water and ports, airport); agriculture and local community development; education; and humanitarian assistance.
3. Despite improvements in macroeconomic management, poverty remains widespread and unemployment is high (now at about 15 percent). Between 20-25 percent of the population (or about 40-50 percent of the active workforce) are estimated to be working abroad,¹ mainly in Italy and Greece, remitting a significant proportion of GDP that helps support the balance of payments and mitigate poverty. As a response to poverty and unemployment trends, the Government has formulated with its civil society partners a poverty reduction strategy (originally known as the Growth and Poverty Reduction Strategy—GPRS—but now known as the National Strategy for Socio-Economic Development—NSSED). The NSSED articulated a long-term vision of sustainable development designed to move from managing short-term crises to creating the conditions that promote long-term growth and a decline in poverty, including improving social indicators, which are among the lowest in Europe, and improving physical infrastructure, which is a constraint on long-term private sector development. In the second progress report of the NSSED, the Government has made efforts to integrate it with the SAA process and objectives.

OED Country Assistance Evaluation of the late 1990s

4. OED produced a country assistance evaluation of Albania in the late 1990s. The evaluation found that IDA and the Government of Albania had excellent relations, and that the country had progressed rapidly in agriculture, tax reform, external debt

¹ EIU, Albania, Country Profile 2004.

management, small and medium scale privatization, price and trade liberalization and the rehabilitation of infrastructure. It also found that weak public sector institutions delayed improvements in the quality of infrastructure and the delivery of public services, and that little progress was made in resolving fundamental problems of the health and education sectors. In the financial sector IDA lacked well defined priorities and as a result its assistance faltered. The country assistance evaluation concluded that a lack of focus on governance and institutional reform was a critical omission of the assistance.

5. The country assistance evaluation recommended that IDA should: (a) pay more attention to the priorities and the sequencing of its interventions; (b) carry out ESW when sector strategies are absent, and when the strategies exist, make more efforts to create a consensus for reforms and policies; (c) balance its project activities adequately throughout the country and promote public awareness of the rationale behind Bank's lending; (d) involve stakeholders in the design of projects, to improve the accountability of service providers and implementing agencies; (e) develop a system that ensures that crucial issues or policy slippages are brought to the attention of Bank management, the Albanian authorities, and the entire donor community; and (f) make greater efforts of aid coordination at several levels.

Bank Assistance Program FY98-04

6. Two country assistance strategies (FY99-01 and FY02-05) and one CAS progress report (FY00) have set the main objectives of the Bank's program since mid-1998. The FY02-05 CAS program was prepared after the formulation of the NSSD. The Bank strategies focused on three main objectives: (a) *governance and institution building* (strengthen public administration and make public service professional, reform the judiciary system, and strengthen local institutions); (b) *sustainable growth* (maintain macroeconomic stability, improve financial intermediation, facilitate private sector development, improve infrastructure, facilitate rural development, promote sustainable environmental development, promote urban development, and improve telecommunications); and (c) *human development* (strengthen the social safety net, improve the quality of education, and develop an effective and sustainable health system).

7. During the period FY98-04, the Bank approved 30 credits for a total of US\$445.4 million. Lending in FY99-04 was broadly consistent with the levels proposed in the FY98 country strategy, the FY00 CAS progress report and the FY02 CAS. Per capita IDA lending was about US\$20 per year during this period. In addition, the Bank undertook a substantive amount of AAA (ESW, workshops, policy advice), including a country financial accountability assessment, a country procurement assessment report and a public expenditure review.

Methodology

8. Albania has received a significant flow of resources from IDA for a large number of projects since the late 1990s country assistance evaluation, and it is appropriate to update the assessment before the next country assistance strategy. The CAE update will entail a review of all project and program documentation and ESW since 1998, as well as past and ongoing OED work (such as project performance assessment reports, case

studies for rural lessons, water supply and sanitation review, agriculture policy reform in ECA transition economies, PRSP review and the recent OED review of assistance to transition economies), internal Bank documents for ESW and projects, the NSSED, QAG reviews, WBI evaluations, and evaluation reports from other official donors (e.g., Denmark, Italy, Germany, US, UK) and private donors (Soros, GRECO).

9. The CAE update will evaluate the relevance of the Bank's strategy in relation to the Government's own poverty reduction strategy (NSSED) and the country's development constraints. For each of the main program objectives, the CAE update will evaluate progress towards meeting the objective, including the balance between lending and non-lending instruments, the number of operations, the efficacy with which the strategy was implemented and the results achieved. This will be done in two steps. The first is a review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. This analysis will compare the performance indicators set out in the country assistance strategies to actual results using, among others, performance indicators from recent Bank documents, findings of the CAE mission, and other publicly available information. This analysis will also be complemented with the evaluation of the PRSP process recently completed by OED, of which Albania was one of the case studies. The second step will be a review of the Bank's products and services (lending, analytical and advisory services and aid and donor coordination) used to achieve a particular Bank objective. An assessment will also be made of the contributions to the results by the Bank, other donors, the Government and exogenous factors. Given the large donor presence in Albania, the CAE update will closely examine the Bank's role in donor partnerships and aid coordination. The CAE update will also examine how the recommendations of the late 1990s country assistance evaluation were incorporated in the country assistance strategies and how effectively they were implemented.

10. Based on the objectives set out in the past two country strategies and the CAS progress report, the CAE will focus on the following three major objectives and evaluative questions.

Governance and institution building

11. Since 1997, the Bank has focused on building critical central capacities, such as public administration and the civil service, public expenditure management, and legal and judicial institutions. Questions relevant to the objective of governance and institution building are:

- Has public sector performance improved as envisioned in the assistance program? Have local institutions been strengthened?
- How has the MTEF changed the budget process and allocations, if at all? Has the MTEF led to a wider coverage of basic services and to a more effective use of public resources?

Sustainable growth

12. The NSSED recognizes the private sector as the driving force behind growth. To sustain that growth it is necessary to improve the business environment, complete the

structural reform agenda, maintain agricultural growth, improve infrastructure and ensure sustainable environmental and natural resource management. Questions relevant to the objective of sustainable growth are:

- Has progress been made in restructuring and strengthening the financial sector? Have these changes resulted in increased private sector access to credit?
- What progress has been achieved in the first-time registration of agricultural land, and has this resulted in a more efficient operation of the land market?
- Have the quantity and quality of infrastructure (port, roads, electricity, and water supply) services improved? Have reforms in the power sector been carried out? Has the financial situation of the electricity sector improved?
- Have the cost of doing business and the administrative barriers to investment been lowered? Has the business climate improved in response to judicial reform efforts and to reforms in the financial sector?

Poverty reduction and human development

13. The NSSD signals the need to have better education and health to reduce poverty and encourage growth. To that end, the country strategy and the Government's medium term economic framework envisage the design and execution of a program that improves the access to and the quality of education and healthcare, and increases the effectiveness of social protection. Questions relevant to the objective of poverty reduction and human development are:

- Has the Government developed and implemented plans to improve the quantity and the quality of the services delivered in health and education? What progress has been achieved on school enrolment, drop out rates, and basic health indicators (e.g., infant, maternal mortality, malnutrition)? How effective has been the participatory system in delivering goods and services to small communities?
- Have reforms in the pension system led to a better management of pensions and to a fall in the pension deficit (as percent of GDP)?
- What progress has been made towards achieving the Millennium Development Goals and what has been the role of the Bank?

Timing, Peer Reviewers

14. The Country Assistance Evaluation is intended for CODE discussion in late FY05 or early FY06, to precede the next Albania country assistance strategy, currently scheduled for Board Discussion in the first quarter of FY06. A CAE mission to Albania would take place in mid-September 2004. The task manager will be Mr. Jorge García-García (ext. 35298). Peer reviewers will be Messrs. Robert J. Anderson (OEDCR) and Roger Robinson (ECCAR).