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Report No. 22483

PERFORMANCE AUDIT REPORT

ALBANIA

AGRICULTURE SECTOR ADJUSTMENT CREDIT (CREDIT 2524-ALB) and RURAL DEVELOPMENT PROJECT (CREDIT 2680-ALB)

June 27, 2001

Sector and Thematic Evaluation Group
Operations Evaluation Department

Currency Equivalents (annual averages)

Currency Unit = Lek

1992	US$1.00	Lek 75.0
1993	US$1.00	Lek 102.1
1994	US$1.00	Lek 94.6
1995	US$1.00	Lek 92.7
1996	US$1.00	Lek 104.5
1997	US$1.00	Lek 148.9
1998	US$1.00	Lek 150.6
1999	US$1.00	Lek 137.7

Abbreviations and Acronyms

ADF	Albanian Development Fund
APO	Agricultural Program Office
ASAC	Agriculture Sector Adjustment Credit
ECA	Europe and Central Asia Regional Office of the World Bank
EFSAC	Enterprise and Financial Sector Adjustment Credit
ESW	Economic and sector work
EU	European Union
GDSR	General Directorate for State Reserves
ICR	Implementation Completion Report
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
MAF	Ministry of Agriculture And Food (Albania)
OED	Operations Evaluation Department
PRR	President's Report and Recommendation on the ASAC
RDF	Rural Development Fund
RDP	Rural Development Project
RCB	Rural Commercial Bank
SCA	Savings and Credit Association
TA	Technical assistance
USAID	United States Agency For International Development
VCC	Village Credit Committee
VCF	Village Credit Fund
WTO	World Trade Organization

Fiscal Year

Government: January 1 – December 31

Director-General, Operations Evaluation	:	Mr. Robert Picciotto
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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

June 27, 2001

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: **Performance Audit Report on Albania**
Agriculture Sector Adjustment Credit (Credit 25240-ALB)
Rural Development Project (Credit 26800-ALB)

Attached is the Performance Audit Report prepared by the Operations Evaluation Department (OED) on the above projects.

For the Agriculture Sector Adjustment Credit (ASAC), the Board approved a credit of US$19.6 million on June 24, 1993, which became effective on November 30, 1993. The credit supported a hybrid operation of about US$45.0 million, comprising (1) an adjustment component of US$36.4 million, providing balance of payments support for a series of agricultural policy reforms; (2) an investment component of US$5.0 million, providing a line of credit to the government for on-lending through a new Rural Commercial Bank; and (3) a technical assistance component of US$3.6 million. The Government of Japan and the Government of the Netherlands provided cofinancing of US$20.0 million and US$5.4 million, respectively, to the adjustment component of the project. The first tranche of US$5.4 million for the adjustment component was disbursed nine months behind schedule in June 1994, and the second tranche of US$5.6 million was disbursed 3½ years behind schedule on January 8, 1998. The credit closed on the original closing date of December 31, 1998. The amount of US$0.48 million was undisbursed at project closing and was cancelled.

For the Rural Development Project (RDP), the Board approved a credit of US$6.0 million on February 14, 1995, which became effective on May 23, 1995. The Government of Italy provided US$2.3 million in cofinancing, the Government of Switzerland US$1.8 million, the European Union US$0.8 million, and the Government of France US$0.3 million. The credit closed on December 31, 1999, six months after the original closing date of June 30, 1999.

The Agricultural Sector Adjustment Credit (ASAC) aimed to advance the transition to an agricultural and rural market economy in Albania by accelerating private ownership of land and other productive assets, competitive markets for agricultural outputs and inputs, and domestic prices linked to world prices of agricultural products. The RDP aimed to contribute to the same overall objective by promoting small farm and off-farm activities, by repairing basic infrastructure, and by creating employment for the rural population. The one common component of the two projects was rural credit—the establishment of a Rural Commercial Bank under the ASAC and of microcredit under the RDP.

Both were "second generation" projects. The ASAC built upon earlier IMF and IDA adjustment operations—the IMF standby agreement signed in August 1992 and the IDA Critical Imports Project (CIP) approved in June 1992—that had helped stabilized the economy in 1992 and 1993. The RDP was the extension of a successful pilot project—the Rural Poverty Alleviation Pilot Project that ran from 1993 to 1995.

While the ICRs had rated the overall outcome of both projects as satisfactory, this audit rates the **outcome** of the ASAC as ***moderately satisfactory*** and that of the RDP as ***satisfactory***. The government made more than satisfactory progress with respect to one component of the ASAC—agricultural price and trade policy—and satisfactory progress with respect to two other components—privatization and land reform. However, the progress that has occurred has generally taken longer than expected, and one component of the ASAC—to establish the Rural Commercial Bank as a commercially operating rural financial intermediary—was a complete failure. Also, the Government of Albania did not adhere to the IMF's medium-term macroeconomic policy framework in 1996 and allowed the country to plunge into a severe economic crisis in 1996-97. While the new government that was elected in June 1997 has restored macroeconomic stability and economic growth, the 1996-97 crisis has left many scars on the Albanian economy. Despite the 1996-97 crisis, the RDP substantially met the targets for its two major components—rural infrastructure works and microcredit—which represented 80 percent of project expenditures.

This audit rates the **institutional development impact** of the ASAC as ***modest*** (in accord with the ICR). While much institutional progress was made in some areas—such as privatization, land reform, and land market development—less progress was achieved in other areas such as agricultural marketing institutions, rural credit, and the Ministry of Agriculture. The institutional development impact of the RDP is rated as ***high*** (also in accord with the ICR). The microcredit component laid the foundation for a system of financially sustainable savings and credit associations in rural areas in addition to building capacity for credit management at the village level. The project was unusual in placing high and early priority on the need to establish a sound legal, institutional, and financial basis for its successful microcredit operations by spinning-off this function to a dedicated financial agency. The project also established an effective partnership between the Albanian Development Fund, local governments, local communities, and the private sector for the provision of rural infrastructure. These achievements are particularly significant considering the political and civil instability during the period of project implementation.

This audit rates the **sustainability** of the achievements of both projects as ***likely***, both of which also accord with the ICRs. Most of the policy reforms under the ASAC, such as privatization and land reform, are by their very nature essentially irreversible, while others, such as price and trade liberalization are not likely to be reversed. For the RDP, while the sustainability of the microcredit component is likely, there remain some concerns about the sustainable operation and maintenance of the rural infrastructure built by the project.

The Albanian agricultural economy is now a market economy with full private ownership of land and other productive assets. However, Albania has not yet realized the full pay-offs from the policy reforms under the ASAC, in terms of a more efficient utilization of resources and higher incomes in the agricultural and rural sectors. The government needs to sustain the policy reforms that have been achieved in liberalizing agricultural prices and international trade, and to pursue the unfinished agenda in other areas. This includes farm consolidation, rural finance, irrigation rehabilitation and restructuring, agribusiness development, and agricultural services. Also, the ADF and the RFF have so far met only a small portion of the need for rural infrastructure and microcredit in rural areas of Albania. The new institutional basis for the microcredit component has been satisfactorily established. However, before significant scaling-up of the ADF's infrastructure activities, the government needs to clarify its longer-term roles and responsibilities relative to other public agencies, and to address existing inadequacies such as the operation and maintenance of infrastructure subprojects.

Experience with these two projects confirms a number of OED lessons:

(1) ***Sector adjustment loans and their associated conditionalities can be an effective instrument for policy reform when there is a reform-minded government in power.*** Grounded in high-quality analytic work, the ASAC has provided an effective framework for agricultural policy reform in Albania. But as the 1996-97 civil crisis demonstrated, conditionality is no substitute for government ownership of the reform agenda. Adjustment loans can only provide direction and support for a reform-minded government.

(2) ***Different kinds of institutional arrangements are required for the effective provision of public vs. private goods in rural areas.*** For rural infrastructure (a local public good), the Albanian Development Fund is supporting the decentralized provision of rural infrastructure in partnership with local governments, local communities, and the commercial private sector. For small-scale rural credit (a private good), the ADF and its successor, the RFF, are facilitating the establishment of sustainable village-level financial institutions that are providing non-subsidized credit at the local level. The latter presents a stark contrast with the failure to establish a new, initially state-owned Rural Commercial Bank under the ASAC.

(3) ***It is important to be realistic about the amount of time required to implement institutional reforms for the provision of rural services.*** This process requires effective leadership at both the political and administrative levels, the establishment of a sound legal framework, the meaningful participation of key actors and beneficiaries in the process, and human resource capacity building. It has taken the better part of ten years to establish land market institutions under the ASAC and sustainable rural financial institutions under the Rural Poverty Alleviation Pilot, the RDP, and now the Microcredit Project.

Attachment

Contents

This report was prepared by Mr. Christopher Gerrard (Task Manager), who audited the project in November 2000. William B. Hurlbut edited the report. Ms. Marcia Bailey provided administrative support.

Principal Ratings

	Agriculture Sector Adjustment Credit		*Rural Development Project*	
	ICR	***Audit***	***ICR***	***Audit***
Outcome	Satisfactory	Moderately satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely	Likely
Institutional Development	Partial	Modest	High	High
Borrower Performance	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory	Satisfactory	Satisfactory

Key Staff Responsible

	Appraisal	Completion
Agriculture Sector Adjustment Credit		
Country Director		Arntraud Hartmann
Sector Manager		Laura Tuck
Task Team Leader	Jean-Jacques Dethier	Severin Kodderitzsch
Rural Development Project		
Country Director	Kemal Dervis	Arntraud Hartmann
Sector Manager	Rory O'Sullivan	Alexandre Marc
Task Team Leader	Maria Nowak	Mark Woodward

Preface

This is Performance Audit Report (PAR) on the Albania Agriculture Sector Adjustment Credit and the Albania Rural Development Project.

For the Agriculture Sector Adjustment project, the Board approved a credit (CR 25240-ALB) of SDR 14.2 million (about US$19.6 million) on June 24, 1993, which became effective on November 30, 1993. The credit supported a hybrid operation of about US$45.0 million, comprising (1) an adjustment component of US$36.4 million, providing balance of payments support for a series of agricultural policy reforms; (2) an investment component of US$5.0 million, providing a line of credit to the government for on-lending through a new Rural Commercial Bank; and (3) a technical assistance component of US$3.6 million. The Government of Japan and the Government of the Netherlands provided cofinancing of US$20.0 million and US$5.4 million, respectively, to the adjustment component of the project. The first tranche of US$5.4 million for the adjustment component was disbursed nine months behind schedule in June 1994, and the second tranche of US$5.6 million was disbursed 3½ years behind schedule on January 8, 1998. The credit closed on the original closing date of December 31, 1998. The amount of US$0.48 million was undisbursed at project closing and was cancelled.

For the Rural Development Project, the Board approved a credit (CR 26800-ALB) of SDR 4.1 million (about US$6.0 million) on February 14, 1995, which became effective on May 23, 1995. The Government of Italy provided US$2.3 million in cofinancing, the Government of Switzerland US$1.8 million, the European Union US$0.8 million, and the Government of France US$0.3 million. The credit closed on December 31, 1999, six months after the original closing date of June 30, 1999.

This report is based on the Implementation Completion Report (ICR) prepared by the Europe and Central Asia Region for each project (issued on June 8, 1999, and June 27, 2000, respectively), the Staff Appraisal Reports, credit documents, project files, discussions with Bank staff, and a mission to Albania. The Operations Evaluation Department (OED) mission visited Albania from November 7 to 30, 2000, to discuss the effectiveness of the Bank's assistance with the Government of Albania and the various implementing agencies. OED gratefully acknowledges the full cooperation and assistance of all government officials visited and consulted during the mission.

Following standard OED procedures, the draft audit report was sent to the borrower for review and comments before it was finalized. No comments were received.

1. Background, Methodology, and Findings

The Agricultural Sector Adjustment Credit (ASAC) aimed to advance the transition to an agricultural and rural market economy in Albania by accelerating private ownership of land and other productive assets, competitive markets for agricultural outputs and inputs, and domestic prices linked to world prices of agricultural products. The RDP aimed to contribute to the same overall objective by promoting small farm and off-farm activities, by repairing basic infrastructure, and by creating employment for the rural population. The one common component of the two projects was rural credit—the establishment of a Rural Commercial Bank under the ASAC and of microcredit under the RDP.

Both were "second generation" projects. The ASAC built upon earlier IMF and IDA adjustment operations—the IMF standby agreement signed in August 1992 and the IDA Critical Imports Project (CIP) approved in June 1992[1]—that had helped stabilized the economy in 1992 and 1993. The RDP was the extension of a successful pilot project—the Rural Poverty Alleviation Pilot Project that ran from 1993 to 1995.

Both projects were based upon a good sector report, *An Agricultural Strategy for Albania*, undertaken by the World Bank and the European Union at the same time as the stabilization program, and publicly endorsed by the government as its own sector strategy shortly after its publication in October 1992. Both were part of an ambitious sector lending program which also included the Irrigation Rehabilitation Project (approved July 1994), the Rural Roads Project (approved May 1995), the Agro-processing Development Project (approved November 1995), and the Forestry Project (approved March 1996).

The Bank's first Country Assistance Strategy in August 1993[2] advocated a flexible two-pronged strategy of macroeconomic adjustment and transition on the one hand, and of protecting the most vulnerable income groups on the other, in order to maintain the social consensus for continued movement toward a market-based economy. The ASAC addressed the adjustment component of this strategy, while the Rural Poverty Alleviation Pilot Project and the Rural Development Project addressed the social dimensions of transition in the rural areas.

The ASAC provided balance of payments support for agricultural policy reforms, in two tranches of US$21.4 million and 16.6 million respectively, a line of credit to the Rural Commercial Bank of US$5.0 million, and technical assistance of US$3.6 million. The RDP provided US$12.1 million for rural infrastructure, rural credit, and project implementation. Both projects were prepared in collaboration with other donors (including the IMF, EU-PHARE, and USAID) and benefited from substantial cofinancing—equal to 56 percent of total costs (from Japan and the Netherlands) for the ASAC, and 43 percent of total costs (from Italy, Switzerland, the European Union, and France) for the RDP.

The ASAC was a single project. The RDP has been followed up by two new projects—the Community Works Project (approved December 1998) and the Microcredit Project (approved May 1999). These two projects cover both rural and urban areas.

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1. Half of the CIP funds went to the agricultural sector for critical agricultural inputs, for repairing irrigation infrastructure, and for technical assistance to the Agricultural Bank to reorganize the bank (later renamed the Rural Commercial Bank) and to provide credit for the purchase of IDA-financed inputs.

2. Contained in the *President's Report for the Albania Technical Assistance Project for Social Safety Net Development*, Report No. P-6058-ALB, August 18, 1993.

AUDIT METHODOLOGY

The OED mission which visited Albania in November 2000 consulted with a range of stakeholders (representing government, project implementation agencies, other donors, NGOs, and farmers) who were involved with, or were beneficiaries of the project. OED prepared a common list of topics to be discussed, and the Bank's country office translated and circulated this list of topics to each interviewee beforehand.[3] Among other things, the OED mission asked interviewees to provide their own ranking of the progress that was achieved under the components of the project with which they were involved, along with the reasons for their rankings.

The OED mission went on three field trips—one two-day field trip to Lushnje and Korça in relation to the ASAC, and two one-day field trips to Elbasan and environs in relation to the RDP. On these trips, the mission met with the District Directors of Agriculture and Food in Lushnje and Korça, with officials of the Albanian Development Fund (ADF) and the Rural Finance Fund (RFF) in Elbasan, and with project beneficiaries in all locations. There was an extensive wrap-up session with the Bank's country office staff responsible for implementing the two projects.

FINDINGS

While the Implementation Completion Reports (ICRs) had rated the overall outcome of both projects as satisfactory, this audit rates the overall **outcome** of the ASAC as ***moderately satisfactory*** and that of the RDP as ***satisfactory***. The government made more than satisfactory progress with respect to one component of the ASAC—agricultural price and trade policy—and satisfactory progress with respect to two other components—privatization and land reform. Albanian agricultural output in 1998 has also rebounded to about 140 percent of that in 1989-91, the highest such ratio among countries in the ECA region. However, the progress that has occurred has generally taken longer than expected, and one component of the ASAC—to establish the Rural Commercial Bank as a commercially operating rural financial intermediary—was a complete failure, and most of the increase in agricultural output occurred between 1993 and 1995 as a result of a significant shift from grain to livestock production. Also, the Government of Albania did not adhere to the IMF's medium-term macroeconomic policy framework in 1996 and allowed the country to plunge into a severe economic crisis in 1996-97. While the new government that was elected in June 1997 has restored macroeconomic stability and economic growth, the 1996-97 crisis has left many scars on the Albanian economy. Despite the 1996-97 crisis, the RDP substantially met the targets for its two major components—rural infrastructure works and microcredit—which represented 80 percent of project expenditures.

This audit rates the **institutional development impact** of the ASAC as ***modest*** (in accord with the ICR). While much institutional progress was made in some areas—such as privatization, land reform, and land market development—less progress was achieved in other areas such as agricultural marketing institutions, rural credit, and the Ministry of Agriculture. The institutional development impact of the RDP is rated as ***high*** (also in accord with the ICR). The microcredit component laid the foundation for a system of financially sustainable savings and credit associations in rural areas in addition to building capacity for credit management at the village level. The project was unusual in placing high and early priority on the need to establish a sound legal, institutional, and financial basis for its successful microcredit operations by spinning-off this function to a dedicated financial agency. The project also established an effective partnership

3. See Annex C for this list of topics.

between the Albanian Development Fund, local governments, local communities, and the private sector for the provision of rural infrastructure. These achievements are particularly significant considering the political and civil instability during the period of project implementation.

This audit rates the **sustainability** of the achievements of both projects as ***likely***, both of which also accord with the ICRs. Most of the policy reforms under the ASAC, such as privatization and land reform, are by their very nature essentially irreversible, while others, such as price and trade liberalization are not likely to be reversed. For the RDP, while the sustainability of the microcredit component is likely, there remain some concerns about the sustainable operation and maintenance of the rural infrastructure built by the project.

The Albanian agricultural economy is now a market economy with full private ownership of land and other productive assets. However, Albania has not yet realized the full pay-offs from the policy reforms under the ASAC, in terms of a more efficient utilization of resources and higher incomes in the agricultural and rural sectors. The government needs to sustain the policy reforms that have been achieved in liberalizing agricultural prices and international trade, and to pursue the unfinished agenda in other areas. This includes farm consolidation, rural finance, irrigation rehabilitation and restructuring, agribusiness development, and agricultural services. Also, the ADF and the RFF have so far met only a small portion of the need for rural infrastructure and microcredit in rural areas of Albania. The new institutional basis for the microcredit component has been satisfactorily established. However, before significant scaling-up of the ADF's infrastructure activities, the government needs to clarify its longer-term roles and responsibilities relative to other public agencies, and to address existing inadequacies such as the operation and maintenance of infrastructure subprojects.

2. Project Objectives, Components, and Design

PROJECT OBJECTIVES AND COMPONENTS

In line with the government's Medium-Term Policy for the Agricultural Sector,[4] the specific objectives of the ASAC were to support ongoing policy reforms in five areas, each of which may be considered one component of the project:

1. Strengthening and extending ongoing reforms in **agricultural price and trade policy** to ensure that prices provide correct market signals to producers, that markets for agricultural inputs and outputs are functioning well, and that food aid does not act as a disincentive to domestic production;
2. Creating a **rural financial system** that is adapted to the needs of a private market economy, among other things, by creating a new Rural Commercial Bank to provide rural credit at market rates;
3. Continuing the **land reform** process, among other things, by finalizing the distribution of former state farm and cooperative land, by privatizing and selling the assets of state farms, and by implementing a Land Market Action Plan (including titling and registration) to facilitate an active agricultural land market (both sales and leases);
4. **Privatizing** state-owned marketing and processing enterprises; and

4. Letter from the Government of Albania to Lewis T. Preston, dated May 24, 1993, reproduced as Annex 2 in the President's Report and Recommendation on the ASAC. This list and ordering corresponds to the five priority areas identified on page 53. The PRR, page 17, and the ICR, pp. 8-9, list the components slightly differently.

5. **Improving the administrative capacity** of the Government of Albania in order to better serve the needs of the rural population.

The objectives of the RDP were to promote small farm and off-farm activities, to repair basic rural infrastructure, and to create employment for the rural population. The RDP also had five components—three primary (investment) components, and two secondary (support) components. The first two components—rural infrastructure and rural credit—accounted, respectively, for 45 and 38 percent of project expenditures at appraisal, the third component for only 4 percent, and the last two components for 13 percent of project expenditures:

1. Rural infrastructure works;
2. Small-scale rural credit;
3. Business and technical advice to promote rural enterprise, and support to establish village animal health associations;
4. Beneficiary assessments, and training and study tours for local government staff; and
5. Implementation support to the Albanian Development Fund.

PROJECT DESIGN

Agriculture Sector Adjustment Project

The ASAC was a hybrid project with a quick-disbursing (adjustment) component, an investment component, and a technical assistance component. For the adjustment component, the government agreed to meet a set of graduated conditions in each of the policy reform areas before the release of each of the two tranches. One important condition for both tranches was "satisfactory progress with the implementation of the overall medium term reform program (Policy Framework Paper) agreed with the IDA and IMF demonstrated by adherence to the conditions under the IMF program."[5] Another important condition of the first tranche was the establishment of an Agricultural Program Office (APO) in the Ministry of Agriculture that would be responsible for (1) policy coordination and monitoring of the adjustment program, and (2) the coordination of all foreign assistance programs in the agricultural sector.[6]

Under the investment component, the government would liquidate the existing Bank for Agriculture and Development and create a new, financially strong, commercially oriented Rural Commercial Bank that would onlend IDA funds to the private rural sector (including farmers and farmers' associations), to the agro-processing sector, to transport enterprises and traders, and to other rural entrepreneurs through the existing network of branches and agencies. Liquidation of the Bank for Agriculture and Development would involve writing down non-performing loans to the former state farms, other state enterprises, and other public sector entities. Envisaged as the centerpiece of a new, commercially oriented rural financial system, the Rural Commercial Bank would be created as a joint-stock company, with all the shares held initially by the government, and satisfying capital adequacy requirements. Once established and operating on strictly commercial criteria, it would then be privatized.

5. President's Report and Recommendation on the ASAC, p. 37.

6. However, an already established project implementation unit in the Ministry of Finance unit, which had been created for the Critical Imports Project, continued responsibility for procurement and disbursement.

Under the technical assistance component, the ASAC would finance TA for the Agricultural Program Office, the institutional development of the Rural Commercial Bank, the land reform process, and the privatization of agricultural enterprises.

The President's Report and Recommendation for the ASAC identified four major risks: (1) macro-economic instability, (2) delays in the privatization program due to organized opposition from workers and managers in state-owned enterprises, (3) international instability in the Balkan peninsula, and (4) the limited institutional capacity of the Ministry of Agriculture, the new Rural Commercial Bank, and other organizations involved in the program's implementation. The TA component was specifically intended to mitigate the fourth risk.

Rural Development Project

The RDP was a follow-up project to the Rural Poverty Alleviation Pilot Project that had run from 1993 to 1995. For that project, the government had established the Rural Development Fund (RDF) as an autonomous government foundation to implement the project. Then, for the RDP, the government transformed the RDF into the Albanian Development Fund (ADF) and extended its responsibilities to include the Urban Works and Microenterprise Pilot Project.[7] The ADF established two major departments—the rural infrastructure and rural credit departments—to implement the first two components of the RDP, and subsequently a veterinary support department to implement the animal health component of the project.

The rural infrastructure department worked primarily with the newly established rural communes to facilitate the construction and rehabilitation of rural roads and bridges, water supply systems, irrigation facilities, schools, and health centers. It provided national level coordination, and technical, financial, and logistical support to the rural communes in identifying subprojects. The rural communes were, in principle, in the driver's seat. With technical support from the ADF, and in consultation with local communities, they made the final decisions on which subprojects to undertake within the financial envelope provided the ADF, and contributed 10 percent of the capital costs up front. Then, once a decision was made, the ADF assisted the rural communes in contracting out, through public tenders, both the design and the construction of the new investments.

The credit department worked primarily with villages. It facilitated the establishment of elected village credit committees (VCCs)—with an ADF representative as an ex-officio member—which screened applicants and otherwise administered loans from revolving fund accounts called village credit funds (VCFs). The VCCs themselves decided on credit allocations, defined collateral, and controlled the repayment of loans. The ADF credit officers provided intensive support to the VCCs, and information and advice to borrowers.

Both approaches having been tested and found effective during the pilot phase, the staff appraisal report identified two major risks with the follow-on project: (1) overloading the ADF with too many parallel projects financed by different donors, even though the ADF had proven its ability during the pilot phase; and (2) political interference, which could increase as the project grew in size.

7. The Albanian Development Fund is a social fund as defined by the Bank's social protection unit: "Agencies that finance small projects in several sectors targeted to benefit a country's poor and vulnerable groups based on a participatory manner of demand generated by local groups and screened against a set of eligibility criteria." Like many other social funds, the ADF also enjoys a degree of operational autonomy which exempts it from many public sector regulations.

3. Project Implementation

The ASAC became effective three months behind schedule on November 30, 1993, and the first tranche of the adjustment component was released nine months behind schedule in June 1994.[8] The major delay was in getting the Agricultural Program Office staffed and operating. The RDP became effective on schedule in May 1995.

The major event that adversely affected the implementation of both projects was the civil crisis associated with the collapse of the pyramid schemes in 1996-97.[9] Albania had made impressive macroeconomic progress during the previous three years. After declining by almost half between 1989 and 1992, real GDP grew by almost 10 percent per year between 1993 and 1995;[10] inflation fell from more than 100 percent in 1991 and 1992 to about 6 percent in 1995, and the current account deficit (excluding official transfers) declined from 61 percent of GDP in 1992 to 7 percent in 1995. The wholesale dismantling of controls; the early privatization in agriculture, retail trade, and small and medium-sized enterprises; and the government's improved fiscal discipline—all contributed to this performance.

Two major events presaged the pyramid scheme crisis in 1996: the suspension of UN sanctions against the Socialist Federal Republic of Yugoslavia in December 1995 and the Albanian Parliamentary elections in May 1996.[11] Some of the largest pyramid scheme companies had started up as "trading companies" during the period of sanctions. While the involvement of the pyramid scheme companies in smuggling oil and other goods to Yugoslavia has not been proved, one month after the suspension of sanctions (which ended the smuggling trade), the companies raised their interest rates to 6 percent per month—perhaps by coincidence, but more likely because a key source of income had dried up. Then in the run-up to the Parliamentary elections, the government started spending more freely. It continued to subsidize domestic wheat consumption in the face of a substantial rise in world wheat prices in 1996, increased public sector wages and delayed the introduction of the value-added tax. After a mission visited Albania in March 1996, the IDA decided to postpone the release of the second tranche because of the deteriorating fiscal situation, even though the government had substantially met most of the other (sectoral) tranche release conditions.

Both the IMF and the IDA gave increasingly strident warnings about the pyramid schemes during 1996, particularly after the June and July monetary data started to show the effects on the banking system—a rapid increase in the broad money supply fueled by the increased deposits of the pyramid scheme companies.[12] Although the incumbent Democratic Party led by Sali Berisha had won the elections in May 1996, it lacked the authority to clamp down on the pyramid schemes

8. The first tranche release did not coincide with effectiveness due to the hybrid nature of this project, with the adjustment, investment, and technical assistance components running on different schedules. This also explains why the project could still close on schedule (December 31, 1998) even though the second tranche was released 3½ years behind schedule.

9. See Chris Jarvis (2000), "The Rise and Fall of the Pyramid Schemes in Albania," *IMF Staff Papers*, volume 47, no. 1, for a complete story of the pyramid schemes, their causes and their consequences. Pyramid schemes use money deposited by later investors to pay artificially high interest returns to earlier investors.

10. The ICR for the ASAC, page 12, estimates 60 percent of the real growth came from the agriculture sector.

11. Chris Jarvis, *op.cit.* p. 8.

12. At their peak, the nominal value of the liabilities of the pyramid scheme companies reached about 50 percent of GDP.

because many viewed the elections as rigged (and the government as less than fully legitimate).[13] The collapse began on November 19, 1996. At a press conference that day, a visiting IMF mission warned the public about the schemes and urged the government to investigate them all—and the first of the major pyramid schemes defaulted on its payments.

As the ICR for the Rural Development Project reports, the collapse of all the schemes over the next few months triggered massive social unrest:

> Arms were looted from military barracks, government buildings were destroyed, banks were robbed and burned, and the government—which *de facto* lost control of most of the country—was forced to resign. All mission travel to Albania was banned for two months, although contact was maintained with ADF staff, who focused on protecting ADF property and maintaining the integrity of the microcredit program. During the worst of the crisis, microlending activities (disbursement and repayment of loans), infrastructure works, and Bank disbursements to the project, were necessarily suspended.[14]

An all-party interim government, led by members of the former opposition Socialist Party of Albania (SPA), took over in March 1997 until new elections could be held, and an Italian-led international intervention force helped to restore social order. Remarkably, the new SPA Government that was elected in June 1997, has succeeded—with the support of the IMF, the World Bank, and other international partners—in restoring social and economic stability to the country. After declining by 7.0 percent in 1997, GDP has grown by about 7.5 percent per year between 1998 and 2000; and inflation has fallen from 33.2 percent in 1997 to 0.4 percent in 1999 and –0.1 percent in 2000.[15] Many social scars remain, about 2,000 people were killed, and much redistribution of income took place, but the long-term economic effects of the pyramid scheme crisis have been surprisingly limited.[16]

With respect to the ASAC, the Bank released the second tranche of the ASAC in January 1998 after the government and the IMF reached a new agreement on a macro-economic framework during the second half of 1997, and closed the credit on schedule on December 31, 1998. At the end of the day, the government made more than satisfactory progress with respect to one component of the project—agricultural price and trade policy—and satisfactory progress with respect to two other components—privatization and land reform. However, the attempt to establish the Rural Commercial Bank (RCB) as the centerpiece a new, commercially oriented rural financial system was a complete failure. Despite substantial technical assistance, this RCB turned out to be little more than an instrument for the government to channel subsidized credit to its political supporters. The RCB disbursed 50 relatively large loans, averaging about US$100,000 each, predominantly for agro-processing enterprises in rural areas, thereby drawing down the entire credit line of US$5.0 million. However, only 24 percent of the funds were repaid. After the RCB's board and management spent one year preparing for the privatization of the bank, the government blocked the privatization in August 1995, contrary to the letter of

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13. Realizing the unfairness of the elections, the main opposition parties withdrew on election day itself. While the Organisation for Security and Co-operation in Europe (OCSE) identified numerous irregularities, it stopped short of declaring the election invalid. The Economist Intelligence Unit, *Albania: Country Profile 2001*, p. 7. The pyramid scheme founders had also generously supported the ruling Democratic Party during the elections.

14. ICR for the RDP, p. 13.

15. The Economist Intelligence Unit, *op.cit.* Remittances of approximately US$500 million annually from up to half a million émigrés have also mitigated the impact of the pyramid schemes.

16. Chris Jarvis, *op.cit.*

development policy.[17] The RCB was eventually liquidated in December 1997 and merged with the National Commercial Bank in early 1998, which was subsequently privatized.

With respect to the RDP, and as a direct result of the pyramid scheme crisis and the failure of the RCB, the Bank and the government changed the emphasis of the microcredit component of the project from poverty alleviation—which would have required a continuing dependence on subsidies while expanding the village credit committees (VCFs) to more districts—to transforming the VCFs into private, financially sustainable savings and credit associations (SCAs). The two parties spent much time and effort during the last two years of the RDP putting in place a new legal and institutional framework, separating the credit department from the Albanian Development Fund (ADF), transforming it into a new and independent apex organization—the Rural Finance Fund—and then preparing two follow-on projects. The Community Works Project (approved December 1998) is now supporting the infrastructure function of the ADF in both rural and urban areas, while the Microcredit Project (approved May 1999) is now supporting the development of sustainable micro-financial institutions in both rural and urban areas.

The Kosovo Crisis in March-June 1999, which brought 400,000 Kosovo Albanian refugees into the country, had a negligible, and if anything, positive impact on Albania's macroeconomic situation, owing to the generous external assistance provided. The crisis had a small impact on the RDP during its last year of implementation, and on the two follow-on projects, since the chaotic situation in the northeastern districts temporarily made all work in this region more difficult. The Bank quickly negotiated a special Supplemental Credit to the new Community Works Project to assist the ADF in responding to the crisis. Microcredit activities were briefly suspended and repayment performance suffered slightly in the most affected districts.

4. Ratings: Overall Outcome

RELEVANCE: WERE THE PROJECTS' OBJECTIVES RIGHT?

The objectives of both projects were **relevant** to Albania's development objectives of making a transition to a market economy and of alleviating poverty in rural areas. Albania is predominantly a rural and agricultural economy. In 1993, about two-thirds of the population lived in rural areas. Agriculture, forestry, and related sectors provided almost 50 percent of GDP and about 60 percent of employment—the highest ratios in Europe. Therefore, agricultural and rural development has to play a key role in the economic transition.

Both the 1993 and 1998 country assistance strategies endorsed a strong Bank Group effort in agricultural and rural development. The 1993 CAS advocated a two-pronged strategy of macroeconomic adjustment and transition on the one hand (consistent with the ASAC), and of targeted poverty alleviation on the other (consistent with the RDP). The 1998 CAS continued to promote private sector-led growth in the agricultural sector, by means of three key components in the ASAC and the RDP: maintaining a distortion-free price and trade policy framework, facilitating the further development of the land market, and the provision of rural infrastructure. While the objective of promoting a commercially oriented rural financial system was also relevant, the means that was adopted in the ASAC was of questionable relevance.

17. PRR on the ASAC, June 4, 1993, p. 57.

EFFICACY: DID THE PROJECTS ACHIEVE THEIR STATED OBJECTIVES?

Agriculture Sector Adjustment Credit

The OED mission which visited Albania in November 2000 asked interviewees to rank the progress made under each of the five components of the project. Respondents, both inside and outside the government, gave very similar rankings. Therefore, this report discusses the five components by descending order of progress.

Agricultural price and trade liberalization

The government has made the most progress in this area. It liberalized the prices of all agricultural outputs and inputs—except for wheat, flour, and bread—in January 1993, before project approval. Then it removed the mandatory price ceilings on wheat, bread, and flour in July 1996, at a time when it could no longer afford to subsidize domestic consumers in the face of the large increase in the world price of wheat that year. Since then, agricultural prices have been freely determined by buyers and sellers in each market.

The government monetized the food aid that it received in 1993 and 1994 in accordance with the conditions in the credit agreement. Food aid declined more rapidly than anticipated at appraisal. Only limited shipments were received in 1996 and 1997—the latter less than 3 percent of total food imports. The government gradually ran down the grain stocks of the General Directorate of State Reserves, thereby reducing its influence on the market during the first three years of the project. After the remaining stocks were looted during the civil crisis in 1997, it has ceased to be an important player in the market.

Albania now has an open economy, with no quantitative restrictions, and a moderate level of protection—a 10 percent tariff on wheat and flour, a 15 percent tariff on bread, and seasonal import tariffs on some vegetables. Tariffs on agricultural inputs have also been reduced progressively from 15 percent in 1997, to 5 percent in 1999, and to 2 percent in 2000. However, in 1998, the initial draft of the government's new agricultural strategy—the Green Strategy—advocated increased protection for agricultural commodities in order to reduce the negative agricultural trade balance and to raise government revenues. When the World Bank expressed its concerns in various seminars and in timely analytic work[18] about the apparent backtracking on progress that had been achieved under the ASAC, the final document took these concerns into account and moderated the protectionist tendencies in the initial draft.

Although agricultural prices are now freely determined by buyers and sellers in each market, this is not to say that market institutions are working efficiently to equate agricultural prices according to time, place, and degree of processing. The OED mission obtained anecdotal evidence told that agricultural marketing institutions in Albania are still poorly developed. Agricultural markets are still mostly local, and characterized by high storage, transportation, and processing costs. Even the national market for wheat is apparently still very thin.

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18. Severin Kodderitzsch, *Reforms in Albanian Agriculture: Assessing a Sector in Transition*, 1999, especially pp. 16-17.

Privatizing state-owned marketing and processing enterprises

The government has made satisfactory progress in this area. It privatized most of the 290 small and medium-scale enterprises (those employing more than 50 workers) early in the project, in 1993 and 1994—a second tranche condition. But it did not succeed in privatizing the country's eight large agricultural processing enterprises—a beer factory, a dairy plant, a sugar plant, a bakery and flour mill, two cigarette factories, and a bottling plant—by project closing in December 1998. Three of the eight companies were still under full public control at the time, while the remaining five had been turned into state-owned joint stock companies as an initial step to privatization. At an auction in December 1998, no one offered any bids.

Both the privatized and the remaining state-owned companies suffer from weak corporate governance, outdated technologies, low capacity utilization and efficiency, and lack of resources for new investments. However, the establishment of new enterprises in the liberal market environment in Albania is largely by-passing privatization. On the input marketing side, only one major dealer is a former state enterprise. While there are more former state enterprises on the processing side, all the major edible oil and meat-processing factories are also new enterprises. While it has a long way to go, the post-privatization restructuring and consolidation of the agribusiness sector toward an internationally competitive industry is beginning.

Land reform and land policy

The government has made satisfactory progress in all three subcomponents. First, it completed, largely by 1994, the process that had been started in 1991, of redistributing the former state farm and cooperative land[19] to the rural population on a per capita basis—the only country in eastern Europe to redistribute land in this way. Second, it has liquidated the assets of the state farms. And third, it has implemented a Land Market Action Plan in order to support the establishment of an active land market, for both land sales and leases.

The redistribution process has not been completely smooth. The pre-1946 owners, or their heirs, reportedly seized about 15 to 20 percent of the agricultural land, particularly in the northeast. The government has so far failed to deliver on its promise to compensate other former land owners. While many of the assets of the state farms were sold for cash or in installments, others were simply stolen. Nonetheless, some 470,000 Albanian families now own an average of 1.1 hectares, subdivided into an average of 4 to 5 plots.

Supported by technical assistance, financed by the ASAC and provided by the Wisconsin Land Tenure Center, the government has successfully established an Immovable Property Registration System, with a central office in Tirana and district offices in every district, to register the new property rights and to facilitate land transactions. It has also passed laws and regulations facilitating the leasing, sale, and consolidation of land. While these institutional reforms have taken longer to implement than planned, in part due to the 1996-97 civil crisis, the land market is developing. There were 2,000 registered land transactions (both sales and leases) in 1998, 6,900 registered transactions in 1999, and 15,000 registered transactions through September 2000. Farmers are visibly investing in new agricultural buildings and equipment (such as greenhouses and tractors), apparently financed to a large extent by remittances from abroad.

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19. State farms were state-owned farms, mostly on reclaimed land, with a higher level of investments, while cooperative farms were legally owned by the inhabitants.

Improving the government's administrative capacity in relation to rural development

The government has made less progress in this area. The letter of development policy spelled out what roles the Ministry of Agriculture and Food should play in the new agricultural market economy: the production and dissemination of agricultural information; the formulation and implementation of agricultural policies; the provision of agricultural support services; the appraisal, evaluation and execution of public investments in the sector; and the regulation of human and animal health, hygiene, food standards, pest management, and environmental protection.

The government did not expect to accomplish all this during the five years of the ASAC. The ASAC being a policy reform project, the OED mission focused its attention on this function of the Ministry. The government did establish the Agricultural Program Office (APO), headed by a Director with the rank of Deputy Minister, but it never established a Policy Analysis Unit in the Ministry.[20] During the life of the ASAC, the APO performed its functions more than adequately. It coordinated the activities of various government agencies involved in the implementation of the medium-term policy outlined in the letter of development policy. It coordinated and monitored all foreign assistance programs in the agricultural sector, starting with the ASAC. It developed a positive reputation among donors for its ability to monitor progress across the sector and for its institutional memory. But, except for some initial policy work on bread prices, it has conducted little policy analysis, and, so far as the OED mission could determine, no impact assessments of the dramatic changes in Albanian agricultural policy over the last ten years on, say, producers and consumers. After the ASAC closed, the Ministry has also downgraded the rank of its Director and the functions of the APO.

Creating a new Rural Commercial Bank

As previously mentioned, this component of the project was a failure. That it was ever included in the project to begin with remains a puzzle, given the World Bank's previous, largely negative experiences with state-owned agricultural banks in other countries. The project provided technical assistance and training for RCB staff in relation to commercial banking practices, financial management, and credit policies and procedures. But the government interfered in the hiring of personnel and the issuing of loans, particularly in the run-up to the 1996 elections, and blocked the privatization of the bank in August 1995, contrary to the letter of development policy. The ICR also reported that corruption was a factor.[21] The 50 loans that were disbursed were relatively large, averaging about US$100,000, and were predominantly for agro-processing enterprises in rural areas. (The initial target list had also included farmers, farmers' associations, transport enterprises, traders, and other rural entrepreneurs.) Only 24 percent of the funds were repaid. After the new SPA government took office in mid-1997, the government and IDA mutually agreed to liquidate the RCB in December 1997, and to merge it with the National Commercial Bank, which has subsequently been privatized—and sold to a consortium that includes the IFC. The non-performing loans have been assigned to a collection agency.

The performance of the RCB stands in stark contrast to that of the microcredit component of the Rural Development Project discussed below. In its letter of development policy, the government had viewed the rural credit components of the two projects as "parallel approaches" to "the creation of a modern rural financial system adapted to the needs of the new market economy and

20. See PRR on the ASAC, p. 22.

21. ICR for the ASAC, page 12.

of private farmers."[22] At a project cost of US$2.6 million, the microcredit department of the Albanian Development Fund established 238 Village Credit Funds by the end of 1999, issued 8,269 loans averaging US$463 each, for a total of US$3.8 million, and achieved a repayment rate of more than 99 percent.[23]

Rural Development Project

The Albanian Development Fund substantially met the output targets for the two major components of the project, although over a somewhat longer period than originally planned. Funding shifted towards rural infrastructure over the course of the project, which accounted for 58 percent of the final project costs, compared to 45 percent at appraisal. Microcredit accounted for 22 percent of project costs, compared to 38 percent at appraisal. One explanation is that the microcredit staff were stretched by the demands of the institutional changes in the microcredit component, including the creation of the RFF, during the last two years of the project.

Rural infrastructure

The Albanian Development Fund financed 173 rural infrastructure subprojects (compared to the original target of 190), including road and bridge repairs, water supply, irrigation, schools, and health centers. Roads alone accounted for 55 percent of the subprojects and 66 percent of the total costs. Overall, since it was established as an autonomous government foundation in 1993 under the Rural Poverty Alleviation Pilot Project, the ADF has now facilitated the completion of more than 670 infrastructure subprojects in more than 200 rural communes throughout Albania, while drawing upon about US$30 million provided, not just by the IDA, but also by the EU, IFAD, and the Islamic Bank, as well as the Italian, Swiss, French, and Albanian governments.

In addition to improving small-scale rural infrastructure in a spatially dispersed manner throughout the country, it has built up the capacity of local governments—through study tours, short courses, and learning by doing—to assume more and more of the management and oversight responsibilities and fostered the development of a vibrant private sector design and construction industry. The ADF has suffered from some management and administrative weaknesses—mentioned in the ICR and openly discussed with the OED mission—such as the failure to implement a fully automated management information system that integrates financial accounting with subprojects monitoring. But, by focusing strongly on results on the ground, it has proved itself to be one of the most successful project institutions in Albania, under some very difficult circumstances such as the 1996-97 civil crisis. Under the RDP, it did develop a reputation for probity, transparency, and achieving results on the ground, both with the donors and the central government on the one hand, and with local governments and local communities on the other.

Small-scale rural credit

Building on the approach that had been developed during the pilot project, the microcredit department of the ADF extended its network of Village Credit Committees to an additional 116 villages (compared to the original target of 135), and disbursed the target number of loans of 12,000. In response to demand, the maximum size of the loan was increased from US$500 (or

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22. ICR for the ASAC, page 56.

23. ICR for the RDP, page 9.

exceptionally up to US$1,000) at the start of the project to US$2,000 (or exceptionally up to US$5,000). This steady expansion survived the 1996-97 civil crisis with no significant impact on its near-perfect repayment record.

The district credit officers of the ADF have spent much time and effort building up the capacity of the village credit committees to screen applicants, define collateral, decide on credit allocations, and monitor repayment of loans. Loans are for income-generating activities (not necessarily agricultural) for a maximum of three years. Interest rates paid by borrowers have been positive in real terms, except for the inflationary period in 1996 and 1997. During its first year (1995), the project had successfully made the transition from the U.S. dollar based interest rate under the pilot project to a lek-based interest rate, set initially at 10 percent. During the 1996-97 crisis, the ADF focused on loan repayment rather than raising interest rates. Then at the end of 1997, after an information campaign with the VCCs, the interest rate was raised to 18 percent in mountain villages and 24 percent in the hilly and plains villages.[24] By the standard indicators of outreach, repayment, and financial sustainability, the microcredit component has been a success.

Animal health

This component (which represented 4 percent of total project costs) did not proceed as planned, and was largely redesigned after the 1996-97 crisis. Working at the village level in relatively poor districts, the veterinary support department of the ADF provided declining-rate subsidies (50 percent the first year and 30 percent the second year) to livestock farmers to encourage them to purchase prophylactic services from local veterinarians, thereby priming the private market for veterinary services that are no longer provided free-of-charge by the Ministry of Agriculture. To sustain the program beyond the life of the project, the veterinary support department was transformed into an NGO, now called the Livestock Development Fund, which continues to receive funding for its activities from IFAD, Switzerland, and Italy.

EFFICIENCY: WERE THE PROJECTS COST-EFFECTIVE?

Neither project calculated either an economic or a financial rate of return, either at appraisal or at completion. For the ASAC, it is not meaningful to make a such a calculation for an adjustment operation. However, it is meaningful to assess the efficiency of adjustment loans such as the ASAC in advancing sectoral policy reforms. For the RDP, it was not possible to identify *a priori* the subprojects that would be financed under either the rural works or microcredit components. And, while the ADF has emphasized control of unit costs of construction, the cost-effectiveness in terms of costs per unit outcome has not been monitored.

The ASAC has clearly had a major impact on the direction and extent of agricultural policy reform in Albania. It was based on high-quality sector work that identified both the major reform areas and specific actions to advance the reforms in each of these areas. While the government temporarily backtracked on the macroeconomic conditionality in the ASAC in 1996 and 1997, delaying the release of the second tranche, it substantially met all the sectoral tranche release conditions. When the new reform-minded SPA Government took over in mid-1997, the IDA was in a position to support the re-establishment of the reform agenda. Clearly, conditionality is no substitute for ownership; it can only provide direction and support for a reform-minded government.

24. This dual interest rate has since been eliminated under the follow-up project.

For the RDP, local communities ostensibly decide the priorities for rural infrastructure investments based upon their local needs and local knowledge, and contribute 10 percent of the investment costs up front. The system is not working perfectly in all cases, for, as reported in the next section, the ADF and the rural communes have not succeeded consistently in achieving significant participation of beneficiaries in decision-making. The average cost of the 173 subprojects has been about US$40,000. For microcredit, borrowers have paid positive real interest rates (except during the 1996-97 crisis), and the repayment rates have exceeded 99 percent.

5. Ratings: Institutional Development Impact and Sustainability

INSTITUTIONAL DEVELOPMENT IMPACT

This audit rates the **institutional development impact** of the ASAC as ***modest*** and that of the RDP as ***high***, both of which accord with the ICRs.

These assessments involve weighing the achievements with respect to the various components of each project. For the ASAC, Albania has made much institutional progress in some areas—such as privatization, land reform, and land market development—but less in other areas such as agricultural marketing institutions, rural credit, and the Ministry of Agriculture. Even where progress has been made, such as land market development, this has taken longer than expected.

The government has made excellent progress under the RDP in establishing institutional arrangements to provide rural infrastructure and microcredit in rural areas in Albania and in building up human resource capacity at different levels—the central agency level (in the case of the ADF), the local government level (in the case of rural infrastructure), the village level (in the case of microcredit), and the commercial private sector. One of the key ingredients in this success has been designing different institutional arrangements for the provision of public vs. private goods. For rural infrastructure (a local public good), the ADF has supported the decentralized provision of rural infrastructure in partnership with local governments, local communities, and the private sector. The ADF and the newly created local governments—communes in rural areas and municipalities in urban areas—are the two major hubs of this partnership, at the national and local levels, respectively. At the national level, the ADF negotiates and communicates with the government and the donors (primarily with respect to funding), coordinates the overall program, and provides technical, financial, and logistical support to local governments in identifying subprojects. The local governments make the final decisions as to what will be constructed within the financial envelope provided by the ADF. Then, once a decision has been made, the ADF assists the local governments in contracting out, through public tenders, both the design and the construction of the new investments.

The partnership is working well because the ADF, while retaining national-level functions best performed by a single national agency like itself, has genuinely devolved to local governments local-level functions best performed by them. Both, in turn, have also made room for the private sector where appropriate. For example, contracting out design and construction activities has enabled private contractors to achieve economies of scale that local governments cannot achieve within their limited jurisdictions. The system is not working perfectly in all cases—local communities are not always adequately consulted in the decision-making processes, and rural infrastructures, particularly rural roads, are not always being adequately maintained—but the

ADF has succeeded in building an effective partnership. Key factors in its success have been (1) building a shared vision among the partners, (2) highly dedicated and ethical staff (3) the successful working out of an effective, clear-cut, and transparent partnership in which all partners have well-defined roles and responsibilities consistent with their comparative advantage and their capacity.

For small-scale rural credit (a private good), the ADF and now the Rural Finance Fund (RFF) have taken a different approach. First, they facilitated the establishment of village credit committees to screen applicants and otherwise administer loans from village credit funds (VCFs). Then, having survived the 1997 civil crisis with no significant impact on the near-perfect repayment performance, they established a new legal and institutional framework to convert the VCFs into sustainable, non-subsidized village-level savings and credit associations (SCAs). This included the legal separation of the ADF credit department from the rural infrastructure department, and its establishment as a new quasi-government foundation, the Rural Finance Fund (RFF), that is continuing this component under a new project, the Albania Microcredit Project (approved May 1999). Ultimately, the intention is to establish a national-level SCA Union to provide support and training to existing and new SCAs, to regulate SCAs in accordance with the Bank of Albania standards and criteria, to provide lines of credit to SCAs, and to invest surplus SCA savings.

OED rates the institutional development impact of the microcredit component as high, because of the establishment of the new institutional arrangements for the RFF at the central level and the SCAs at the village level. However, continuing the high institutional development impact of the infrastructure component depends on the ability of the ADF to address the institutional issues for sustainability of subprojects, to foster capacity for participatory decision-making and collective action at the village level, and on defining a viable long term status of the ADF in relation to other public agencies.

SUSTAINABILITY: ARE THE PROJECTS' RESULTS LIKELY TO LAST?

This audit rates the **sustainability** of the achievements of both projects as ***likely***. Most of the policy reforms under the ASAC, such as privatization and land reform, are by their very nature essentially irreversible. Others, such as price and trade liberalization could be reversed more easily. But OED judges that the government is not likely to reverse these, since it has essentially liquidated the General Directorate for State Reserves, and it has so far successfully resisted political pressures to increase trade protection for the agricultural sector.

For the RDP, sustainability of the microcredit component is likely, due to the strong emphasis placed throughout project implementation on the institutional changes needed to promote sustainability. With respect to the infrastructure component, the major concern is with the operation and maintenance of the rural infrastructure subprojects financed by the project. The ICR estimated that as many as half of the subprojects—particularly the roads subprojects—are experiencing difficulties with operation and maintenance.[25] Measures are being taken under the follow-on project to address these deficiencies.

25 ICR for the RDP, p. 15.

6. Borrower and Bank Performance

BORROWER PERFORMANCE

This audit agrees with both ICRs that, at the end of the day, the performance of the borrower and its agencies was ***satisfactory*** in both projects. At the macro-economic level, the government's performance in adhering to the IMF policy framework was obviously unsatisfactory in 1996 and the first half of 1997, but the new SPA Government has succeeded in stabilizing the economy since the 1996-97 civil crisis. Economic growth of 7 to 8 percent per year has resumed and inflation has fallen to zero.

At the agency level, there were some implementation shortcomings, including some initial delays due to lack of familiarity with Bank procurement procedures. But the Agricultural Program Office performed its coordinating and monitoring functions more than adequately during the life of the ASAC. The Albanian Development Fund has not only survived the 1996-97 civil crisis, it is widely regarded as one of the most effective development institutions in the country in terms of achieving results on the ground. It has established a positive reputation both among the government and donors on the one hand, and among local governments, local communities, and the private sector on the other.

BANK PERFORMANCE

The performance of the Bank was also ***satisfactory*** in both projects. Both projects were based upon high-quality economic and sector work, and the experiences of previous lending operations—the Critical Imports Project in the case of the ASAC and the Rural Poverty Alleviation Pilot in the case of the RDP. The Bank can be commended for pursuing macro-economic adjustment and transition on the one hand, and addressing the social dimensions of adjustment on the other.

The appraisal of the ASAC was overoptimistic regarding the amount of time required to implement the policy reforms. The two tranches were released 9 months and 3½ years behind schedule. But the Bank maintained a continuous and effective dialogue with the government, and showed flexibility during project implementation in response to a rapidly transforming economy. A Bank mission in March 1996 accurately detected the deteriorating fiscal situation of the government, and correctly recommended delaying the release of the second tranche. The Bank effectively expressed its concerns in 1998 about the protectionist tendencies in the initial draft of the Green Strategy—the government's new strategy for agricultural development.

For the RDP, the Bank can be commended first for separating the rural infrastructure and microcredit components into two follow-on projects, and second, for the manner in which this was accomplished. The staff of the RFF spoke very highly of the Bank's performance in this regard. The ongoing dialogue that had been established between the two parties, the confidence and trust that had been developed, and the willingness on both side to be flexible in designing the follow-on project all contributed to this success.

7. Lessons

Experience with these two projects confirms a number of OED lessons:

(1) ***Sector adjustment loans and their associated conditionalities can be an effective instrument for policy reform when there is a reform-minded government in power.*** Grounded in high-quality analytic work, the ASAC has provided an effective framework for agricultural policy reform in Albania. But as the 1996-97 civil crisis demonstrated, conditionality is no substitute for government ownership of the reform agenda. Adjustment loans can only provide direction and support for a reform-minded government.

(2) ***Different kinds of institutional arrangements are required for the effective provision of public vs. private goods in rural areas.*** For rural infrastructure (a local public good), the Albanian Development Fund is supporting the decentralized provision of rural infrastructure in partnership with local governments, local communities, and the commercial private sector. For small-scale rural credit (a private good), the ADF and its successor, the RFF, are facilitating the establishment of sustainable village-level financial institutions that are providing non-subsidized credit at the local level. The latter presents a stark contrast with the failure to establish a new, initially state-owned Rural Commercial Bank under the ASAC.

(3) ***It is important to be realistic about the amount of time required to implement institutional reforms for the provision of rural services.*** This process requires effective leadership at both the political and administrative levels, the establishment of a sound legal framework, the meaningful participation of key actors and beneficiaries in the process, and human resource capacity building. It has taken the better part of ten years to establish land market institutions under the ASAC and sustainable rural financial institutions under the Rural Poverty Alleviation Pilot, the RDP, and now the Microcredit Project.

Basic Data Sheet

AGRICULTURE SECTOR ADJUSTMENT CREDIT (CREDIT 2524-ALB)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	42.0	45.0	107.1%
IDA	20.0	19.6	98.0%
Cofinancing			
OECF (Japan)	20.0	20.0	100.0%
Netherlands	2.0	5.4	270.0%
Cancellation	0	0	0%
Date physical components completed	N/A	N/A	
Economic rate of return	N/A	N/A	

Note: Increased project expenditure resulted from increased cofinancing from the Government of the Netherlands as well as appreciation of the SDR and the Netherlands Guilder against the U.S. dollar.

Cumulative Estimated and Actual Disbursements

	FY94	*FY95*	*FY96*	*FY97*	*FY98*
Appraisal estimate (US$ millions)	18.0	26.0	42.0	42.0	42.0
Actual (US$ millions)	8.2	28.7	29.3	29.6	45.0
Actual as % of appraisal	45.5%	110.4%	69.8	70.5	107.1
Date of final disbursement:				January 8, 1998	

Project Dates

	Original	***Actual***
Identification	November 1992	November 1992
Preparation	November 1992	November 1992 – February 1993
Appraisal	March 1993	September 1993
Negotiations	May 1993	May 1993
Letter of development policy	May 1993	May 24, 1993
Board approval	June 1993	June 24, 1993
Effectiveness	August 1993	November 30, 1993
First tranche release	September 30, 1993	June 1994
Second tranche release	June 30, 1994	January 8, 1998
Closing date	December 31, 1998	December 31, 1998

Staff Inputs (staff weeks)

	Planned		*Actual*	
	Weeks	US$ (000)	Weeks	US$ (000)
Preparation, appraisal through Board approval	0	0	55.1	125.3
Supervision, tranche release, completion	68.9	145.4	181.4	293.8
Total	68.9	145.4	248.4	419.1

Mission Data

	Date (month/year)	*No. of persons*	*Staff days in field*	*Specializations represented*	*Performance Rating*	
					Implementation status	*Development objectives*
Preparation	Nov 1992	1	10	E		
	Feb 1993	1	3	E		
Appraisal	N/A					
Supervision	Sept 1993	1	10	E	Satisfactory	Satisfactory
	Feb 1994	2	18	E	Satisfactory	Satisfactory
	Apr 1994	2	5	E, AB	Satisfactory	Satisfactory
	July 1994	2	6	E, RC	Satisfactory	Satisfactory
	Sept 1994	3	6	E	Satisfactory	Satisfactory
	Mar 1995	2	5	AB, RC	Satisfactory	Satisfactory
	Aug 1995	2	4	E	Satisfactory	Satisfactory
	Sep 1995	2	5	E, I	Satisfactory	Highly satisfactory
	Jan/Feb 1996	1	5	RC	Satisfactory	Satisfactory
	Apr 1996	2	7	E, I	Satisfactory	Satisfactory
	Sept 1997	2	5	E, I	Unsatisfactory*	Satisfactory
	June 1998		7		Unsatisfactory*	Satisfactory
	Dec 1998	2	4	E, I	Satisfactory	Satisfactory

Key : E = Economist, I = Implementer, AB = Agribusiness specialist, RC = Rural credit specialist

* Note: Implementation was unsatisfactory from September 1996 to August 1997.

Rural Development Project (Credit 26800-ALB)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	12.00	12.10	100.8%
IDA	6.00	5.90	95.0%
Cofinancing	4.60	5.20	113.8%
Government of Albania	1.20	0.80	66.7%
Beneficiaries	0.20	0.20	100.0%
Cancellation		0	0%
Date physical components completed	June 30, 1999	Dec 31, 1999	
Economic rate of return	N/A	N/A	

Cumulative Estimated and Actual Disbursements

	FY94	*FY95*	*FY96*	*FY97*	*FY98*
Appraisal estimate (US$ millions)	18.0	26.0	42.0	42.0	42.0
Actual (US$ millions)	8.2	28.7	29.3	29.6	45.0
Actual as % of appraisal	45.5%	110.4%	69.8	70.5	107.1
Date of final disbursement:				January 8, 1998	

Project Dates

	Original	***Actual***
Identification		January 21, 1994
Preparation		
Appraisal		January 10, 1995
Negotiations		
Board approval		February 14, 1995
Effectiveness	May 1995	May 23, 1995
MTR	November 1996	November 14, 1996
Closing date	June 30, 1999	December 31, 1999

Staff Inputs (staff weeks)

	Actual	
	Weeks	US$ (000)
Identification/preparation	9.8	27.4
Appraisal/negotiation	24.3	75.1
Supervision	50.6	144.9
ICR	11.5	60.0
Total	96.2	307.4

Mission Data

	Date (month/year)	No. of persons	Specializations represented	Performance Rating	
				Implementation status	Development objectives
Identification/ preparation	Sept-Oct 1993	4	TM, O, M, RC		
	Nov-Dec 1995	1	TM		
	Jan-Feb 1996	6	TM, O, ME, S, F		
Appraisal	Jun 1994	6	TM, O, EN, CB, ME		
Negotiations	Nov 1994	4	TM, O, FM, P	Highly satisfactory	Highly satisfactory
Supervision	July 1994	5	TM, O, M, RC, F	Satisfactory	Satisfactory
	Oct 1995	4	TM, O, RC	Satisfactory	Satisfactory
	Jan 1996	3	TM, O, RC	Satisfactory	Satisfactory
	Apr 1996	4	TM, O, RC, V	Satisfactory	Satisfactory
	July 1996	3	TM, O, RC	Satisfactory	Satisfactory
	Oct-Nov 1996	4	TM, O, RC, EN	Satisfactory	Satisfactory
	Feb-Mar 1997	3	TM, O, RC	Satisfactory	Satisfactory
	May 1996	2	TM, O	Satisfactory	Satisfactory
	Sept-Oct 1997	3	TM, O, EN	Satisfactory	Satisfactory
	Nov 1997	3	TM, O, EN	Satisfactory	Satisfactory
	Feb-Mar 1998	4	TM, O, SS, EN	Satisfactory	Satisfactory
	April 1998	3	TM, O, RC	Satisfactory	Satisfactory
	July 1998	3	TM, O, RC	Satisfactory	Satisfactory
	Nov 1998	4	TM, O, P, EN	Satisfactory	Satisfactory
	Feb 1999	6	TM O, P, EN, EC	Satisfactory	Satisfactory
	Feb 1999	3	TM, PSD, O	Satisfactory	Satisfactory
	Aug 1999	2	EN	Satisfactory	Satisfactory
ICR	Apr-May 2000	6	TM, O, SS, P, EN, M	Satisfactory	Satisfactory

Key : CB = Cooperative banking consultant, EC = Economist, EN = Engineering consultant, F = Finance consultant, FM = Financial management specialist, M = Microenterprise consultant, ME = Monitoring and evaluation consultant, O = Operations officer, P = Procurement specialist, PSD = Private sector development specialist, RC = Rural credit consultant, SS = Social scientist, TM = Task manager, V = Veterinary consultant

Other Project Data

Borrower/Executing Agency:

FOLLOW-ON OPERATIONS			
Operation	*Credit no.*	*Amount (US$ millions)*	*Board date*
Community Works Project		9.0	December 1998
Microcredit Project		12.0	May 1999

List of Topics for Interviews

Background

Mr. Chris Gerrard is a senior evaluation officer with the Operations Evaluation Department (OED) of the World Bank. OED is an independent department of the World Bank Group that reviews, after their completion, all Bank lending operations such as these two IDA credits to the Republic of Albania.

From the point of view of the World Bank, the major objective of these project performance audits is to learn as much as possible from the experience of these projects in order to improve the quality of similar such projects both in Albania and in other countries in the future. Soliciting the views of the Government of Albania, its agencies, and other stakeholders is a vital part of this process.

Interviews

Each interview will last approximately one hour, or perhaps slightly longer, but only if you can spare the time. The purpose of providing you with this list of topics is to help you prepare for the interview beforehand. While this list of topics covers both projects, Mr. Gerrard will focus his questions, during your interview, on the project with which you are most familiar.

Project Objectives and Components

The Agriculture Sector Adjustment Credit had five major components, each of which may be considered one objective of the project:

1. Strengthening and extending ongoing reforms in agricultural price and trade policy to ensure that prices provide correct market signals to producers, that markets for agricultural inputs and outputs are functioning well, and that food aid does not act as a disincentive to domestic production;
2. Creating a rural financial system that is adapted to the needs of a private market economy, among other things, by creating a new Rural Commercial Bank to provide rural credit at market rates;
3. Continuing the land reform process, among other things, by privatizing and selling assets of state farms, finalizing the distribution of former state farm and cooperative land, land titling and registration, developing the lease market for agricultural land, and facilitating land consolidation;
4. Privatizing state-owned marketing and processing enterprises; and
5. Improving the administrative capacity of the Government of Albania in order to better serve the needs of the rural population.

The Rural Development Project also had five major components, the first two of which were the major components of the project, and the last two of which provided support to the first three components:

1. Rural infrastructure works;
2. Small-scale rural credit;
3. Business and technical advice to promote rural enterprise and support to establish village animal health associations;
4. Beneficiary assessments, and training and study tours for local government staff; and
5. Implementation support to the Albanian Development Fund.

The Agriculture Sector Adjustment Credit became effective on November 30, 1993, and closed on December 31, 1998. The Rural Development Project became effective on May 23, 1995, and closed on December 31, 1999. In your opinion, which objectives of each project were achieved to the greatest extent at the time of closing? Which objectives were achieved to the least extent? Please rank – from "most successful" to " least successful" – the achievement of the five objectives in each project.

Reasons

In your opinion, what were the key reasons for the success, or lack of success, in achieving the various objectives of the two projects. These reasons might include:

- Factors, both positive and negative, that were external to the projects, such as the government's macroeconomic policy;
- Factors relating to the preparation and the design of the projects such as the vision, the strategy, the process, the analysis, and technical design of the projects;
- Factors relating to the implementation of the projects such as project management, staffing, institutional arrangements, capacity-building, and the participation of project beneficiaries;
- Factors relating to the role of the World Bank and other donors
- Unanticipated events and consequences

Institutional Development

There has been considerable institutional development and capacity building under both projects which is enabling Albania to make more efficient use of its human and natural resources. In your opinion, the progress that was made in which of the following areas was the most important in contributing to the success of the two projects?

- Sector-wide policy-making in relation to the agricultural sector and rural development;
- The legal and regulatory system supporting the two projects;
- The management capacity of implementing agencies such as the Albanian Development Fund;
- The capacity of the front-line staff to work effectively with local governments and local communities, for example, in prioritizing and supervising subprojects;
- The capacity of the local governments (that is, communes) to work with implementing agencies and local communities;
- The capacity of local communities (such as the village credit committees) to work with local governments and implementing agencies;
- The capacity of the commercial private sector to bid for and execute rural infrastructure works.

Lessons of Experience

With hindsight, now that the credits have closed, what are the major lessons of experience that you derive from the two projects? What was done well at the various stages of the two projects? What should have been done better at the various stages of the two projects?

- Identification and preparation
- Analytical work in relation to both projects
- Piloting in relation to the Rural Development Project
- Appraisal, negotiations, and approval (by both sides)

- Implementation by the Government of Albania
- Supervision by the World Bank
- Donor coordination
- Monitoring and evaluation