

Document of
THE WORLD BANK

Report No. 29638

PROJECT PERFORMANCE ASSESSMENT REPORT

ALBANIA

**REHABILITATION CREDIT
(Credit No. 3015)**

**RECOVERY PROGRAM TECHNICAL ASSISTANCE PROJECT
(Credit No. 3016)**

**PUBLIC EXPENDITURE SUPPORT CREDIT
(Credit No. 3197)**

**STRUCTURAL ADJUSTMENT CREDIT
(Credit No. 3231)**

July 8, 2004

*Country Evaluation and Regional Relations
Operations Evaluation Department*

Currency Equivalent

(Exchange Rate Effective June 10, 2003)

Currency Unit = Lek
Lek 1 = US\$.008
US\$1 = Lek 118.6

Government's Fiscal Year
January 1 – December 31

Abbreviations And Acronyms

ARC	Albania Rehabilitation Credit
ATM	Accounting and Treasury Management
BART	Bank Assets Resolution Trust
BEEPS	Business Environment and Enterprise Performance Survey
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
DPA	Department of Public Administration
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ERP	Economic Recovery Program
EU	European Union
FoA	Friends of Albania
FSAC	Financial Sector Adjustment Credit
FSIBTA	Financial Sector Institution Building Technical Assistance
GDP	Gross Domestic Product
GNI	Gross National Income
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
LJRP	Legal and Justice Reform Project
MIGA	Multilateral Investment Guarantee Agency
MTEF	Medium Term Expenditure Framework
NCB	National Commercial Bank
NE	Social Assistance Agency
NSSED	National Strategy for Social and Economic Development
PARP	Public Administration Reform Project
PESC	Public Expenditure Support Credit
RCB	Rural Commercial Bank
RPTA	Reform Program Technical Assistance
RTGS	Real Time Gross Settlement
SAC	Structural Adjustment Credit
SB	Savings Bank
SEE	South East Europe
SEED	Southeast Europe Enterprise Development
SII	Social Insurance Institute
SSDP	Social Services Delivery Project
UNDP	United Nations Development Program
USAID	United States Agency for International Development

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About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which *Executive Directors or Bank management have requested assessments*; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A *Project Performance Assessment Report (PPAR)* is based on a review of the *Implementation Completion Report* (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the *ICR*, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: <http://worldbank.org/oed/eta-mainpage.html>).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in *Poverty Reduction Strategy Papers*, *Country Assistance Strategies*, *Sector Strategy Papers*, *Operational Policies*). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

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Preface

This is a Project Performance Assessment Report (PPAR) on the *Albania: Rehabilitation Credit (ARC)* for US\$25 million, *Recovery Program Technical Assistance* for US\$5 million, *Public Expenditure Support Credit* for US\$30 million and *Structural Adjustment Credit* for US\$45 million. This report is based on the President's Reports for the projects, summaries of Board discussions, legal documents, project files, related economic and sector work, Implementation Completion Reports (ICRs), prepared by the Europe and Central Asia Region, for the projects. In addition, discussions with Albanian officials, other donors, other stakeholders, IMF staff and World Bank Group staff were valuable inputs into the report.

An Operations Evaluation Department (OED) mission visited Albania in June 2003 to discuss the effectiveness of Bank assistance with government officials, donors and other stakeholders. Their cooperation and assistance in preparing this report is gratefully acknowledged.

The draft PPAR was sent to the Government of Albania for comments. The response of the Ministry of Finance is reproduced as Annex C to the report. Comments from the Bank of Albania have been taken into account in the revised text.

This report was prepared by Ashok Khanna (Consultant), with Alice Galenson as Task Manager. Silvana Valle provided administrative support.

Summary

1. Attached is the Project Performance Assessment Report on the *Albania: Rehabilitation Credit* (ARC) for US\$25 million; *Recovery Program Technical Assistance* (RPTA) for US\$5 million; *Public Expenditure Support Credit* (PESC) for US\$30 million; and *Structural Adjustment Credit* for US\$45 million. ARC became effective in March 1998 and closed on schedule in December 1998; RPTA also became effective in March 1998 and closed in October 2002 after three extensions, about 22 months behind schedule; PESC became effective in May 1999 and closed on schedule in September 2000; and SAC became effective in August 1999 and closed on schedule in December 2000.

2. ARC and RPTA were processed quickly to help Albania resolve the financial pyramid scheme crisis, stabilize the financial sector, restore the social safety net, and initiate reforms in public administration and the legal and judicial system. PESC and SAC assisted Albania during the Kosovo refugee crises: PESC provided funds to maintain public services, and SAC furthered reforms in the financial sector, privatization, public administration, the legal and judicial system, and social services.

3. Despite two major crises and domestic political instability, Albania's macroeconomic and growth performance has been satisfactory. Economic growth has averaged almost 8 percent per annum during 1998–2002, with total investment increasing steadily. Budget deficits have declined and inflation has been contained to low single digit levels. Foreign exchange reserves are at a comfortable coverage (five months) of imports and the Lek has appreciated steadily. Privatization of small and medium enterprises is complete and that of larger, strategic enterprises almost complete. Structural reforms have progressed in all areas mentioned above, assisted by several IDA follow-on projects. Some shortcomings do exist, however. The financial sector has stabilized, but intermediation to the private sector remains small, though rising. Moreover, aid coordination remains weak, even though it is critical in a country where many donors are involved.

4. The outcomes of ARC, RPTA, PESC, and SAC are rated *satisfactory*. The sustainability of all credits is rated as *likely* because the government has continued with reform implementation through periods of crisis and domestic political instability. The institutional development impact for all four credits is rated as *substantial*. Some new institutions were established, and capacity was built in existing institutions through reforms and technical advice. IDA's performance for PESC is rated *highly satisfactory* because of its timely, appropriate and effective response to the Kosovo crisis. IDA's performance for ARC, RPTA and SAC is rated *satisfactory* because these projects were relatively consistent with its strategy, quality at entry was satisfactory, and supervision was also satisfactory. The government collaborated fully in preparing ARC, RPTA, PESC, and SAC and implemented them fully without any waivers and despite substantial instability. The borrower's performance for PESC is rated as *highly satisfactory* because

of the government's strong commitment and prompt, transparent implementation. The borrower's performance for ARC, RPTA, and SAC is rated *satisfactory*.

5. The main lessons from these credits are:

- Small, focused, one-tranche policy projects with realistic objectives, supported by technical assistance, may work well in transition countries that are politically unstable and have low market economy skills. A limited reform agenda is easier to implement, especially if parliamentary approval is needed for new laws when the political landscape is not stable. Reform continuity can be maintained by similar policy or investment follow-on projects.
- In crisis situations, an immediate response can be valuable beyond its direct purpose. The very quick preparation and disbursement of PESC was effective in providing development assistance and coordinating substantial humanitarian assistance.
- PESC was disbursed against a negative list of imports instead of the positive list that is usual for an emergency import credit. Disbursement against a negative list expedited resource transfer, which was appropriate in Albania's circumstances.
- As is already well known, aid coordination—including the appropriate alignment of government agencies—is critical to ensure appropriate, harmonized and effective assistance where many donors are involved.
- Some organizations established for special purposes under IDA projects could be transformed into private sector commercial entities when their mandate is complete. This transition could be an integral part of that organization's strategy.

Gregory K. Ingram
Director-General
Operations Evaluation

Ratings and Responsibilities

Performance Ratings

<i>Albania: Rehabilitation Credit (ARC, Credit 3015)</i>			
	<i>ECA ICR</i>	<i>OED ICR review</i>	<i>OED PPAR</i>
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Uncertain	Likely
Institutional Development	Partial	Modest	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

<i>Recovery Program Technical Assistance (RPTA, Credit 3016)</i>			
	<i>ECA ICR</i>	<i>OED ICR review</i>	<i>OED PPAR</i>
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development	Substantial	Substantial	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

<i>Public Expenditure Support Credit (PESC, Credit 3197)</i>			
	<i>ECA ICR</i>	<i>OED ICR review</i>	<i>OED PPAR</i>
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development	Substantial	Substantial	Substantial
Bank Performance	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory
Borrower Performance	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory

<i>Structural Adjustment Credit (SAC, Credit 3231)</i>			
	<i>ECA ICR</i>	<i>OED ICR review</i>	<i>OED PPAR</i>
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development	Substantial	Substantial	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

Key Project Responsibilities

<i>Project</i>	<i>Staff</i>	<i>Appraisal</i>	<i>Completion</i>
ARC	Task Manager	Helena Tang/John Innes	Helena Tang
	<i>Sector Manager/Director</i>	C. Lovelace/L. Bokros/P. Mitra	Michal Rutkowski
	<i>Country Director</i>	Arntraud Hartmann	Arntraud Hartmann
RPTA	Task Manager	Tunc Uyanik	Greta Minxhozi
	<i>Sector Manager/Director</i>	Lajos Bokros	Kaled Sherif/Paul J. Siegelbaum
	<i>Country Director</i>	Arntraud Hartmann	Orsalia Kalantzopoulos
PESC	Task Manager	Onno Ruhl	Hormoz Aghdaey
	<i>Sector Manager/Director</i>	Pradeep Mitra/Lajos Bokros	Khaled Sherif/Paul Siegelbaum
	<i>Country Director</i>	Arntraud Hartman	Christiaan J. Poortman
SAC	Task Manager	Mansour Farsad	Mansour Farsad
	<i>Sector Manager/Director</i>	Pradeep Mitra	Pradeep Mitra
	<i>Country Director</i>	Arntraud Hartmann	Arntraud Hartmann

1. Introduction

Background

1.1 *Social and Political.* Albania had a population of 3.4 million and a GNI per capita (Atlas Method) of US\$1,230 in 2001. It is the poorest country in Europe, but its social indicators are at about the same level as Eastern European and Central Asian countries and lower-middle income countries. Albania has a turbulent history, with intermittent wars and occupations since Roman conquest in 168 BC. An international commission in 1913 demarcated its current borders. After World War II, it came under communist dictatorship until that regime fell in 1990. Until that year, Albania had no experience in democratic government, but relied on a strong tradition of social, clan and family ties.

1.2 Elections were held in 1991, contested by several parties. The Socialist Party (ex-communist party) won, but within a year a general strike and demonstrations forced them to form a coalition with the opposition Democratic Party. Another election was held in 1992, which the Democratic Party won, making it the first non-communist government in 47 years. A period of relative political stability was disrupted towards the end of 1996 by the collapse of several financial pyramid schemes, with liabilities amounting to 50 percent of GDP. The collapse led to widespread rioting and civil unrest. Over 1500 people died and buildings and infrastructure were damaged. The government no longer controlled large parts of the country. This insecurity disrupted economic and social activities, until a multinational protection force restored order by mid-1997.

1.3 The Socialist Party won the elections held in 1997. Bitter feuding between the Socialist and Democratic Parties and divisions within the Socialist Party have led to several changes in government and cabinet. The Kosovo crisis of 1999, when about 450,000 refugees came into Albania, temporarily restored national and political unity. The Socialist Party again won the elections in 2001, but the infighting continued, resulting in changes in government and cabinet and a boycott of Parliament by the Democratic Party. In 2002, political disputes were temporarily resolved—the Democratic Party ended its boycott of Parliament and the Socialist Party factions agreed to suspend feuding—and the parties agreed on a consensual President. Unfortunately, the wave of optimism subsided and confrontational politics have revived.

1.4 *Economic.* During the period of communist rule, Albania had a centrally planned economy, with all productive assets (including agriculture, land, industry, commerce and infrastructure) owned collectively or by the state. Market mechanisms disappeared or went underground and economic decisions were made through five-year plans. Agriculture was the predominant sector for employment and also contributed about 35 percent to GDP. The broad-based industrial sector contributed 45 percent to GDP from about 400 state-owned enterprises that had obsolete technology and low productivity.

1.5 By 1992, Albania could be described as a “failed state.” The economy was in disarray, with a 40 percent drop in output, a rise in inflation to 240 percent and over 27

percent unemployment. External migration exploded from almost zero in 1990 to 100,000 in 1991. Current estimates of migrant workers range from 700,000 to 1,000,000.

1.6 Faced with this economic situation, Albania launched a vigorous stabilization and structural reform program over the 1992–1995 period. The measures implemented included privatization of virtually all agricultural land, small enterprises and shops; and abolition of almost all price controls, exchange rate unification and floating and liberalization of trade and payments. These policies spurred GDP growth to over 9 percent per annum during 1993–1995, enabling unemployment to decrease to 12 percent and inflation to decline to 5 percent by 1995. Simultaneously, large inflows of external concessional aid and grants (US\$1.5 billion during 1992–1996) and worker’s remittances (US\$300 million per annum by 1996) helped contain the current account deficit and rebuild foreign reserves.

1.7 This progress began to unravel from mid-1996 in the run up to elections. Tax collection efforts weakened and foreign assistance declined because the IMF program was halted, resulting in a high fiscal deficit of about 11 percent of GDP. Inflation accelerated to 17 percent, and the current account deficit increased to over 9 percent. Fueled by the surge in remittances, the financial pyramid schemes had expanded rapidly. Their collapse led to widespread civil disturbance by early 1997 and loss of confidence in the currency. The Lek depreciated by over 40 percent and inflation rose to 28 percent in the first half of 1997. The government elected in July 1997 adopted a post-crisis economic recovery program that helped limit the budget deficit and brought down inflation. Despite domestic political strife, macroeconomic targets agreed with the IMF were broadly met in 1998. GDP grew at 12 percent while the budget deficit was 7 percent of GDP, keeping inflation under 9 percent; the current account deficit dropped to about 7 percent of GDP.

Table 1.1: Selected Economic Indicators

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 ^c
Real GDP Growth (%)	9.7	9.6	9.1	9.3	-10.5	12.1	8.3	7.7	6.8	4.7
Inflation (%)	31.0	15.0	5.0	17.0	42.0	8.7	-1.0	4.2	3.5	2.1
Budget Deficit ^{a, d}	9.1	6.9	6.8	10.7	10.7	6.9	5.4	3.1	3.0	3.2
Current a/c Deficit ^a	29.5	14.0	7.0	8.5	12.5	6.9	7.7	7.1	6.2	9.1
Gross Reserves ^b	140	200	230	260	290	384	481	608	754	860

Source: World Bank data.

a. Percent of GDP; b. US\$ Millions; c. IMF data; d. Domestically financed budget deficits.

1.8 The conflict in Kosovo led to an influx of about 450,000 refugees into Albania by early 1999, posing a new crisis. The government remained committed to the economic reform program, however. Thus, GDP growth averaged over 8 percent per annum from 1998–2001, inflation has been kept at low levels of 2 to 4 percent and external reserves have been comfortable at about five months of imports. External assistance and remittances have provided needed financing. A strong private sector response to structural reforms has spurred economic growth. In particular, agriculture, construction, and services have grown rapidly. GDP growth slowed in 2002, partly because of an energy shortage, budget pressures that lowered public investment, and political

uncertainty that lowered private investment. The growth rate was expected to pick up in 2003, as some of these inhibiting factors were resolved.

World Bank Group Relations with Albania and Other Donors

1.9 Albania joined the World Bank Group in October 1991. Through January 2003, the Bank had lent US\$673 million to Albania, of which US\$470 million or 70 percent has been disbursed. The Board had approved a total of 49 IDA credits, of which 26 are being implemented. Fast disbursing adjustment or emergency operations have amounted to about a quarter of total lending. IDA projects have performed well because of community-based approaches that foster ownership and accountability as well as careful IDA supervision. Portfolio quality continues to improve. Annual country performance portfolio reviews have reduced implementation bottlenecks, resulting in higher disbursements. OED data also show a steady improvement in project outcomes and sustainability.

1.10 Albania also became a member of IFC in 1991 and IFC opened an office in Tirana in 1997. By January 2003, IFC had six investments in Albania with a total investment approval of US\$121 million, mostly loans and some equity. Notably, IFC (with EBRD) is an investor in one privatized state bank and a private bank. Collaboration with IDA, IMF, and EBRD was particularly good during the bank privatization transaction. IFC is currently considering investing in another state-owned bank and insurance company. Its other investments are in oil and gas, telecommunications and cement. IFC is a contributor to Southeast Europe Enterprise Development (SEED), which was launched in September 2000 with about US\$20 million in financing. SEED focuses on enterprise level investment services, building capacity of enterprises and institutions serving small- and medium-sized enterprises and improving the enabling environment for business. MIGA is active in Albania and had guarantees outstanding of US\$18.5 million.¹

1.11 Collaboration with the IMF has been close throughout, with programs coordinated at headquarters and in the field to ensure consistency. This close collaboration continued when the Bank and IMF prepared the Poverty Reduction Support Credit and Poverty Reduction Growth Facility in parallel during 2002.

1.12 Many multilateral and bilateral donors are involved in Albania. Donors coordinate at several levels. At the political level, coordination is done under the framework of the Friends of Albania (FoA), an informal group of multilateral organizations and bilateral donors. FoA meets on an ad hoc basis about once a year in Western Europe to evaluate Albania's progress in reforms, under the chairmanship of the European Union (EU) and Organization for Security and Cooperation in Europe. FoA also meets in Tirana to discuss political developments and coordinate reforms.

¹ Information on IFC investments was obtained from World Bank documents and an interview with IFC's representative in Tirana. Information on MIGA guarantees comes from "Albania: Country Assistance Strategy," World Bank Report No. 24189-ALB, 2002.

1.13 Sector focused donor meetings in Tirana are the main vehicle for technical cooperation. These meetings functioned well in 1997–1998, but were interrupted by the Kosovo crisis. Subsequently, the meetings became sporadic, but the Bank and EU resolved in 2002 to improve coordination at this level. Future Consultative Group meetings may help to better align donor support for the government’s Growth and Poverty Reduction Strategy. Additional donor coordination initiatives are taken on issues arising in specific lending and non-lending activities. These initiatives often result in cofinancing arrangements. The Bank has worked with 14 different cofinanciers.

1.14 Despite these efforts, government officials perceive donor coordination as ineffective. For example, the lack of coordination results in laws and regulations favored by different donor country consultants that may not harmonize with each other or be appropriate for Albania’s culture. Also, some laws, such as for money laundering funded by USAID, are well in advance of legislation in the EU, which Albania aspires to join. As donors fund a substantial proportion of Albania’s budget, coordination is crucial for successful implementation of projects in many sectors. Government officials also perceived IDA as the most responsive to Albania’s needs and suggested that it should take leadership in coordinating donor activity in most sectors. Finally, the government’s own institutional arrangements for dealing with donors, spread over three agencies, has impeded coordination efforts.

2. IDA Assistance Strategy, Loan Objectives, and Design

IDA Assistance Strategy

2.1 Of the four loans reviewed in this report, two were approved in late 1997 and two in mid-1999. Thus, these loans came under the framework of country assistance strategies presented to the Board in 1993 and 1998. When the 1993 country strategy was presented to the Board, Albania had just emerged from a communist regime in deep poverty and isolation. It pursued a “big bang” transition strategy, which initially led to severe economic recession. The 1993 country strategy responded to this emergency by proposing assistance in macroeconomic stabilization, followed by extensive and flexible support for sectors in need of rehabilitation and/or undergoing structural transformation. Projects were designed to be small to gauge implementation capacity. As much as possible, the projects were cofinanced, with IDA taking the lead role, to leverage IDA resources.

2.2 The 1993 country strategy, complemented by IMF programs, focused on emergency rehabilitation of dilapidated infrastructure (roads, school, health facilities); key structural reforms, including price and trade liberalization and privatization of farm land and small enterprises; modernizing tax administration and introducing a Value Added Tax; establishing a new social safety net; and providing public services, such as power, water, transport, and irrigation with some cost recovery.

2.3 The 1998 country strategy supported the government's development agenda of restoring sustained growth to alleviate poverty. It focused on three strategic priorities: (i) governance and institution building by reforming public administration and the civil service to establish an accountable, transparent, and efficient state; (ii) private sector development through finance and enterprise sector reforms, sustaining agricultural growth and improving infrastructure; and (iii) human development and poverty alleviation by emphasizing education, health, and social protection. After the Kosovo crisis in 1999, IDA placed more emphasis on supporting social sectors, especially health and education, and on emergency interventions in infrastructure, such as water and roads. The CAS Progress Report 2000 continued to focus on the above three objectives, but placed more emphasis on reducing poverty, with special attention to the social underpinnings of poverty alleviation—social cohesion and inclusive institutions.

2.4 OED assessed IDA's assistance to Albania in its Country Assistance Evaluation (CAE) for the 1992–1997 period.² The CAE concluded that IDA's partnership with the government had notable successes. While the civil disorder following the failure of the pyramid schemes was a setback, good progress had been achieved in agricultural reform, price and trade liberalization, small enterprise privatization, external debt management, and infrastructure rehabilitation. Lack of progress in key areas had overshadowed these achievements, however. Some assistance, such as for the financial sector, had lacked depth and focus. IDA's concerns about the need for scrutiny and regulation of the pyramid schemes were not expressed forcefully. Moreover, while rehabilitation of health and education facilities had progressed, there was limited progress in policy reforms in these sectors. Furthermore, the CAE observed that Albania had not developed public administration and state institutions for a market economy. The lack of strong focus on governance and institutional reform was also a critical omission.

2.5 The 1998 country strategy was relevant for Albania as it concentrated on the main constraints to Albania achieving sustained economic growth and reducing poverty. The government needed to improve its ability to provide public services effectively and efficiently and the country's future growth depended on facilitating private sector development. Moreover, this country strategy incorporated the CAE's conclusions and lessons.

Loan Objectives and Design

2.6 The Albania Rehabilitation Credit (ARC) and Recovery Program Technical Assistance Project (RPTA) were approved by the Board on December 9, 1997 to provide immediate support for resolving the financial crisis caused by the pyramid schemes and furthering structural adjustment.

2.7 ARC was a one tranche operation of SDR 18.3 million (US\$25 million) to provide balance of payments support for the first set of structural reform measures in the government's recovery program from the financial crisis. The reforms included resolving

² The CAE was first issued in 1998 as a confidential document and then re-issued in 2000 for public distribution.

the pyramid schemes, reforming the banking sector, strengthening the social safety net and promoting employment. A set of specific pre-Board conditions for each structural reform component had to be met prior to approval and funds disbursement: (i) appoint external administrators for the four pyramid schemes that had not declared bankruptcy at that time; (ii) appoint administrators/managers for state-owned banks, restrict their lending operations, and initiate an audit; and (iii) ensure adequate budget funding for increased social assistance benefits. In addition, the credit specified extensive follow-up measures for each component, designed to ensure continuity of reforms in preparation for subsequent operations. These measures, however, were not legally binding.

2.8 RPTA was a credit of SDR 3.7 million (US\$5 million) with the objectives of: (i) supporting activities to encourage a resumption of sustained economic growth under Albania's economic recovery program (ERP); and (ii) assisting in policy formulation and institution building to facilitate future assistance from donors. It financed the purchase of consultancy services, training and equipment for three components: (i) in the financial sector, for bank restructuring and divestiture and building bank infrastructure; (ii) in public policy, for policy formulation, economic management, public administration reform, debt management and a pilot activity for judicial reform; and (iii) in project management, for the project implementation unit.

2.9 The Public Expenditure Support Credit (PESC) and Structural Adjustment Credit (SAC) were approved by the Board on May 6, 1999 and June 3, 1999 respectively to provide support during the Kosovo refugee crisis and further institutional capacity building and structural adjustment.

2.10 PESC was a one-tranche operation for SDR22.1 million (US\$30 million) to provide emergency support during the Kosovo refugee crisis and safeguard fiscal discipline. Its objectives included appropriate expenditure and revenue behavior (see below), while ensuring adequate resources for essential services and structural reforms. It also served as a vehicle for cofinancing and parallel financing by other donors. Specifically, the measures under PESC were designed to: (i) maintain adequate macroeconomic and fiscal stability during the crisis by limiting the budget deficit to 5.5 percent of GDP and defense expenditure to 4.3 percent of overall fiscal expenditures; (ii) ensure adequate fiscal resources, that is, at least at levels of the approved 1999 budget, for essential public functions such as social services, infrastructure, and administration; (iii) account for the use of budgetary funds transparently, including the allocation for relief efforts; and (iv) improve coordination and transparency of the refugee relief program.

2.11 SAC was a two-tranche operation for SDR 33.2 million (US\$45 million) to back the government's reform program. It focused on improving government functions and strengthening the framework for private sector development through the following measures: (i) maintaining satisfactory macroeconomic performance; (ii) completing the privatization or liquidation of all small and medium enterprises (except in defense and culture) and commencing the privatization process for telecommunications companies and banks; (iii) strengthening core government administration and governance reforms; (iv) enhancing legal and judicial capacity; (v) ensuring the sustainability of public

functions, such as public pension payments; (vi) strengthening the financial sector regulatory framework; and (vii) facilitating titling of land distributed to private farmers. After Board approval, SAC received supplemental cofinancing from the Swiss government (US\$2.8 million) and the Norwegian government (US\$1.9 million).

3. Implementation Experience

Albania Recovery Credit

3.1 The project became effective on March 19, 1998, about three months after Board approval, and closed on schedule on December 31, 1998. All pre-Board approval conditions were implemented,³ but follow-up measures were implemented more gradually. There was significant progress in winding up the pyramid schemes and reforming the banking sector, but less progress in employment promotion and social safety net reforms, where institutional changes were not achieved.

3.2 All pre-Board conditions and follow-up measures were implemented for the pyramid schemes. All pyramid schemes had ceased operations by 1999. Under ARC, qualified administrators from international accounting companies were hired to wind up the schemes still in operation in 1998. The schemes were audited and some assets recovered and distributed to depositors, but the fallout from the episode lingers (see below).

3.3 All pre-Board presentation conditionality and follow up measures for banking sector reforms have been implemented or their objectives achieved. Substantial progress has occurred in the financial sector with the help of IDA's follow-on projects—Financial Sector Adjustment Credit (FSAC) and Financial Sector Institution Building Technical Assistance (FSIBTA). The three state-owned banks were audited and one was closed, one privatized and one is currently up for sale. The Rural Commercial Bank's (RCB) operations were suspended and its deposits and some assets transferred to the Savings Bank (SB). Other assets were transferred to the Bank Assets Resolution Trust (BART), established to resolve all the state banks' bad debts.

3.4 A team of foreign bankers was appointed to manage, restructure, and privatize the National Commercial Bank (NCB). Its bad assets were also transferred to BART. Privatization of NCB was achieved in 2001, with a 100 percent sale to a consortium of IFC, EBRD, and Kent Bank, from Turkey. Unfortunately, Kent Bank became insolvent in 2002 and was taken over by Turkey's deposit insurance agency. Turkish authorities have been reluctant to resell NCB to a non-Turkish bank and requested more time to find a qualified Turkish buyer. In any case, IFC and EBRD can call shares for resale from the Turkish authorities. Aside from the resistance from Turkish authorities, the resale of NCB should not pose any problems, as it has good management and systems.

³ The binding conditions for disbursing this loan were completed prior to Board Presentation.

3.5 SB was placed under the management of a reputable foreign bank to prepare it for privatization. Management reverted to the Ministry of Finance when that contract expired. Attempts to sell the bank in 2002 did not succeed, as no investors were interested, partly because of the international economic climate and political instability in Albania. SB was, however, successfully privatized at the end of 2003 with Raiffeisen Zentral Bank, an Austrian banking group, as the purchaser.

3.6 All the pre-Board presentation conditions for improving the social safety net were met and all follow-on measures were also implemented, but with delays. Improvements in internal security facilitated the recovery of the social safety net, especially the functioning of the Social Assistance Agency (NE). This agency has also been assisted by an IDA follow-on project—Social Services Delivery Project (SSDP). NE is funded by a central government grant and administered by local governments. The grant was temporarily withdrawn during the 1997 civil unrest, but restored later that year, with an increase in average benefits. The government provided a capital budget allocation to improve institutions for orphans and the elderly. The government passed a law regulating NGO activity in 2002, including their involvement in home care for the sick and elderly and foster parenting.

3.7 All Board conditions for promoting employment were met, but progress was slow in complying with follow-up measures, although they have also been implemented. An agreement was reached with the Bank to reduce the duration, level, and eligibility of unemployment benefits funded by unemployment insurance to permit a reduction in the tax rate for the latter, but it was not adopted until 2002 when the tax rate was lowered from 6 percent to 4.5 percent. The government did not transfer responsibility for delivering unemployment benefits from the Labor Office to the Social Insurance Institute (SII), but instead it was transferred to the post office and is now working well. SII retains the finance and accounting system for unemployment benefits, however. The Employment Promotion Law, that the government had agreed to pass in 1998, was eventually passed in 2001. The government proposed to use community works programs to employ social assistance claimants and provide screening for social assistance claims. It gave the Bank satisfactory terms of reference for the National Committee for Community/Public Works and appointed that committee.

Recovery Program Technical Assistance Project

3.8 The project became effective on March 19, 1998, about three months after Board approval. It closed on October 31 2002, extended three times from the original closing date of December 31, 2000 partly because of the Kosovo refugee crisis and domestic political instability. A remaining balance of US\$7,000 was cancelled.

3.9 Good progress has been achieved in all project components.⁴ RPTA was successful in supporting activities under ERP. It achieved the key indicators for restructuring and divestiture of state-owned banks: financing a foreign chief operating

⁴ See Annex 1 of the “Implementation Completion Report: Albania: Recovery Program Technical Assistance Project,” World Bank Report No. 26253, January 2003.

officer for NCB and assisting in its privatization; financing audits of RCB, NCB, and SB; assisting in RCB's liquidation; and funding the implementation of a governance contract for SB. The project also helped to establish BART for recovering bad loans transferred from state-owned banks and funded an advisor to assist in preparing a strategy, business plan and operational guidelines.

3.10 BART is receiving support from FSIBTA and FSAC. The agency did not make much progress under its first director and advisor. A fire that destroyed records did not help. Collections through the end of 2001 amounted to only about 3 percent of the portfolio. A diagnostic review in that year exposed many problems. A new manager was appointed, a new law came into force in 2002, and a Supervisory Board was appointed in November of that year. A new advisor has helped to design a Global Scheme for recoveries. BART administers 18,574 loans for a total obligation of about Lek 32.4 billion (about US\$270 million). Of this amount about 62 percent is principal and 38 percent is interest. About 85 percent of these loans are classified as "dead." Moribund former state-owned enterprises account for about 26 percent and manufacturing and business activities about 47 percent of the amount outstanding. Most loans are for small amounts. The collection scheme offers discounts on interest arrears for payment by the end of 2003. Resolution of these obligations would be expedited if write-offs and discounts of principal were also permitted under the law. So far, BART is meeting its monthly targets. The agency is expected to close at the end of 2005.

3.11 RPTA also helped strengthen banking infrastructure by funding an advisor to the Bank of Albania to prepare user requirements for establishing Accounting and Treasury Management (ATM) and Real Time Gross Settlement (RTGS) systems. The project also supported establishing the Registry of Secured Charges, which started operation on January 31, 2001 and had 4,000 registrations by the end of 2002. Since 2002, the registry is being funded by the budget. Finally, RPTA provided funds to fill a gap for the administration and audits of the pyramid schemes.

3.12 RPTA strengthened public policy formulation and public administration. A senior advisor provided policy advice to senior officials in the Ministry of Finance, the Prime Minister's office and the Council of Ministers for two and half years. A resident advisor supported the Department of Public Administration with reforms, which helped to formulate an IDA follow-on project—Public Administration Reform Project (PARP). Similarly, the project funded a court and case management study that assisted in formulating IDA's Legal and Judicial Reform Project. RPTA also supported the Project Implementation unit with training and improving financial and management systems, which helped in implementing succeeding projects.

3.13 Some RPTA funds were reallocated to respond to evolving circumstances, although actual expenditures on each component remained close to estimates. A debt management/monitoring system originally included in the project was taken over by a UNDP project. Formulating a strategy for commercial dispute arbitration/resolution was shifted to a follow-on IDA project. The saved funds were used for the ATM/RTGS study and audits of the pyramid schemes.

Public Expenditure Support Credit

3.14 The project became effective on May 13, 1999, a week after Board approval, and closed on schedule on September 30, 2000. All pre-Board approval conditionality was completed. Although the Kosovo refugee crisis cost about US\$75 million, it was entirely financed by foreign assistance triggered by PESC. The government moved quickly and decisively in dealing with the large influx of refugees.

3.15 Macroeconomic management was excellent through the crisis period and stability was maintained. Despite demand pressures, inflation fell due to tight monetary policy and in-kind humanitarian aid. The domestically financed budget deficit for 1999 was contained at under 5.5 percent of GDP and defense expenditures did not exceed 4.3 percent of GDP as agreed. Moreover, the current account deficit was 3.5 percent below projections, reflecting strong exports and lower imports as refugees returned quickly.

3.16 Expenditure allocations for health care and education, public infrastructure maintenance, the civil service and internal security, judicial institutions and public investment were kept at levels projected in the 1999 budget to ensure that essential public services were maintained at pre-crisis levels. Expenditure categories were added to the budget to provide transparent and accountable budget allocations. A monitoring mechanism was established to track the use of budget resources for the relief effort. Also, guidelines and procedures were established to account and report the use of funds from a special Kosovo account, which was subsequently audited. These innovations became the foundations for subsequently introducing the Medium-Term Expenditure Framework (MTEF).

3.17 An Emergency Management Group, led by the government and comprising all development and humanitarian donors including the Bank, operated successfully. Aid distribution was monitored daily and the data base was kept current and distributed widely. As an indirect benefit of the Kosovo crisis, infrastructure (roads, water, etc.) in areas affected by refugees was rehabilitated. The customs service was a bottleneck, however, causing delays in distribution. Strengthening of the customs service has been a part of the IMF program.

Structural Adjustment Credit

3.18 The project became effective on August 8 1999, about two months after Board approval. The second tranche was released on December 22, 2000 and SAC closed on schedule on December 31, 2000. All pre-Board presentation and second tranche release conditions were met.

3.19 Albania was in full compliance with the IMF program's fiscal and monetary targets during the SAC period. Macroeconomic stability and growth were maintained; real GDP growth was 8.3 percent in 1999 and 7.7 percent in 2000. This growth was generated by stronger than expected private investment and consumption, helped by a sharp rise in private remittances, reflecting improved confidence in the economy. Impressive revenue performance reduced the budget deficit to 5.4 percent of GDP in

1999 and further to 3.1 percent in 2000. In that year, the government, with support from the World Bank, prepared a MTEF to provide a basis for establishing strategic priorities and rationalizing public expenditures. The MTEF is now in its fourth cycle, with gradual improvements in programming and budgeting each year. Inflation continued to decline to below zero in 1999 because of monetary restraint, but picked up to a still low level of 4.2 percent in 2000. The balance of payments current account deficit increased in 1999, but gross official reserves increased in 2000.

3.20 By September 2000, all remaining small- and medium-sized enterprises remaining in state ownership were privatized or liquidated, although the government still maintains partial ownership in a substantial number of companies. International competitive bids were sought to sell some larger enterprises, including a pharmaceutical factory, brewery, dairy and winery. All fifteen small copper and sixty six chrome mines were privatized or liquidated. NCB was privatized, although its ownership status is in limbo because its main owner became insolvent (see above). Privatization of SB was attempted in 2002, but no bids were received; it was successfully privatized in 2003. The government issued two mobile telephone licenses to experienced operators through international competitive tenders. A privatization law for Albania's land-line telecommunications company was approved by parliament and due diligence for an international tender completed, but the transaction has not yet been concluded because of outstanding financial issues. An international accounting firm and the regulatory authority are trying to resolve the matter.

3.21 The government made significant progress in strengthening public service functions, judicial and legal, and pension system reform, and in developing the land market. An Inter-Ministerial Committee for Institutional and Governance Reform was established and it facilitated the approval of the Law for Civil Servants in January 2000, which is rationalizing the civil service. The government launched a drive to recruit for 124 vacancies in the civil service. After delays in forming the Civil Service Commission, 50 of these positions were filled by December 2000, following the new procedures strictly and overcoming resistance from many ministers. Subsequent rules and regulations have improved the process and about 450 new recruits have been inducted into the service. These reforms are being supported by an IDA follow-on project—Public Administration Reform Project (PARP). Generally, the government has respected the law, giving civil servants security of tenure. Recently, however, the newly appointed Prime Minister dismissed senior officials in sensitive revenue posts, such as the customs and tax services without following the law. Although pressure by IDA and other donors prevailed and the dismissal decree was rescinded, the government's commitment to reform has perhaps weakened.

3.22 The government has continued to monitor implementation of its Anti-Corruption Action Plan adopted in June 1998. Follow-up was weak for the first 18 months. At donor urging, the government revised its strategy in 2000, placing an energetic Minister of State in charge of implementation; this led to more progress. Since then, a Second Anti-Corruption Plan was adopted in July 2002, with five pillars—public administration reform, improving legislation and consolidating the rule of law, improving public finance management and controlling mechanisms, promoting transparency and integrity in business operations, and enhancing public information and promoting active civil society

involvement. The minister has decided to emphasize law enforcement, preventive measures, such as public education, and good governance. An interministerial Board, with members from government, civil society, and donor representatives, and an administrative unit were established to coordinate and monitor implementation. A third conference was convened in July 2003 to review performance and agree on an agenda for 2003–04. Also, a law on asset declaration by the Council of Ministers was passed and is being followed. Corruption is deeply engrained, however, making progress slow.

3.23 All judges with less than 10 years experience were tested for re-accreditation. Those who failed were dismissed. The Judicial Inspection Panel developed a performance evaluation system. A State Publication Office was established to publish legal material to provide wider access to current laws and judicial decisions. Progress with reforms at the Tirana Law School was slower than expected. A comprehensive reform action plan was adopted and its implementation is being supported by the Legal and Judicial Reform Project (LJRP). Reform of the legal and judicial system is a long-term process, however.

3.24 Under SAC, the government commissioned a technical analysis of the pension system because it was running a deficit. This analysis provided a basis for designing a comprehensive reform program. Work on strengthening the development and implementation of pension policy is continuing under the Social Services Delivery Project.

3.25 Substantial progress has been made in establishing the legal and regulatory framework for the financial sector. A revised Bank of Albania Law (central bank) and Banking Law were approved by Parliament in late 1997 and 1998 respectively. Laws on Secured Transactions and Money Laundering have also been passed. Prudential regulations for banks, broadly in line with Basle Core Principles, have been adopted. Licensing requirements for new banks and capital adequacy requirements for all banks have been strengthened. The Bank of Albania has received technical assistance to strengthen both on- and off-site bank supervision. A deposit insurance scheme has been launched. The central bank has also introduced SWIFT communications with banks and adopted an RTGS; implementation of the latter was expected in early 2004. In addition, SB has concluded agreements with banks in Greece and Italy and with Moneygram to facilitate remittances into Albania.

3.26 SAC targets for completing land registrations were achieved. The government established a Land Market Action Program (1999–2000) that is registering about 20,000 land transactions every year. Land distribution documents have been received by 96 percent of farmers. A follow-on project—The Agricultural Service Project—is assisting the Central Registry Office to computerize the land registration system, improve land security, and establish a land market.

4. Outcome and Assessment

4.1 The four credits reviewed here supported Albania during two major crises—the collapse of financial pyramid schemes with deposits amounting to 50 percent of GDP, and the arrival of 450,000 refugees from Kosovo. At the same time, the credits furthered Albania’s development goals of maintaining macroeconomic stability and economic growth, implementing structural reforms in the financial and enterprise sectors, developing institutions, and bolstering the social safety net. Moreover, the credits were consonant with the Bank’s country assistance strategies articulated in 1993 and 1999. Finally, the credits contributed to the Bank’s corporate goals of fostering growth in the private sector and reducing poverty. Thus, these credits were highly relevant for Albania.

Table 4.1: Project Objectives/Components

<i>Objectives</i>	<i>ARC</i>	<i>RPTA</i>	<i>PESC</i>	<i>SAC</i>
Macromanagement.			X	X
Financial Sector	X	X		X
Privatization	X	X		X
Public Admin.		X		X
Legal and Judicial		X		X
Social Safety Net	X			X

Macroeconomic Performance

4.2 Despite two major crises and domestic political instability, Albania’s macroeconomic and growth performance since 1998, when ARC and RPTA became effective, has been satisfactory, although further reforms are needed to complete the transition to a market economy. Economic growth averaged over 8 percent per annum during 1998–2001, although it slowed to below 5 percent in 2002. Growth was expected to accelerate in 2003. Agricultural production was adversely affected by drought in 2001 and flooding in late 2002, and industrial production was hit by protracted electricity shortages, also partly caused by the drought. Total investment has increased steadily from 16 percent of GDP in 1997 to about 21 percent in 2002,⁵ with private investment maintaining a two-thirds share. Net direct foreign investment spiked from US\$51 million in 1999 to US\$204 million in 2001, but was down to US\$153 million in 2002. Political uncertainty has begun to undermine private investment, especially foreign investment. Albania’s growth is unbalanced, however, as it is concentrated in construction and services. It has also been sustained by high external inflows totaling about 20 percent of GDP since 1995. Future growth has to rely on the expansion of tradables, especially from industry and mining. Further structural reforms (see below) and infrastructure improvements are needed to make this possible.

4.3 The budget deficit declined from 6.9 percent of GDP in 1998 to around 3 percent during 2000–2002. Revenue declined in recent years because slower growth resulted in lower tax receipts and privatization receipts were lower than expected. These shortfalls were offset by cuts in operations and maintenance expenditures and public investment. Budgetary planning has improved with the introduction of the National Strategy for

⁵ IMF data.

Social and Economic Development (NSSD) and the MTEF. Because of prudent fiscal and monetary management, core inflation averaged about 3 percent per annum during 1999–2002, although there has been upward price pressure triggered by supply constraints. Increasing foreign investment, a surge in remittances and a sustained inflow of official financing have helped meet strong import growth and contributed to a steady increase in official reserves through the 1998–2002 period. The real effective exchange rate has appreciated steadily since 1992, although at a declining rate. A real depreciation in 2002 brought it back to its January 2000 level. Albania’s competitiveness has suffered less from this appreciation than from delayed progress in structural reform and lingering problems in governance and infrastructure.⁶

Structural Reform

4.4 Albania has implemented substantial structural reforms and made significant progress towards a market economy. All prices have been liberalized and the trade regime opened. The IMF rates Albania’s trade regime as 1 out of 10 on its restrictiveness index, with 10 being the most restrictive. The country is finalizing free trade agreements with seven Balkan countries. All small- and medium-scale enterprises and many larger enterprises have been privatized. Land has been privatized and a market in land developed. Finally, Albania has a new legal and judicial system.

4.5 Structural reforms have slowed since mid-2001, mainly because of repeated political changes. Investment is still hindered by administrative barriers, reflecting a weakness in governance and law enforcement and widespread corruption. Inadequate infrastructure, especially a weak transport system and severe power outages, exacerbates these constraints. Moreover, many structural targets were met with delays in 2002, including the introduction of longer-term government securities, recording of inter-enterprise arrears and preparations for settlement and a study of electricity tariffs. The planned sales of SB and Albtelekom in mid-2002 were hindered by a weak global market, domestic political instability, and outstanding legal and financial issues in Albtelekom.

Financial Sector

4.6 At their zenith, the 25 pyramid schemes attracted about US\$980 million from about 1.8 million depositors. A Supervisory Commission was given a mandate to identify and liquidate assets and distribute the recovered amounts to depositors. Less than US\$50 million has been distributed. Nine schemes have distributed about US\$20 million ranging from 11 to 50 percent of deposits; another 3 schemes have paid about US\$27 million, representing about 11 percent of their deposits; and 13 schemes have not paid anything. The recovery process is continuing slowly. Recoveries from local assets are impeded by the court system’s slow pace and assets held abroad are difficult to identify and repatriate.

⁶ IMF data.

4.7 Political involvement in the schemes partly explains the slow pace of resolution. The government allowed the schemes to operate despite IDA and IMF warnings about potential consequences. About US\$1 billion in deposits were collected between March and October 1996, just before the elections, purportedly to finance campaigns. Also, about US\$100 million was withdrawn from the schemes in June/July 1997, just before external administrators took charge. Although many miscreants have been brought to justice, rumor has it that the main founders and beneficiaries remain at large. Politicians halted the process of recovery and distribution about six months ago. Parliament appointed a commission to investigate progress in resolving outstanding issues, but it has not taken any steps so far. Thus, the after effects of the pyramid schemes linger, adversely affecting confidence in the banking system.

4.8 The infrastructure for the financial system, including the central bank law, payments system, banking regulations and supervision and deposit insurance, have been vastly improved. Also, instruments for indirect monetary management have been introduced. The Bank of Albania reportedly manages the banking system well. For example, the central bank was able to control large bank deposit withdrawals in early 2002 caused by unfounded rumors of bank insolvency.

4.9 Although SB is the largest bank (holding about 57 percent of total deposits at the end of 2003), it has not been permitted to lend. IDA believed its credit training, policies and procedures were not adequate to assess credit risk. Thus, its assets are treasury bills from recapitalization and purchases from new deposits. The lending restriction on SB will soon be lifted following its recent privatization. NCB has about 10 percent of total deposits, but its assets are also substantially treasury bills from recapitalization. Thus, with bank assets comprising mainly government instruments, intermediation is mostly to the government.

4.10 Private banks dominate lending, but according to the President of the Bankers Association, they lend only about 25 percent of their deposits because of restrictions imposed by the Bank of Albania. For example, collateral requirements are an obstacle to lending. Many other countries with weak legal systems are able to provide credit to the private sector with lower collateral requirements. The Bank of Albania does not believe that its conservative supervision of banks and collateral requirements has restricted credit growth. Nevertheless, it is preparing regulatory amendments that would make collateral requirements more flexible.

4.11 Although credit almost doubled between 2000 and 2002, it was from a small base. Lending in Leks remains very limited as banks mainly intermediate between Lek deposits and treasury bills. Foreign currency deposits have risen to 33 percent of total deposits and foreign currency credit has also grown. Banks are sound, with strong profits and a low level of bad loans despite the increase in credit to the private sector. Credit to the private sector could increase further by establishing a secondary market in treasury bills, reducing collateral requirements and relaxing some onerous requirements by the central bank.

Privatization

4.12 As mentioned earlier, the privatization of all non-strategic commercial enterprises is complete. Most of the strategic enterprises have also been privatized through sale or concession agreements, with the exception of the land-line telecommunications company and petroleum companies, which are in the transaction process. The privatization of state-owned banks and financial institutions is also in process. NCB and SB have been discussed above and the sale of INSIG, the state-owned insurance company, is at the negotiation stage. With the completion of these transactions, the Albanian economy will be substantially privately owned.

Public Administration

4.13 Progress in professionalizing the civil service has been mixed. Serious resistance has existed since the civil service law was passed, although the Department of Public Administration (DPA) has made efforts to overcome it. Ministers have sought exceptions to recruitment procedures by hiring staff under contracts, but DPA has managed to limit these appointments. Encouragingly, competitive recruitment into the civil service rose from 38 percent of all positions in 2000 to almost 60 percent by 2002. On the other hand, ministry Secretary Generals tend to resign voluntarily with change of ministers. As this position was created to maintain administrative continuity, these resignations vitiate the reason for creating that position. Also, performance appraisals were completed for only about half of civil service positions in 2002, with over 90 percent of the ratings as “good” or above. Such high appraisal ratings tend to ossify existing staff in their positions, leaving little flexibility for promotion for exceptional performance or recruitment of new staff, with more appropriate skills. Finally, civil servants do not have confidence in the Civil Service Commission’s decisions, evidenced by about 95 percent of adjudicated grievances being appealed in 2001. Thus, evidence on whether the civil service is based on merit or politics is mixed.

4.14 MTEF is in its fourth cycle and becoming institutionalized as the process by which the budget is prepared and implemented. Sector strategies are now prepared by six ministries, up from three in the first iteration and five in the second iteration. The Ministry of Finance is approaching budgeting more systematically and linking it with NSSD. In 2002, the budget preparation process was debated in Parliament, discussed with NGOs and analyzed by the media. MTEF is also contributing to budget execution by achieving consensus with ministries during formulation and enabling the Ministry of Finance to track execution during the year. Evidence on procurement is mixed, however.

Legal and Judicial Reform

4.15 Legal and judicial reform is a priority for Albania, stressed in its NSSD, and supported by IDA’s Legal and Judicial Reform Project (LJRP). Albania’s legislative framework continues to be refined, but the major focus is on implementation. IDA’s ongoing project is continuing the reforms started under SAC. Implementation of reforms set out in a 1999 Action Plan for Tirana University’s Faculty of Law has improved. For

the academic year 2002/2003, student intake was limited and selection was on an objective and competitive basis. The faculty has improved its program for staff development, including performance evaluation. It has a twinning arrangement with Middlesex University in London. Nepotism in selecting faculty for training programs and manipulating evaluation survey has not been eradicated, however. Also, the civil works to improve the law school's premises have been cancelled because of dispute over land ownership. The Magistrate's School is doing better. It has expanded its programs and improved the quality of training, which has also been linked to performance evaluation.

4.16 Court administration has improved in every respect, although from a low base. Judges are better, partly because of training and performance evaluation; their decisions are published; enforcement of decisions has improved; and court administration is based on internal regulations and has new systems and physical infrastructure. New laws are being passed to extend legal services for a market economy, for example to establish a regime for commercial arbitration, and access to legal information has improved significantly. Despite these substantial improvements, a comparative survey by BEEPS of the rule of law conducted in 2002, ranks Albania in the lower range in terms of fairness, honesty, speed, enforceability, etc. Indeed, Albanian perceptions of the rule of law show a deterioration from a similar survey done in 1999 (this is the case for all other SEE and ECA countries). Legal and judicial reform is a long-term process in Albania because of its poor initial situation. Several other donors are also supporting these reforms, resulting in some coordination problems.

Social Safety Net

4.17 Albania's social safety net system has been restored, but needs further reform to be sustainable. Albanians remain poor. A 1998 survey found that one in every two families was living on less than US\$2 per day. Poverty is concentrated in rural areas and is compounded by inadequate basic social services. A draft national strategy for social care services was discussed with stakeholders at a workshop held in March 2003. With the help of an advisor, a working group is reviewing the legal framework to draft a new social services law, to be presented to Parliament. A Living Standards Measurement Survey was completed and a Poverty Monitoring and Statistical Unit was established to help monitor poverty and feed into policy formulation. Regional plans for community-based social care services have been prepared for four pilot regions and are being reviewed. The government commissioned a technical analysis of the pension system because it was running a deficit. This analysis provided a basis for designing a comprehensive reform program. Also, remittances from seasonal and permanent migrants have provided an informal safety net.

Ratings

4.18 As noted above, ARC, RPTA, PESC, and SAC were relevant, as their objectives were consistent with Albania's development needs and priorities and IDA's corporate goals and country assistance strategy. Moreover, the objectives of each project were

substantially met. In ARC, the pyramid schemes were halted, the financial sector stabilized, and social safety net restored. RPTA successfully provided consulting services for the financial sector and public policy formulation. It also initiated the reform process in public administration and the legal and justice system. PESC helped maintain macroeconomic stability and ensure adequate fiscal resources for public resources during the Kosovo crisis. PESC also initiated budget process reforms. SAC helped to complete privatization of small- and medium-scale enterprises and continue structural reforms in public administration, the legal and justice system, the financial sector, and land titling. Thus, Albania received critical support during two crises and several important reforms were implemented. **This report assesses the outcomes of ARC, RPTA, PESC, and SAC as satisfactory, in agreement with OED's ICR reviews.**

4.19 The reforms supported by ARC, RPTA, PESC, and SAC are likely to be sustained for several reasons. First, the government is committed to achieving a market economy with the private sector as the engine for future growth. It has continued the reform process through two major crises and substantial political instability. Joining the European Union in the future is an important motivation for the government to continue with reforms. Second, IDA has backed the process with follow-on credits (FSIBTA, FSAC, SSDP, LJRP, PARP) with conditionality to maintain the reform momentum. Third, because other donors align their assistance to IDA conditionality, and as Albania will need foreign assistance for the foreseeable future, the government is likely to adhere to the reform program. **Thus, this report assesses the sustainability of all four projects as likely. OED's ICR reviews also rated the sustainability of PESC, RPTA, and SAC as likely, but that of ARC was rated uncertain because of inadequate evidence at that time for a likely rating.**

4.20 ARC, RPTA, PESC, and SAC made substantial contributions to institutional development. Each project contributed to defining institutional mandates and assisted in building capacity to achieve its objectives with improved stability and transparency. Moreover, they all supported reforms that increased the country's ability to make more efficient, equitable and sustainable use of its resources. The financial sector was stabilized, banks closed and privatized and infrastructure established. Enterprises were privatized, and the public administration, legal and judicial system and social safety net were reformed. **Thus, this report assesses the institutional development impact of ARC, RPTA, PESC, and SAC as substantial. OED's ICR reviews rated the institutional development impact of RPTA, PESC, and SAC as substantial, but that of ARC was rated as modest. By supporting banking system and social safety net reforms, which have continued, ARC's contribution to institutional development impact was substantial.**

4.21 With respect to IDA's performance, as mentioned earlier, all the credits were consonant with Albania's development priorities and consistent with IDA's assistance strategy and therefore relevant. ARC and RPTA were prepared in about 45 days to respond quickly to the collapse of the financial pyramid schemes. Continuing dialogue with the government and existing economic and sector work and projects, especially in the financial sector, provided a solid foundation for identifying important conditions that were met prior to Board approval for ARC and use of technical assistance funds for

RPTA. The follow-on measures included in ARC were added to maintain reform momentum. Despite this unusual feature that could have become contentious, the quality at entry of both credits was satisfactory.

4.22 PESC and SAC were also prepared very quickly (18 days for PESC) in response to the Kosovo refugee crisis. For PESC, on-going analysis by the IMF and IDA and dialogue with the government on public finance issues made quick preparation possible. Credit conditions were met prior to Board approval. The Quality Assurance Group rated SAC's quality at entry as satisfactory. The assessment, however, noted that governance reform measures should have been better articulated. IDA's continuing dialogue with the government and follow-on operations provided clarification of governance reforms. Thus, the quality at entry for PESC and SAC is rated as satisfactory.

4.23 Supervision for ARC was not necessary, as all binding conditions had been met before Board approval. Implementation of the non-binding conditions was tracked while supervising other related IDA operations mentioned above. RPTA was supervised regularly through its five-year implementation period, with adequate resources and appropriate skill mix. Staff responded flexibly and effectively to changing circumstances and complied with financial management and safeguard policies. Supervision reports were timely and satisfactory. PESC was a one-tranche operation where all the conditions were met prior to Board approval. It did not require supervision. SAC's supervision benefited from strong support by the County Director, who provided adequate resources and raised concerns about implementation at the highest levels. IDA staff continuity through second tranche release also helped.

4.24 This report assesses IDA's performance as highly satisfactory for PESC, because of its very quick response to a crisis, and satisfactory for ARC, RPTA, and SAC, in agreement with OED's ICR reviews.

4.25 The government collaborated fully in preparing ARC, RPTA, PESC, and SAC despite the crises and changes in government. All conditions were met without any waivers for ARC, PSEC, and SAC. The government implemented prudent macroeconomic policies, a new framework for the budget process, financial sector and social safety net reforms, and enterprise privatization, and maintained priority expenditures for public services and improved institutional capacity in public services. Despite delays in some lower priority reform areas, the government implemented an onerous agenda during a difficult period and without many officials trained in modern market economy skills. RPTA took two years longer to implement than originally planned, partly because of frequent changes in government. The economic climate did not permit bank privatization according to the original timetable, but that timetable may have been unrealistic. The public policy and economic management component of RPTA was implemented smoothly. Evidently, the government was committed to the reforms and implementing agencies substantially followed through by implementing them. **This report assesses borrower performance as highly satisfactory for PESC, because of the government's strong commitment and prompt implementation of its conditionality, and satisfactory for ARC, RPTA, and SAC, in agreement with OED's ICR reviews.**

5. Lessons

- Small, focused, one-tranche policy projects with realistic objectives, supported by technical assistance, may work well in transition countries that are politically unstable and have low market economy skills (e.g., credit risk analysis for private sector banking or enforcing competition regulations). A limited reform agenda is easier to implement, especially if parliamentary approval is needed for new laws when the political landscape is not stable. Reform continuity can be maintained by similar policy or investment follow-on projects.
- In crisis situations, an immediate response can be valuable beyond its direct purpose. For example, the very quick preparation and disbursement of PESC was effective in providing development assistance and coordinating substantial humanitarian assistance.
- PESC was disbursed against a negative list of imports instead of the positive list that is usual for an emergency import credit. Disbursement against a negative list expedited resource transfer, which was appropriate in Albania's circumstances.
- As has been well documented, aid coordination is critical to ensure appropriate, harmonized and effective assistance where many donors are involved. Coordination should also ensure that government agencies dealing with donors are also appropriately aligned.
- Some institutions established for special purposes under IDA projects such as BART, could be transformed into private sector commercial entities when their mandate is complete. This transition could be an integral part of that organization's strategy.

List of Meetings and Discussions

IDA and IFC Staff

Helena Tang
Kathryn Funk
Mansour Farshad
Alina Kanani
Sandra Bloemenkamp
Gary Reid
Shamsher Singh
Mengistu Alemayehu
Elira Sakiqi
Greta Minxhozi
Eugen Scanteie
Jolanda Trebicka
Rochelle Hilton
Lorena Kostallari

IMF Staff

S. Hosain Samiei
C. Jarvis

EBRD Staff

Antero Baldini
Kiyoshi Nishimura

Albanian Government Officials and Private Sector

Kris Luniku, Assistant in Executive Director's Office, ex-Bank of Albania
Rezar Turidu, PIU Director RPTA, Ministry of Finance
Mimoza Dhembli, Director of Budget Department, Ministry of Finance
Richard Lysakowski, Advisor to BART
Adriana Berberi, Deputy Minister of Finance
Sokol Qeraxhi, Bank of Albania
Eris Sharxhi, Bank of Albania
Anastas Angjeli, ex-Minister of Finance and current Member of Parliament
Arben Malaj, Minister of Economy
Gjergj Teneqexhi, General Secretary, Ministry of Finance
Milva Ikonomi, Institute of Statistics
Ylli Buffi, current Member of Parliament
Farudin Arapi, Director, Commission of Pyramid
Mr. Islami, Minister of Finance
Adrian Fullani, President of Bankers Association
Filoreta Kodra, Director of Department of Public Administration
Artan Hoxha, Research Director, Institute for Contemporary Studies
Yilli Cabiri, President, Human Development Promotion Center, ex-Minister of Labor

Basic Data Sheet

REHABILITATION CREDIT (CREDIT 3015)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	25	25	100
Loan amount	25	25	100
Cofinancing			
Cancellation			

Cumulative Estimated and Actual Disbursements

	<i>FY98</i>	
Appraisal estimate (US\$M)	25	
Actual (US\$M)	25	
Actual as % of estimate	100	
Date of final disbursement		April 14, 1998

Project Dates

	<i>Planned</i>	<i>Actual</i>
Identification/Preparation		September/October, 1997
Appraisal	October 10, 1997	October 10, 1997
Negotiations	October 28, 1997	October 28, 1997
Letter of Development Policy		November 12, 1997
Board Presentation	December 9, 1997	December 9, 1997
Signing		December 19, 1997
Effectiveness		March 19, 1998
Closing date	December 31, 1998	December 31, 1998

Staff Inputs (staff weeks)

	<i>Planned</i>		<i>Revised</i>		<i>Actual</i>	
	<i>Weeks</i>	<i>US\$</i>	<i>Weeks</i>	<i>US\$</i>	<i>Weeks</i>	<i>US\$</i>
Pre-appraisal - Appraisal	15	83.0	16.2	74.7	17.4	82.7
Appraisal			3.2	9.6	3.4	10.4
Negotiations through Board approval					4.6	27.5
Supervision						.2
Completion				5.0	0.1	
Total	15	83.0	19.4	89.3	25.5	120.8

Mission Data

	<i>Date (month/ year)</i>	<i>No. of persons</i>	<i>Staff days in field</i>	<i>Specialization^a represented</i>	<i>Performance Rating^b</i>		<i>Types of problems^c</i>
					<i>Implementation Status</i>	<i>Development Objectives</i>	
Preparation & Appraisal	8/97	5	10	E, F, L, H, O	S	S	
Appraisal	10/97	4		E, H, L	S	S	
through	12/97	3		O, F, C			
Board approval							
Supervision I							
Supervision II							
Supervision III							
Completion							

^a**Specialized Staff skills:**

E = Economist
 F = Financial Sector Specialist
 L = Labor Economist
 H = Human Resources Specialist
 O = Operations Analyst
 C = Consultant

^b**Performance Rating:**

1 = Minor Problems 2 = Moderate Problems 3 = Major Problems
 HS = Highly Satisfactory S = Satisfactory

^c**Types of Problems:**

F = Financial
 T = Technical
 M = Managerial

^d Supervision for the ARC was monitored through the following ongoing projects: Social Safety Net Development Project (2543-AL), Labor Market Development Project (2544-AL), Technical Assistance Recovery Project (3016-AL) and Enterprise and Financial sector Adjustment Credit (2649AL).

Other Project Data

Borrower/Executing Agency: Ministry of Finance

FOLLOW-ON OPERATIONS

<i>Operation</i>	<i>Purpose</i>	<i>Year of Approval</i>	<i>Status</i>
1. Technical Assistance for Economic Reform (2492-AL)	Support implementation of reforms in macroeconomic management, enterprise restructuring and privatization, and financial sector reform.	FY93	
2. Technical Assistance for Social Safety Net Development (2543-AL)	Reform of the Government's social protection system.	FY93	
3. Labor Market Development Project (2544-AL)	Assist the Government in creating the policy and institutional conditions for the development of an active and responsive labor market.	FY94	
4. Enterprise and Financial sector Adjustment Credit (2649-AL)	Assist the Government in privatizing state-owned enterprises and initiating reforms of the banking sector.	FY95	
5. Rehabilitation Credit (3015-AL)	Provide quick-disbursing funds in support of the Government's reform program.	FY97	
6. Technical Assistance Recovery Program Project (3016-AL)	Support the implementation of high priority reforms under the ERP in the financial sector, public administration and project management and implementation.	FY97	
7. Structural Adjustment Credit	Support reforms in public administration and the Judiciary, agriculture sector and the social insurance system	FY99	

Basic Data Sheet

RECOVERY PROGRAM TECHNICAL ASSISTANCE PROJECT (CREDIT 3016)

Key Project Data (amounts in US\$ million)

	<i>Appraisal Estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs			
Loan amount	5.00	4.93	98.6
Cofinancing			
Cancellation		0.07	

Cumulative Estimated and Actual Disbursements

	<i>FY98</i>	<i>FY99</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>
Appraisal estimate (US\$M)	1.0	2.90	4.50	5.00		
Actual (US\$M)	0.1	1.86	3.50	4.24	4.46	4.93
Actual as % of appraisal	10	64	78	85	89	98.6
Date of final disbursement:						February 28, 2003

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal/Negotiations	09/12/97	12/02/97
Letter of Development Policy		
Board Approval		12/09/97
Signing	09/	12/19/97
Effectiveness	03/19/98	03/19/98
Closing date	12/31/00	10/31/02

Staff Inputs (staff weeks)

	<i>Actual/Latest Estimate</i>	
	<i>Weeks</i>	<i>US\$</i>
Identification/Preparation	NA	
Appraisal/ Negotiations	NA	133,902
Supervision	NA	358,750
ICR	NA	15,000
Total		507,652

Mission Data

	<i>Date (month/year)</i>	<i>No. of Persons*</i>	<i>Staff days in field</i>	<i>Specializations represented</i>	<i>Performance Rating</i>	
					<i>Implementation Status</i>	<i>Development Objectives.</i>
Identification/ Preparation	09/12/97	3		Banking Specialist (1), Sr. Operations Officer (1), Sr. Project Officer (1)	S	S
Appraisal/Negotiation	12/02/97	4		Banking Specialist (2), Sr. Project Officer (1) Consultant (1)	S	S
Supervision	05/15/98	3		Operations Officer (1), Sr. Financial Analyst (1), Project Officer (1)	S	S
	11/09/98	4		Operations Officer (1), Project Officer (1), Sr. Financial Spec. (1), Sr. Financial Analyst (1)	S	S
	06/28/99	4		Operations Officer (1), Banking Specialist (2), Project Officer (1)	S	S
	11/12/99	3		Sr. Financial Specialist (2), Project Officer (1)	S	S
	03/10/00	4		Task Leader (1), Financial Sector Spec. (2), Project Officer (1)	S	S
	09/23/00	4		Task Team Leader (1), Financial Sector (1), Project Officer (1), Procurement (1)	S	S
	02/09/01	S4		Task Team Leader (1), Ptl/Banking Sector (1), Consultant – Fin. Sect. (1), Project Officer (1)	S	S
ICR	07/20/01	3		Task Team Leader (1), Operations Officer (1), Financial Sector Spec. (1)		S

* Excluding consultants

Basic Data Sheet

PUBLIC EXPENDITURE SUPPORT CREDIT (CREDIT 3197)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	30	30	100
Credit amount	30	30	100
Cofinancing			
Cancellation			

Cumulative Estimated and Actual Disbursements

	<i>FY99</i>
Appraisal estimate (US\$M)	30
Actual (US\$M)	30
Actual as % of appraisal	100
Date of final disbursement:	May 13, 1999

Project Dates

	<i>Original</i>	<i>Actual</i>
Identification/Preparation		
Letter of Development Policy		04/05/99
Appraisal/Negotiations		04/07/99
Approval		05/06/99
Effectiveness	05/13/99	05/13/99
Closing date	09/30/00	09/30/00

Staff Inputs (staff weeks)

<i>Stage of Project Cycle</i>	<i>No. Staff Weeks</i>	<i>US\$ (000)</i>
Identification/Preparation	12.6	47.6
Appraisal/Negotiation	1.6	5.0
Supervision	5.2	22.6
ICR	1.9	11.0
Total	21.3	86.2

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance Rating</i>	
				<i>Implementation Status</i>	<i>Development Objective</i>
Identification/Preparation/					
Appraisal/Negotiation 4/99 (all steps completed during a single mission)	4/99	6	Sr. Guarantee Specialist, Sr. Country Economist, Public Expenditure Management Specialist, Country Director, Resident Representative, Public Administration Specialist (Consultant)		
Supervision From updating report (7/99). No supervision mission required for this one tranche adjustment operation. The underlying program was supervised as part of the SAC (Cr.32310- ALB)				HS	HS
ICR No mission		1	Consultant		

Basic Data Sheet

STRUCTURAL ADJUSTMENT CREDIT (CREDIT 3231)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	45	45	100
Original Credit amount	45	45	100
Cofinancing			
Government of Switzerland	2.8	2.8	100
Government Norway	1.9	1.9	100

Cumulative Estimated and Actual Disbursements

	<i>FY00</i>	<i>FY01</i>
Appraisal estimate (US\$M)	45	45
Actual (US\$M)	20	45
Actual as % of appraisal	44	100
Date of final disbursement:		December 22, 2000

Project Dates

	<i>Original</i>	<i>Actual</i>
Identification – Pre-appraisal		
Letter of Development Policy		02/11/99
Appraisal		02/19/99
Approval		06/03/99
Effectiveness	08/09/99	08/09/99
Closing date	12/31/00	12/31/00

Staff Inputs (staff weeks)

	<i>Actual/Latest Estimates</i>	
	<i>No. Staff weeks</i>	<i>US\$ ('000)</i>
Identification/Preparation	54	183.2
Appraisal/Negotiation	16.1	77.0
Supervision	50*	172*
ICR		
Total	120.1	435.0

*SPN and ICR cannot be separated in SAP.

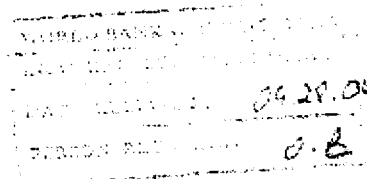
Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance Rating</i>	
				<i>Implementation Progress</i>	<i>Development Objective</i>
Identification/ Preparation		5	Mission Leader, Public Administration Expert, Pension Expert, Privatization Expert, Macroeconomist	S	
Appraisal/Negotiations	FY99	8	Mission Leader, Public Administration Expert, Public Expenditure Expert, Legal and Judicial Expert, Agricultural Economist, Financial Sector Expert, Privatization Expert, Pension Expert	S	S
	03/99			S	S
Supervision	FY00 11/99 06/00	8	Mission Leader, Public Administration Specialist, Public Expenditure Expert, Legal and Judicial Expert, Agricultural Specialist, Financial Sector Expert, Privatization Expert, Pension Expert	S	S
ICR	FY01	2	Project Team Leader and (ICR) Project Reviser	S	S

Comments from the Government



REPUBLIKA E SHQIPERISE
MINISTRIA E FINANCEVE
DREJTORIA E THESARIT DHE BORXHIT



Nr. *3182* Prot.

Tirane, më 28.04.2004

Per: **Z. Kyle PETERS**
Menaxher i Larte
Grupi i vleresimit per vendin dhe marredheniet rajonale
Departamenti i Vleresimit te Operacioneve
Banka Boterore-Washington

Per dijeni: **Z. Biagio BOSSONE**
Drejtor Ekzekutiv,
Banka Boterore-Washington
Zj. Orsalia KALANTZOPOULOS
Drejtor Vendi dhe Kordinator Rajonal per
Europen Juglindore dhe Azine Qendrore
Banka Boterore-Washington
Z. Kristaq LUNIKU
Asistent i Drejtorit Ekzekutiv,
Banka Boterore-Washington

Subjekti: **Kredia e Rehabilitimit (kredia nr. 3015), Projekti i Asistences Teknike per Programin e Rimkembjes (kredia nr. 3016), Kredia ne mbeshtetje te Shpenzimeve Publike (kredia nr. 3197), Kredia per Rregullime Strukturore (kredia nr. 3231) Projekt-raport i vleresimit te ecurise se projektit**

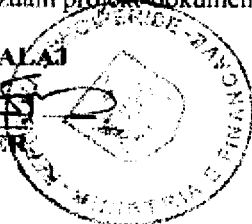
I nderuar Zoteri,

Duke vleresuar mbeshtetjen e Shoqates Nderkombetare per Zhvillim (IDA) nepermjet kater projekteve te lartpermendura ne nje kohe kur Shqiperia po perballej me veshtiresi si rezultat i skemave piramidale dhe krizes kosovare, deshiroj t'ju shpreh mirenjohjen e Qeverise Shqiptare per mbeshtetjen dhe t'ju falenderoj per pergatitjen e raportit vleresues per keto projekte.

Pasi analizuar projekt-dokumentit e vleresimit, shprehemi dakord me permbajtjen e tij.

Arben MALAJ

MINISTER



Adresa:
Bul. "Dëshmorët e Kombit", Tiranë
Tel: +355 4 227937, Fax: +355 4 228938
e-mail: dshano@minfin.gov.al

Comments from the Government (English Version)

**Republic of Albania
Ministry of Finance
Treasury and Debt Department**

Prot. No. 3282

Tirana, 04/22/2004

To: Mr. Kyle Peters
Senior Manager
Country Evaluation and Regional Relations
Operations Evaluation Department
The World Bank, Washington

cc: Mr. Biagio Bossone
Executive Director
The World Bank, Washington

Mrs. Orsalia Kalanatzopoulos
Country Director and Regional Coordinator
For South East Europe and Central Asia
The World Bank, Washington

Mr. Kristaq Luniku
Assistant to the Executive Director
The World Bank, Washington

Dear Sir,

*Re: Rehabilitation Credit (Credit no. 3015); Technical Assistance for Recovery Program Project (credit no. 3016); Public Expenditures Support Credit (Credit no. 3197), Structural Adjustment Credit (Credit no. 3231)
Draft Project Performance Assessment Report*

While appreciating the support of the International Development Association through the four above mentioned projects at a time when Albania was being faced with deep crises as a result of the collapse of the pyramid schemes (fund raisers) and as a result of the Kosovo crises, I would like to express the gratitude of the Government of Albania for the support received and would like to thank you for the formulation of the assessment report for these projects.

After a careful analysis of the draft Project Performance Assessment Report, we hereby endorse its content.

**Arben Malaj
Minister**