



OED REACH

SEPTEMBER 30, 2005

Based on the *Albania Country Assistance Evaluation*.

Albania: Country Assistance Evaluation

- After a pyramid scheme collapsed in late 1996/97 that led to riots and looting, Albania forged a stable economy through sound economic management and stronger economic institutions. Rapid growth improved overall economic and social conditions, but unemployment is high and some social indicators, such as secondary school enrollment, remain behind those of neighboring countries.
- Between FY98 and FY04, IDA lent Albania US\$485 million, among the highest of small IDA countries on a per capita basis, spread across many sectors.
- Bank assistance was effective in supporting infrastructure, economic stability and growth, and financial sector development, but was less effective in improving governance, institution building and human development.
- Looking forward, the country strategies should increase selectivity, with priority in infrastructure—including urban—health and education, developing a more outcome-oriented approach and, where possible, focusing more on quality of service delivery and cost recovery. Also, Bank management should review the justification for Albania's continued IDA eligibility, explore its potential creditworthiness for IBRD lending, and ensure that the results of the analysis form the basis for the next assistance strategy.

Background

A pyramid scheme that collapsed in 1996/97 threatened the economic gains achieved in the early years of transition, but the authorities' response to the crisis contained the economic and financial losses, and growth recovered quickly. The Kosovo crisis of 1999-2000 threatened to engulf Albania in social and economic turmoil, but international assistance and a focus on macroeconomic fundamentals permitted Albania to emerge largely unscathed. The crises uncovered weaknesses in the country's governance and economic institutions that shaped the government's policy and the Bank's assistance strategy for most of the period 1998-2004. Once the political and economic situation began to stabilize in 2001, the country focused more attention on structural reform issues.

World Bank Assistance

Bank strategy focused on three pillars: improving governance and institutions, promoting private sector growth, and fostering human development. Each pillar was supported by sub-objectives (a total of 15) that remained largely unchanged during the period. Between FY98 and FY04, IDA approved 32 credits for a total of US\$485 million, focused mainly on infrastructure (electricity and roads), macro stability and financial sector, and to a lesser extent on human development, agriculture, and governance.

IDA lending had four salient features. First, the total amounts lent were quite high: with average annual per capita lending of \$22, Albania received one of the largest transfers among similar IDA countries. Second, Albania has been well above the IDA cut-off level on per capita income for some years now (Albania's is \$1,740, almost twice the \$895 per capita income cut off for IDA eligibility). Third, the lending continues to be

characterized by a large number of small credits across a broad range of sub-sectors; the relatively good outcomes of projects have not consistently translated into equally good outcomes at the sector level. Fourth, most of the projects were executed by autonomous project implementation units, the continued reliance on which is at odds with IDA's stated objective of strengthening public administration.

Albania made gains in poverty alleviation, economic growth and price stability, roads, electricity, and the fiscal sustainability of the pension system. Albania also made progress in civil service reform and stands to gain much in the water sector if the experiment of using private operators to manage water systems succeeds. Reform has barely reached health and education which are important for ensuring broad-based growth and reducing poverty. Nor have there been significant improvements in governance or the investment climate. Where Bank assistance established specific targets for outcomes, such as energy, the results were better than where the Bank's objectives were vaguely articulated, such as governance. The outcome of the Bank's assistance is moderately satisfactory.

The primary lesson from this evaluation is that Bank assistance was effective when the government adopted and donors supported a sector strategy that laid out a reform agenda with clear and monitorable performance indicators. Second, developing the analytic underpinning and strategy for a sector was important to achieve results, as in electricity; when the strategy lacked a framework, like in governance, the results were limited. Third, a

series of projects that build around pilot phases, such as in water supply, are more likely to have an impact at a country level than a number of small projects spread over many sub-sectors which fail to have synergies on a larger scale.

Recommendations

Country strategies and project design should move to an outcome-oriented approach. To accomplish this, IDA should establish monitorable and realistic targets for outcomes and design interventions to meet these targets. Where possible, interventions should focus on the quality of service delivery and cost recovery, like in electricity and water. To enhance impact, Bank assistance should increase selectivity, with priority in infrastructure—including urban—health and education. Important issues such as governance and business climate will need to be undertaken in conjunction with and, for areas specifically covered by agreements (the *acquis*), perhaps under the leadership of the EU.

Early in this decade Albania was considered eligible only for IDA lending. Over the last three years Albania's GNP per capita improved substantially, and is now almost double the IDA threshold. Management should review the justification for continued IDA eligibility, explore Albania's potential creditworthiness for IBRD lending, and ensure that the results of this analysis form the basis for proposals on lending levels and lending terms in the next country assistance strategy.

Government and Management Response

The government noted the satisfactory performance of projects in selected sectors, such as energy and financial, and overall economic management. It also pointed out the advance in civil service and the implementation of the law on declaration of assets that makes government officials more accountable and the system more transparent. The government noted that it was the first ever to address the corruption phenomenon in Albania, and over the last seven years made a great effort in bringing stability.

Management will prepare a results-based CAS that seeks greater selectivity, and increased collaboration with the EU. Management agrees with the importance of governance in service delivery, but finds that a narrow focus on cost recovery may be hard to achieve given the high levels of poverty in the country. Management is discussing future access to IBRD/IDA resources.