

ALBANIA

World Bank Group Partnership

Program Snapshot

March 2013



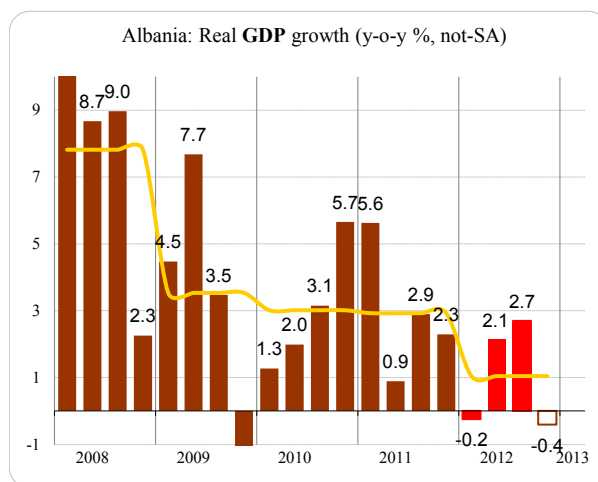
RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Since the 2008–09 global financial crisis, economic growth in Albania has remained subdued. After a precrisis decade of a 6 percent average growth rate, growth fell to 3.3 percent in 2009. The crisis led to lower remittances and exports, which in turn contributed to lower growth and fiscal revenues. GDP grew by 3.5 percent in 2010 and 3 percent in 2011, supported mainly by services and industry. Albania's growth for 2012 has weakened substantially due mainly to the continued deterioration of the external environment. Third quarter GDP data for 2012 showed a pick-up in economic activity, with the real growth rate reaching 2.7 percent (year-on-year) from 2.1 percent in the second quarter. Agriculture grew at 5.6 percent, boosting overall growth by 1 percentage point. Other services (which includes private education) have also grown at an elevated rate of 9 percent, contributing 2.3 percentage points in total growth.

Communication services have seen a stunning growth rate of 21 percent. However, trade and hotels growth slowed considerably to 0.6 percent (year-on-year) in the busiest quarter of the year. Industry experienced a strong growth of 11 percent (year-on-year). The extracting industry grew by 21 percent (year-on-year), partly as a result of the increased production of electricity, which became necessary because of the high cost of importing it, but which brought the water level of hydropower dams down to a critical minimum. Construction, however, continued the double digit contraction. The latest business sentiment data confirmed a very difficult fourth quarter for 2012. All sectors recorded negative growth rates compared to the same period a year before. The construction free fall continues with no sign of improvement. Industry sentiment worsened in the fourth quarter and is expected to stay negative through to the start of 2013. Services sentiment also deteriorated sharply in the second half of 2012, although it is expected to stabilize in 2013.

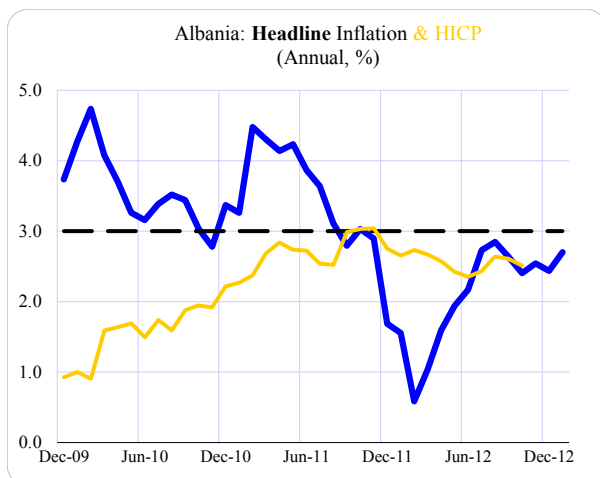
External imbalances are improving, but still remain high. After reaching 15 percent of GDP in 2009, the current account deficit (CAD) dropped to below 12 percent of GDP in 2010 and 2011. The CAD narrowed during 2012 at 15 percent year-on-

year. The weakening of domestic demand led to an improvement of the trade deficit by 9 percent. This was mainly the result of import contraction for construction materials and machineries, which indicates weakening domestic demand. Mining has been another sector helping trade deficit reduction by recording strong exports for the third year in a row. The strong expansion of this sector since 2009 seems sustainable, indicating a potential source of growth and tax revenues worth watching. Remittances and other private transfers remained almost unchanged, despite the difficulties of Greece and Italy, where most Albanian emigrants work. Foreign direct investments (FDIs) were 21 percent higher than the previous year as of September 2012. FDIs are concentrated in financial intermediation, services, and industry.



Source: INSTAT, 2011 estimate.

Inflation has largely been within the central bank's objective of 2–4 percent. After experiencing a sharp drop reaching 0.6 percent in February 2012, headline inflation picked up again in the second half of the year, approaching the central bank inflation target of 3 percent. Food prices have been the main driver of this volatility. Core inflation (non-rent/non-food) remains subdued at 2 percent. The producer price index has declined to almost 1 percent, reflecting weakening production. The lek fluctuated between 137 and 140 against the euro during 2012, closing the year at above 139.



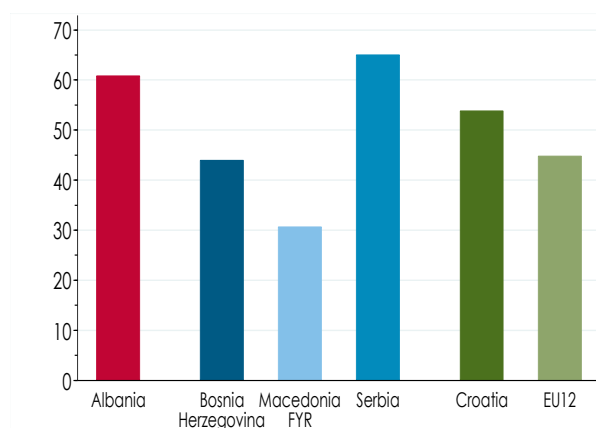
Source: INSTAT.

Fiscal Performance

The negative effects of the global crisis in 2009 exhausted the fiscal space, pushing public debt above 60 percent of GDP in 2012. The fiscal stimulus, which started in 2008, consisted of elevated public investments (mainly on roads) and increases in public salaries and pensions. The resultant rise in fiscal deficits, combined with a 10 percent depreciation of the lek, brought public debt levels to close to 60 percent of GDP, the legal limit set in 2008. In 2010 and 2011, with fiscal space tight and revenue growth slowing, the Government cut expenditures at mid-year to keep its deficit targets and public debt within 60 percent. This practice, however, led to an accumulation of unpaid bills and arrears to private contractors for public works and value added tax (VAT) reimbursements. For 2012, though revenues were again lower than projected, the Government did not make a mid-year fiscal adjustment in anticipation of receipt of privatization revenues. However, a looming energy shortage in the second part of 2012 and delays in completing privatization transactions have pushed the debt level to 60.8 percent of GDP. Albania's 2013 budget targets a general government fiscal deficit of 3.4 percent and foresees a further increase in public debt.

Lowering public debt over the medium term remains critical to macroeconomic stability and growth. As a result of the high level and structure of debt, interest expenditures are two–three times higher than in other South East Europe (SEE) countries and crowd out other, more productive

spending. Priority actions being discussed with the Bank include: (i) clearing arrears (approximately €200 million, according to International Monetary Fund [IMF] estimates) and better controlling new commitments; (ii) strengthening tax administration and exploring new revenue sources; (iii) reforming power market rules and tariffs to make the sector more self-sustaining; and (iv) reforming the pension scheme to stem the pension fiscal deficit. The use of privatization revenues, whenever they may occur, toward completing the clearance of arrears and reducing debt will be of paramount importance. Recently, the Government has accelerated work on setting up mechanisms to prevent the recurrence of arrears in the future and publicly committed to clearing existing arrears as a priority. The Fiscal Policy Roundtable, jointly organized by the World Bank, IMF, and the Government in February 2013, reaffirmed the importance of fiscal consolidation and the need for a fiscal rule.



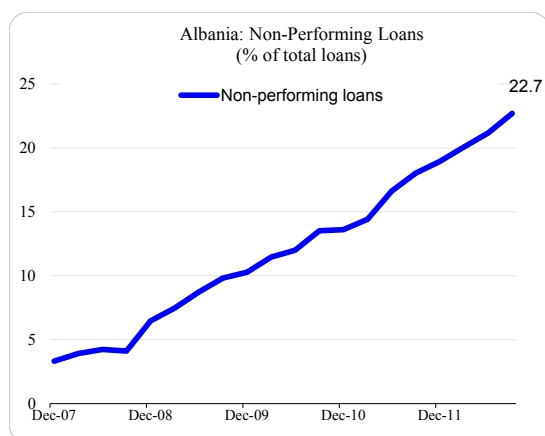
Source: World Bank staff calculations, based on IMF WEO (October 2012), the World Bank South East Europe Regular Economic Report No. 3 (December 2012), and the IMF Country Report for Croatia (November 2012).

Financial Sector

The financial sector has remained largely stable vis-à-vis the ongoing Eurozone crisis, but faces escalating risks from the prolonged unfavorable external environment and the continued deterioration of banks' loan quality. Albania's banking sector, which equals about 87 percent of GDP (2012, assets), consists of 16 banks, five of which collectively hold about three-fourths of total banking system assets. Four of these banks are Austrian, Greek, or Italian owned. As of September 2012, the overall banking sector capitalization rate

was 15.9 percent and deposits exceeded precrisis levels (having recovered steadily from a sharp drop in 2008).

The banking system is relatively well-provisioned, as the ratio of provisions to total loans has increased fourfold since 2007. The Bank of Albania (BoA) has been proactive in adopting prudential measures to safeguard financial stability, including close financial sector monitoring and the transformation of bank branches into subsidiaries. A November 2011 amendment to the Law on Banks strengthened the BoA's capacity to deal with distressed banks by providing it with the power to establish a bridge bank. The Ministry of Finance, the Financial Supervisory Authority, and BoA also established the Financial Sector Action Group in early 2012 to strengthen macro-prudential supervision across the financial sector and to enable quick action in the event of a threat to financial stability. However, ongoing Eurozone uncertainty necessitates continued vigilance and further actions to reduce remaining financial sector vulnerabilities, stem the tide of increasing nonperforming loans (NPLs) (the share of which at over 22 percent is the highest in the region), and encourage banks to resume lending once private sector demand reemerges. The Bank Group has provided technical assistance to the ongoing reforms, including a set of measures to reduce the NPL level.



Source: Bank of Albania.

Unemployment and Poverty

Albania's strong economic performance prior to 2008 was accompanied by positive changes in employment and a strong reduction in poverty rates. Between 2002 and 2008, the unemployment

rate decreased from approximately 17 to 12.8 percent, and the poverty headcount rate decreased from 25.4 to 12.4 percent, equivalent to 200,000 people lifted out of poverty during this period. The reduction in poverty was particularly dramatic in rural areas, where the poverty headcount fell from 39.6 percent in 2002 to 14.6 percent in 2008. Growth accounted for most of the reduction in the poverty rate during the 2002–05 period, and contributed 3.7 points to a 6.1 percentage point reduction in the poverty headcount during 2005–08. Inequality also decreased during that period, as individuals in the lower percentiles of the distribution experienced higher income growth rates than others. The extremely poor population, defined as those with difficulty meeting basic nutritional needs, decreased from about 5 percent in 2002 to 3.5 percent in 2005, and to 1.2 percent in 2008.

There are concerns that as growth has slowed over the last four years, so has the pace of poverty reduction across the country. While systematic updated poverty figures for Albania are not available, household vulnerability is likely to be higher than in the past. Remittances, for example, are now lower than they were earlier in the decade. Perception surveys, such as the Life in Transition Survey conducted in all the countries of Eastern Europe and Central Asia in 2010 by the European Bank for Reconstruction and Development (EBRD) and the World Bank, also confirm signs of unease. About 60 percent of respondents suggested that the ongoing crisis had significantly affected them. These concerns are further supported by data from regional databases and from neighboring countries (for example, Serbia and FYR Macedonia) that have more recent data than those available for Albania. The results from a new Living Standards Measurement Survey (LSMS), supported by several donors and the World Bank, are keenly awaited to obtain an accurate measure of what has happened to poverty during the last several years and refine poverty reduction efforts.

There has been progress in setting up a social safety net for the poor. Further measures are planned to improve equity, efficiency, transparency, and effectiveness in the use of resources for social protection. Ndihma Ekonomike (NE) is the largest cash benefit social assistance program, providing a monthly cash allowance to approximately 7.3 percent of the population (about 100,000

households) on the basis of a means test. About one-quarter of total spending on social assistance in Albania (1.6 percent of GDP) is devoted to NE (0.3 percent of GDP). The poorest 20 percent of the beneficiaries receive 56 percent of all NE transfers, while in the best performing social assistance programs in the Europe and Central Asia (ECA) region, at least 80 percent of benefits reach the poorest 20 percent of the population. The Government, with Bank support, has initiated reform of the program to improve its link to poverty, in terms of both transfers from the central level to the municipalities and selecting beneficiaries at the municipality level.

The Bank has recently supported social protection in Albania through (i) the *Social Services Delivery Project*, which is helping to increase the access of vulnerable population groups to effective social care services and improve the efficiency and effectiveness of the pension system in the country; (ii) the *Social Sector Development Policy Loan (DPL)*, which supported policy and institutional changes to improve the effectiveness of social safety nets; and (iii) the *Social Assistance Modernization Project*, which is assisting with social assistance and disability reform. A Japan Social Development Fund (JSDF) grant supports youth empowerment and employment programs in two major municipalities.

Health Sector

Health services have been improving, but more needs to be done to ensure universal access by poor households. Albania spends about 6 percent on health care, in line with the average for countries at similar income levels. The public sector contribution is relatively low, well below the SEE average. As a result of low public sector spending, out-of-pocket expenditures at the point of service account for about 60 percent of sectoral funding. The high level of direct household spending indicates that the existing health financing system offers Albania's population limited protection against catastrophic illness or injury and allows for little redistribution of resources to protect the most vulnerable groups from health shocks. The economic barrier to accessing quality services by the poor is exacerbated by the lack of total health insurance coverage. The Government is working to develop a health-financing policy that will address

these problems, which will be informed by an ongoing regional Bank study on health financing.

The Bank supported the health sector in Albania through the recently closed *Health System Modernization Project*, which assisted the Government in improving physical and financial access to high-quality primary health care services, and in strengthening institutions. The *Social Sector DPL* supported reforms to enhance the efficiency and equity of health spending and better protect the poor from health shocks, including through health insurance reforms, in a fiscally sustainable environment. A new health project is at an early preparation stage.



Education

The importance of education and skilled labor for the individuals themselves and for economic development is well recognized in Albania. As a result, major and wide-ranging education reforms were initiated in 2006 that included: (i) curriculum reform, including the introduction of a modern information and communications technology (ICT) curriculum in basic and secondary schools; (ii) improved teacher training; (iii) a more equitable distribution of resources across regions; (iv) an improvement in learning conditions, with less crowded classrooms and less need for multiple shifts in schools; (v) an increase in average teacher salaries; and (vi) a renewal of the content and administration of the Matura examination upon leaving secondary school to improve relevance and ensure objective results. Reforms continue to be rolled out.

Major higher education reforms have also been initiated. In higher education, the focus has been on modular education that is compatible across Europe, the expansion of the numbers of students



in higher education, and the introduction of short-cycle, subdegree programs in regional universities. There is also a focus on increasing the efficiency and accountability of higher education institutions, including by introducing a revised per student financing formula, establishing external advisory boards, setting up an accreditation system for universities, and developing university ranking procedures.

The Bank supports a comprehensive range of reforms in the education sector in Albania through the *Education Excellence and Equity Project* that is also financed by the European Investment Bank (EIB), the Council of Europe Development Bank (CEDB), and a substantial contribution from the Government.

Agriculture

Agriculture is a main source of employment and income in the rural areas, contributing 21 percent to GDP and accounting for 58 percent of employment in the country. Albania's farming sector has been dominated by small private holdings since the collapse of the communist state in 1991, when peasant farmers disbanded the quasi-state collective farms. There are currently a total of some 375,000 private farms, each averaging only (roughly) 1.1 hectares of field crops in four plots. In addition to field crops, 91 percent of farms also have livestock and 37 percent tree crops. Over the last 10 years, there has been a slight downward trend in the total area devoted to field crops, with a major decrease in cereals, partly compensated for by an increase in areas under forages and, to a more limited extent, vegetables.

The challenge is to transform agriculture from subsistence-oriented production into a modern, commercial, and competitive sector, while fostering alternative income opportunities for rural residents exiting the sector. Competitiveness can be improved through increased productivity and higher quality products. At the same time, agriculture policy reform should be conducted within the context of current and future European Union (EU) requirements, including harmonizing with EU legislation and standards.

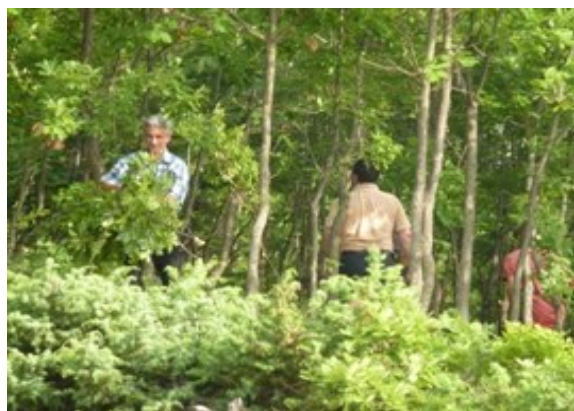


The Bank has supported agriculture in Albania through investments in irrigation and exposure to new technologies and practices, and through piloting a small grant program that was subsequently scaled up by the Government. A new *Water Resources and Irrigation Project (WRIP)* was approved in November 2012. The project will: (i) strengthen the Government's capacity to manage water resources at both the national level and in the Drini-Buna and Semani river basins and (ii) sustainably improve the performance of irrigation systems in the project area.

Environment

The Government of Albania is implementing a wide range of policies in the field of environmental protection and natural resource management, moving its respective laws toward a gradual approximation of o EU environmental legislation. Challenges include limited enforcement, due to the weak capacity of the environmental authorities at both the central and regional levels, and a lack of resources for monitoring and ensuring full compliance with environmental standards.

The Bank has helped to preserve the important natural and environmental assets of Albania and to foster local economic growth through a number of projects, in partnership with the Global Environment Facility (GEF) and other development partners. The *Natural Resources and Development Project* helped reduce upstream risks of erosion by improving the management of Albania's wetland, forest, and pasture resources, and creating water catchments. A follow-up project is being prepared to improve and promote the value of ecosystem services, in partnership with the Swedish International Development Cooperation Agency (SIDA). Through biomass regeneration, forest-dependent communities successfully participated in the pilot BioCarbon Fund program, reducing greenhouse gas emissions and obtaining additional resources for local needs. The *Integrated Coastal Zone Management Project* supports improving the critical public environmental infrastructure and municipal services of the southern coast and reducing environmental and health risks from industrial pollution. The recently closed *Lake Shkoder Integrated Ecosystem Management Project* helped to maintain and enhance the long-term value and environmental services of Lake Shkoder and its natural resources.



Disaster Risk Management

Albania is vulnerable to a number of natural disaster risks such as earthquakes, floods, and drought. The Albanian economy is especially sensitive to weather conditions, given the importance of agriculture, hydropower, and tourism. The World Bank supports the *Disaster Risk Mitigation and Adaptation Project* aiming to strengthen institutional capacities, reduce Albania's vulnerability to natural and man-made hazards, and limit human, economic, and financial losses due to catastrophic

events. Albania was the first member and contributor to the regional Catastrophe Risk Insurance Facility (CRIF). In parallel, grant resources from the Global Facility for Disaster Reduction and Recovery (GFDRR) have assisted the Government in the development of medium- and long-term flood risk mitigation options for the Drini-Buna river basin.

Urban Infrastructure

With a range of seacoast towns along the Adriatic, historic cities, and cultural heritage destinations featured on UNESCO's World Heritage List, Albania is endowed with a variety of fascinating and distinctive places to live and visit. Years of underfinancing of the city and town infrastructure, however, have left a backlog of critical investment needs in water and sanitation systems, solid waste management, inner-city road rehabilitation, and urban amenities that can undermine the prospects for tourism, as well as the living standards of Albanian citizens.

The World Bank Group is supporting urban infrastructure through several projects. *The Land Administration and Management Project (LAMP)* is assisting in surveying and registering an estimated 400,000 properties in urban areas, providing residents and businesses with secure property rights. Four cities have been supported with municipal investment programs to upgrade and rehabilitate essential urban infrastructure services. *The Water Sector Investment Project (WSIP)*, at the appraisal stage, will help to improve water utility performance and services for both local residents and prospective tourists. Several national and regional workshops were held in Albania in 2012 under the Sustainable Cities World Bank Institute (WBI)-ECA program. Meanwhile, the International Finance Corporation (IFC) acts as lead advisor for the Tirana municipality (*IFC-Tirana Solid Waste Project*), introducing private sector participation into the solid waste management system for municipal waste disposal and collection.

Transport

The expansion, improvement, safety, and management of the road network are critical for Albania's development. With support from several development partners, the condition of the road network has been improving. The first five-year

review of the Albania National Transport Plan shows the actual conditions: one-third (31 percent) of the primary sections and one-half (49 percent) of the secondary sections of the national roads network are in less than good condition, with 55 percent and 5 percent, respectively, in good and very good condition. This is a significant improvement from 2005, when 67 percent of the national road network was in poor or very poor condition. Regional and local roads have been found to be in particularly bad condition, and the government is implementing a considerable investment program to improve access for rural communities. In partnership with several European institutions, the World Bank is supporting the transport sector through the *Secondary and Local Roads Project*.

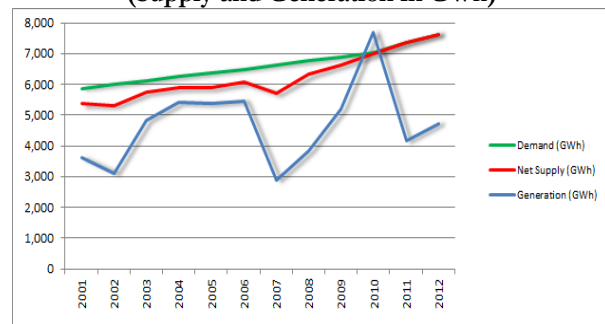


The key issue over the medium term is to maintain the network and to continue strengthening the institutions in the sector. The focus in the transport sector requires a difficult balance between continuing to “de-bottleneck” the network where economically viable, while also ensuring that sufficient resources are allocated to preserving the assets. These issues will be addressed through the *Europe and Central Asia Capacity Development (ECAPDV)* grant, which was secured to prepare a new results-based *Road Maintenance and Safety Project*. Among others, the grant funding would contribute to support the Government of Albania in prioritizing the rehabilitation/maintenance needs of the national road network, developing an action plan to implement sector reforms, and strengthening road safety.

Energy

Key priority is to continue reforming the sector and improving electricity supply. In the last decade, during years of low rainfall, the combination of dry weather, below-cost retail tariffs, high network losses (technical and nontechnical), poor collection rates, and growing demand meant that the power sector could only maintain electricity supply at a loss, or implement extensive load shedding. In 2008, the Government embarked on a major reform of the power sector, including unbundling the state-owned electricity company (separate generation, transmission, and distribution companies), privatizing its distribution and retail supply, and taking steps to liberalize the electricity market. During the period 2009–10, the situation improved. Nonetheless, during 2011–12, a combination of drought, harsh winter, and institutional weaknesses in the system once again decreased the security of supply and necessitated significant energy imports, adding a major stress to power utilities and the state budget.

**Albanian Power System 2001–12
(Supply and Generation in GWh)**



The country has to diversify the sources of energy supply and reduce the sector’s vulnerability to changes in rainfall and climate.

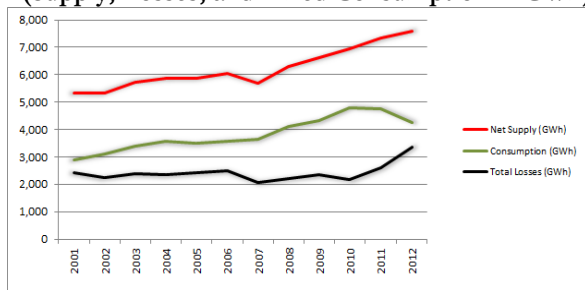
Hydropower constitutes on average 98 percent of Albania’s current domestic electricity generation. It also presents an opportunity for the country to become a regional hydropower hub, bringing substantial revenues during wet years. There was some progress made on improving the security of the energy supply through the construction of several small hydropower plants, transmission network improvements (including through the Bank’s *SEE Energy Community Transmission Project*), and continuing efforts to liberalize the electricity market. Operation of the newly constructed thermal

power plant, financed by the EBRD, EIB, and World Bank, was delayed due to technical problems with off-shore installations.

The World Bank Group’s has provided extensive support to the energy sector over the years. It is currently helping realize hydro and other renewable energy potential and improve energy services. The Bank is financing the *Dam Safety project*, as well as a *Partial Risk Guarantee* for the divested distribution company. IFC is assisting the Albanian Government with the privatization of medium-sized existing hydropower plants, while the ongoing Balkans Renewable Energy advisory program helped the Government to draft a new renewable energy law enabling the private sector to develop and construct feasible plants and facilitate investments in residential energy efficiency. Coordination between the Bank and IFC in the sector has been strong and will continue.

Major further efforts are needed to restore the sector’s financial viability, enhance the security of supply, strengthen market rules, and maximize revenue management. The Bank Group, in coordination with other international financial institutions (IFIs), is engaged in a dialogue with the Government to prepare and support a comprehensive sector recovery and reform plan.

**Distribution Activity Performance 2001–12
(Supply, Losses, and Billed Consumption in GWh)**



Private Sector Development

Improving the business climate is an important Government priority. One area of concrete progress is the legal and regulatory framework for business, which has been substantially overhauled and modernized. Among achievements are significant reduction in the time (from 36 to 5 days between 2008 and 2012) and cost of registering a business, trading across borders, and improvements

in the regulations for getting credit and protecting shareholders (the disclosure index rose from 0 in 2008 to 8 in 2012, and the investor protection index rose from 2.7 in 2008 to 7.3 in 2012). The Government has also embarked on comprehensive inspection reform. Since 2011, Albania has stepped up efforts to strengthen property rights, though deficiencies persist in some key related areas such as construction licensing. Yet, recent progress has been uneven. Bolder efforts are needed to increase country's competitiveness, particularly relative to its neighbors, and to improve both Global Competitiveness (89th) and *Doing Business* (85th) rankings.

The World Bank has been supporting private sector development in Albania through the recently closed *Business Environment Reform and Institutional Strengthening Project*, property rights registration under the LAMP, and technical assistance toward *Doing Business* reforms. The project has contributed to an improved legal framework for the regulatory impact assessment and inspection regime.

IFC activities are expanding in Albania. Priorities include crisis response, climate change, and improvements in the investment climate and real sectors. IFC is also focusing its investment services in Albania on increasing access to finance by supporting the development of local financial institutions, especially those that concentrate on small and medium-sized enterprises (SMEs). Across all sectors, IFC prioritizes investment in Albania’s less-developed regions and in projects that contribute to greater economic diversification and regional integration. As of end-December 2012, IFC’s portfolio in Albania was US\$197 million. IFC’s recent investments in Albania include: €6 million for a 20 percent stake in Enso Hydro Energji to help it build a series of small hydropower projects, and loans and equity investments in Bankers Petroleum and Antea Cement.

IFC is also mobilizing funds, especially for private participation in infrastructure, through its advisory services. IFC has been using its Public-Private Partnership Transaction Advisory to facilitate private financing for public-private partnerships (PPP) transactions for hydropower privatization, solid waste management, and road operation and maintenance. IFC has also been

providing its advisory support to further improve the investment climate in line with the country's overall EU accession aspirations. IFC's investment climate program in Albania includes tax simplification, trade logistics, and debt resolution projects. The Bank and IFC have been working toward an integrated approach to business climate reforms in activities promoting energy efficiency, renewable energy, and key *Doing Business* indicators. IFC's residential energy-efficiency and renewable energy projects are contributing to that goal. IFC is also providing corporate governance advice in Albania.



Governance and Public Sector Management

Public sector performance is crucial to the country's ambition to gain EU membership.

Albania has made significant progress on improving its budget framework and treasury system. The World Bank has continued its support toward improved public administration and governance, with the focus on public financial management.

In partnership with several donors, the Bank is supporting several programs. The *Integrated Planning System (IPS)* program is designed to ensure that the Government of Albania's core policy and financial processes function in a coherent, efficient, and integrated manner. The national *Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS)* program aims to bring financial reporting in line with EU requirements. Further support for selected issues and sectors has been provided through the *Governance Partnership Facility (GPF)*, including the successful piloting—the first in ECA—of a country e-procurement system in one of the Bank projects. The Government of Albania hosted the *Regional Procurement Forum* in Tirana in May 2012, which focused on e-procurement. Good progress was also made over

the past year on Albania's participation in the *Extractive Industries Transparency Initiative (EITI)*.

THE WORLD BANK PROGRAM IN ALBANIA

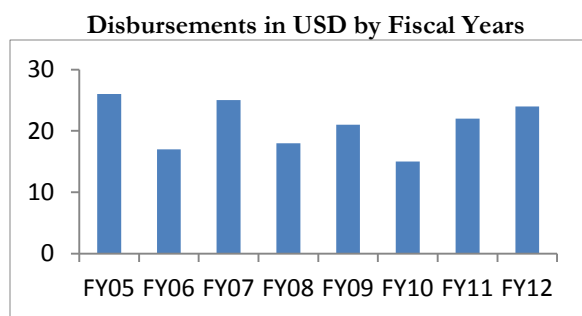
Since Albania joined the World Bank in 1991, the International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) have financed 72 projects in different sectors totaling roughly US\$1.2 billion. Adding GEF and other trust fund resources managed by the World Bank, the Bank's overall financing to Albania is estimated at US\$1.4 billion.

The current Bank Group Country Partnership Strategy (CPS) for 2011–14 supports the Government's National Strategy for Development and Integration by focusing on three strategic objectives: (i) supporting Albania's economic recovery and growth in a crisis-affected Europe; (ii) broadening and sustaining Albania's social gains; and (iii) reducing vulnerability to climate change and natural disasters. The CPS program also supports governance improvements in Albania and the EU integration agenda. It focuses on accelerating the implementation of the ongoing program, while selectively introducing new IBRD lending in strategic areas, increasing IFC financing for the private sector to US\$120–150 million, strengthening partnerships with other IFIs and donors, and expanding its knowledge program through regional and national activities. As part of its initiative to help several countries in Central, Eastern, and South East Europe mitigate the impacts of the Eurozone crisis, the IBRD has increased the financing envelope available to Albania under the CPS, initially set at around US\$300 million, to US\$575 million, mainly for strengthening financial stability, macroeconomic management, and growth. The Progress Report has been prepared reconfirming CPS priorities, with an increased focus on supporting growth, competitiveness, and energy sector development.

Analytical and Advisory Program. The Country Economic Memorandum for Albania, entitled *The New Growth Agenda*, was issued in 2010. With support from the GPF, the Bank disseminated several reports in 2011 on governance issues covering the overall governance profile, property rights, the water sector, and education. Other recent

reports include *Debt Management Assessment, and Public Expenditure and Financial Accountability (PEFA)*. Three issues of the semi-annual *Regular Economic Report (RER) for South-Eastern Europe*, including Albania, were launched in November 2011, June 2012, and December 2012. *A Public Finance Review* is under preparation. Analytical work and technical assistance have also been carried out, often through regional programs, on the financial sector, public financial management, corporate accounting, poverty monitoring, pension reform, the energy sector, water utilities, urban management, Aarhus Convention compliance, and the environment.

The current portfolio consists of nine projects totaling US\$258.6 million in IDA credits and IBRD loans. The portfolio has been consolidating significantly in the last few years, from 18 projects at the end of FY09 to nine projects by FY13. Portfolio performance as measured by disbursement has shown improvement over the last two years, 22 and 24 percent in FY11 and FY12, respectively. This progress was the result of a number of steps taken in collaboration with the Government to simplify and streamline the portfolio, restructure problem projects, and introduce regular portfolio performance reviews.



Additional Financing for Dam Safety (US\$21.6 million) and the *Social Assistance Modernization Project* (US\$50 million)—the first results-based operations in Albania—were delivered in FY12. In FY13, the *Water Resources and Irrigation Project* (US\$40 million) was delivered, while the *Water Sector Investment Project* (US\$50 million) is at the appraisal stage. A new energy sector operation is being prepared for FY14.

A Trust Fund portfolio of US\$19 million makes a valuable contribution to strengthening the dialogue and results in the CPS priority areas. It

also reflects strong donor coordination and partnership. In addition to project cofinancing trust funds, the program is enhanced by several self-standing trust funds, such as a US\$1.95 million trust fund under the REPARIS program to improve financial reporting; a JSDF grant of US\$1.1 million for youth empowerment; and a Swedish trust fund of US\$2.8 million for Improved Natural Resource Management. The second Multi-Donor Trust Fund for the Integrated Planning System (IPS-2), currently at about US\$4 million, is in the final stages of becoming operational.

The World Bank has been providing grants to civil society organizations in Albania in the context of the *Civil Society Fund (CSF)*, amounting to US\$436,000. In 2011–12, a development marketplace on good governance promoted innovative ideas by civil society on improving transparency and accountability. The World Bank’s *Public Information Center*, located at Tirana University, facilitates access by students, academia, and civil society to information about development issues and World Bank reports and activities globally, within the region, and in Albania. It serves as an important knowledge center, and offers free online access to visitors. The Bank office in Tirana has also been promoting the Open Data initiative by undertaking several tours to universities across the country.

ALBANIA: SOCIAL SERVICES DELIVERY PROJECT

Key Dates:

Approved: July 3, 2001

Effective: January 28, 2002

Original Closing Date: September 30, 2010

Revised Closing Date: March 30, 2013

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	15.00
Government of Albania	2.5
British Department for International Development (DFID)	2.5
IBRD	5.0
Total Project Cost	20.00

World Bank Disbursements, million US Dollars *:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	15.00	12.70	2.30

* as of March 2013.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The insufficient cohesion of Albanian society, lack of social capital, and social exclusion of vulnerable people were key issues during the last decade in Albania. The vulnerable population has been facing isolation, a negative public perception, insufficient information of their rights, etc., which, coupled with the lack of accessible services and poor coverage (especially in rural areas), have further exacerbated their problems. There has been an increased risk from the high levels of migration, such as the problems of elderly people living alone in rural areas, households headed by women, an increased number of children left without parental care, etc. Based on the Albanian Government's program, the World Bank is providing support to better formulate policies and implement a framework for addressing the financing, quality, and delivery of social care. Given the weaknesses in the pension system and the Government's priority in reforming pension system administration, Additional Financing was provided by the Bank (in May 2009), aimed at improving the effectiveness and efficiency of the pension system in the country.

The Project Development Objective, including the Additional Financing, is to improve the standards of living of poor and vulnerable population groups in Albania by increasing their access to well-targeted and effective social care services; assisting the Government in developing effective social care policy and improving its capacity for delivery; and monitoring social care services. In addition, it aims to improve the efficiency and effectiveness of the pension system in Albania.

Results achieved:

- The entire legal framework has been completed and is currently under implementation.
- Three Living Standard Measurement Surveys and a Household Budget Survey (carried out by the Institute of Statistics [INSTAT]) have been supported and completed successfully.
- Positive results have been achieved in capacity building at the central and local levels. The State Social Services Institute (SII) has been transformed into an Inspectorate for the monitoring, management, and delivery of social services.
- 44 daily centers were established with project support in several cities.
- Support to the Government strategy on decentralization/deinstitutionalization and transforming the residential care centers has been delivered.
- The SII Archive building has successfully been rehabilitated.
- Eight SII regional offices have completed the physical rehabilitation of their buildings, out of 12 offices in total.
- All required furniture for the SII Archive has been purchased and is currently under delivery. It is expected that by March 31 2013 (project closure), the SII Archive will be fully functional.

Key Partners: The Bank team works closely with the Ministry of Labor, Social Affairs, and Equal Opportunities, as a leader in reforming social policies and managing project implementation; Social Insurance Institute, charged with the implementation of the activities under the project's additional financing; and the Ministry of Finance, responsible for overall policy reform in the pension system. **Key Development Partners** include the United Nations Children's Fund (UNICEF) and the European Union.

ALBANIA: SOCIAL ASSISTANCE MODERNIZATION PROJECT

Key Dates:

Approved: March 7, 2012

Effectiveness: not yet effective

Financing in million Euro:

<i>Financier</i>	<i>Financing</i>
IBRD Loan	38.00
Government of Albania	147.82
Total Project Cost	185.82

* as of March 2013.



The objective of the Social Assistance Modernization Project for Albania is to support country's implementation of reforms to improve the equity and efficiency of its social assistance programs. The project has two components:

(1) Strengthening the implementation and performance of social assistance programs. The objective of this component is to support the results from improvements in the main social assistance programs. The component will support improved implementation of both the Ndihma Ekonomike (NE) program and disability assistance benefits in the main areas identified in the broad roadmap for reforms: (a) program parameters (eligibility criteria and intake processes); (b) benefits administration (business processes, management of information, payments mechanisms, and reporting and monitoring); and (c) oversight and controls.

(2) Technical assistance to strengthen the implementation capacity of social assistance programs. The objectives of this component are to strengthen the capacity for implementing improvements in the delivery of social assistance benefits. This component will finance select technical assistance and investment activities.

Results achieved: NA

Project just started implementation and is proceeding with the initial activities.

Key Partners: The Bank team works closely with the Ministry of Labor, Social Affairs, and Equal Opportunities.

Key Development Partners: European Union.

ALBANIA: EXCELLENCE AND EQUITY PROJECT

Key Dates:

Approved: June 1, 2006

Effective: October 4, 2006

Closing: June 30, 2013

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA Credit	15.0
Government of Albania	30.0
Other Donors (EIB)	15.0
Other Donors (CEDB)	15.0
Total Project Cost	75.0

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA Credit	16.1	14.1	1.98

* as of March 2013.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



To maintain growth, narrow regional disparities, and fulfill its aspiration to join the European Union (EU), Albania is strengthening its education sector so that it produces school graduates who can function effectively in labor markets, become active citizens, and contribute to strengthening Albania's competitiveness. Despite important gains over the last decade, Albania provides fewer years of schooling than its neighbors (significantly below the EU average), secondary enrollment rates are relatively low, and schools are overcrowded. Albania also has a considerable gap in educational outcomes when compared to other countries in the region, as shown by its low ranking in the latest Program for International Student Assessment (PISA) (2009) results. Further, Albania's quality of education is still considered inadequate relative to market needs. In the 2009 Investment Climate Survey (ICS), 51 percent of large firms, 41 percent of exporters, and 48 percent of foreign-owned firms reported skills as a major obstacle. Over 35 percent of firms that acquired new technology cited workforce education as a major constraint. The project supports the Government's strategic priorities for the sector. The objectives of the project are to support the Government of Albania's program: (a) to improve the quality of learning conditions for students; (b) to increase the enrollment of students in general secondary education; and (c) to initiate higher education reform.

Results achieved:

- Between 2006 and 2011, participation rates at all levels increased. Further, the progression rate from primary to secondary education increased from 80 percent to 91 percent in that period.
- The upper secondary gross enrollment rate increased from 53 percent in 2006 to 76 percent in 2011.
- Reforms of preuniversity education include the introduction of market forces and school-based choice in textbook publishing and purchasing, a curriculum for general secondary schools that now provides options, the introduction of a teacher professional development scheme, and the development of a centralized assessment of achievements and a university entrance system. Most of these reforms are now legally grounded on the recently approved preuniversity law by Parliament.
- Training was provided to all school principals in management and education leadership skills, and over 90 percent of primary and secondary schools have functioning boards. Additionally, about 12,500 teachers have received training under the project.
- Teacher job satisfaction, according to a Ministry of Education and Science survey, shows signs of improvement from 2006 to 2012.
- All primary schools are reported to be using the new curriculum and textbooks.
- An information technology curriculum has been introduced. Computers have been purchased for over 2,000 basic and secondary-level schools and Internet access is widely available. The student-per-computer ratio in general secondary schools decreased from 61 to 16 students per computer.
- Improvements are noted in the availability of school space, with the percentage of basic schools with multiple shifts dropping from 36 to 16 and for secondary schools from 15 to 8 (partially attributable to project interventions).
- 250 chemistry labs and 250 biology labs were provided to basic education schools, and 100 chemistry labs and 100 biology labs were provided to general secondary education schools.
- Important reforms are taking place in higher education that are expected to increase the efficiency and accountability of the institutions.

Key Partners: The Bank team is working closely with the Ministry of Education and Science; and indirectly supported by municipal authorities. **Key Development Partners:** European Investment Bank (EIB) and Council of Europe Development Bank (CEB).

ALBANIA: JSDF GRANT FOR YOUTH EMPOWERMENT THROUGH COMMUNITY DEVELOPMENT

Key Dates:

Approved: November 6, 2009

Effective: November 6, 2009

Closing: November 6, 2013

Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
Japanese Social Development Fund	1.15

World Bank Disbursements, million US Dollars *:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Trust Fund	1.15	0.56	0.59

* as of March 2013.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The objective of the project is to enhance young men and women's access to opportunities in education, employment, civic participation, and community development by: increasing skills that support the transition from the secondary school level into the labor force; increasing access to livelihood and employment opportunities through grants that support youth entrepreneurial activities; and increasing youth inclusion in civic affairs through community development grants. The project consists of the following parts:

Part A: Capacity Building for Youth: Activities to support capacity building of youth nongovernmental organizations (NGOs) and local government agencies to develop and refine the policies and programs that assist young men and women to acquire life and livelihood skills to enable them to meet the demands of the labor market.

Part B: Youth Livelihood Grants: Provision of micro-grants to youth and youth groups to finance selected livelihood activities to kindle a self-help and entrepreneurial spirit in young men and women.

Part C: Community Development Grants: Activities to build the capacity of youth to identify community and neighborhood development priorities and to promote youth inclusion in community decision making, leadership, and enterprise.

Results achieved:

- The project completed five small-scale community projects out of 20 in the suburbs of Tirana and Durres, which have created or rehabilitated sport and recreational environments for around 6,000 youngsters and the community. Another eight small-scale community projects are under implementation and will finish in March–April 2013.
- 121 young people have been trained on basic skills on “How to start a small business,” and eight of them were selected for a livelihood grant award of US\$2,500 and will start their small business activity in January 2013.
- 227 young people have received professional training, out of which 47 have started a job (19 women and 28 men).
- By February 2013, life skills training was delivered to about 245 young people from the poorest neighborhoods of Tirana and Durres.
- From March 2011 to December 2012, about 187 young people received training services in vocational training centers and 40 others apprenticeship services near local businesses. About 11 percent of vocational course trainees are young people from minority groups such as ethnic Roma, disabled persons, victims of human trafficking, and ex-drug users.
- Vocational training courses were delivered in such subjects as foreign languages (English and German); computer skills; social animators; tourist guide animators; electric installations; home electric/electronic appliances repair; and tailor, cook, and finance and accounting specialists. Apprenticeships were also offered to garment industry workers and electrical wiring was supplied for city decor and lights.

Key Partners: The Bank team is working closely with the National Albanian Center for Social Studies (NACSS) and indirectly supports the municipal authorities of Tirana and Durres. **Key Development Partners:** Local youth nongovernmental organizations (NGOs).

ALBANIA: INTEGRATED COASTAL ZONE MANAGEMENT AND CLEANUP PROGRAM

Key Dates:

Approved: June 29, 2005

Effective: November 25, 2002

Restructured: March 22, 2010

Closing: December 31, 2012

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	17.50
Government of Albania	5.71
Other Donors (Dutch Gov't)	3.11
Other Donors (Japanese Gov't)	2.23
Other Donors (Austrian Gov't)	2.60
Other Donors (EC)	1.8
Other Donors (GEF)	0.95
Total Project Cost	38.56

World Bank Disbursements, million US Dollars *:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	17.50	7.4	10.1

* as of March 2013.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



In 2002, Albania embarked on an integrated coastal-zone management initiative to protect the coastal area for current and future generations, and formally adopted the principle recommendations of the Barcelona Convention for Protecting the Mediterranean Sea. The Integrated Coastal Zone Management and Cleanup project plays a catalytic role in mobilizing development assistance and improving environmental and sanitary conditions essential for long-term coastal development and tourism. **The Project Development Objective** is to assist the Government of Albania in developing, on a sustainable basis, tourism on the South Albania coast by improving critical public environmental infrastructure and municipal services, remediating and containing pollution hazards from a former chemical plant in Porto Romano near Durres, improving community infrastructure, and enhancing architectural and cultural resources. The project was restructured in 2010.

Results achieved:

- The Southern Coast Development Plan and Regulation was approved in July 2008, following a dialogue among stakeholders from the central, regional, and local levels.
- The cleanup of the Porto Romano hotspot was completed in 2011, with more than 45,000 cubic meters of hazardous waste safely disposed of and encapsulated, thus protecting the population of Porto Romano from health hazards.
- Phase one of Coastal Village Conservation and Development (CVCD) program, completed in 2010, supported village infrastructure investment in three coastal municipalities and 12 coastal villages, which includes: building a new water supply system to serve more than 400 families in Gjilek; rehabilitating a water supply system for 167 families in Vuno; providing water supply for 315 families in Piqeras; building a 1.3-kilometer access road in Orikum for daily tourists and residents; rehabilitating a 1.2-kilometer access road serving 132 families and tourists in Palasa; building pedestrian paths in vernacular stone and stone steps that provide access to 500 residents and tourists in Dhermi; upgrading a 2.6-kilometer scenic road to the Monastery of Saint Theodhor with landscaping in the Gjipe Canyon; and building a 0.6-kilometer pedestrian access road to the Borshi castle for visitors and pilgrims.
- Phase two of the program (CVCD-2) is under implementation. It includes small infrastructure improvements, such as village roads and squares, and water supply systems in 12 villages in Saranda and Himara municipalities. A roof and facade rehabilitation program is under implementation in selected villages.
- Major rehabilitation works of Saranda Gateway Passenger Terminal are under implementation to improve the capacity of the passenger port to receive larger cruise boats and port surface infrastructure. Construction of the regional landfill in Bajkaj and water supply and sewage rehabilitation in Saranda are expected to be launched in March 2013.

Key Partners: The Ministry of Public Works and Transport is responsible for overall project coordination and management; the Ministry of Environment, Forestry and Water Administration is responsible for cleanup of the hazardous hot spot near Durres; the Ministry of Tourism, Culture, Youth and Sports; the Coastal District and Municipal administration, village councils in coastal communities, and local NGOs. **Key Development Partners** include the Governments of the Netherlands, Austria, and Japan, the European Commission, and the Global Environment Facility.

ALBANIA: DISASTER RISK MITIGATION

Key Dates:

Approved: June 19, 2008

Effective: June 18, 2009

Closing: February 28, 2013

Financing in million US Dollars*:

<i>Financier</i>	<i>Financing</i>
IDA Credit	6.16
IBRD Loan	3.00
Government of Albania	1.01
Total Project Cost	10.17

World Bank Disbursements, million US Dollars *:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	6.16	4.23	0.80
IBRD Loan	3.00	2.64	0.06

*** as of March 2013.**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Albania is vulnerable to a number of natural disaster risks such as earthquakes, floods, and drought. Compounded with the lack of catastrophe insurance, these risks can have devastating effects on Albania's population, precarious economy, and growth prospects. Albania has one of the highest seismicity ratings in Europe. Considering that many of Albania's buildings have not been built to construction standards, the impact of earthquakes on the built environment is of major concern. Weather forecasting is difficult, with precipitation that varies widely from week to week and from year to year. Flooding can occur with little or no warning. The Albanian economy is especially sensitive to weather conditions, given the importance of agriculture, hydropower, pisciculture, and tourism. The country's capacity to forecast weather is currently constrained by the rundown state of the national weather and hydrological monitoring network and by the telecoms' deficient capacity to collect the inputs needed for daily forecasting.

The Project Development Objective is to strengthen institutional capacities to reduce Albania's vulnerability to natural and man-made hazards, and limit human, economic and financial losses due to catastrophic events. The project has four main components: Disaster Risk Management and Preparedness, Strengthening of Hydrometeorological Service, Development and Enforcement of Building Codes, and Catastrophe Risk Insurance through participation in a regional catastrophe risk reinsurance facility.

Results achieved:

- As the first shareholder of the Regional Catastrophe Risk Insurance Facility (CRIF), Albania is the first country in South East Europe to provide access to affordable insurance in the near future for home owners, farmers, and small and medium-sized enterprises against the risk of flood, earthquake, and weather-related disasters.
- The emergency response units have been equipped, including vehicles for assessment teams and swift rescue boats for flood response.
- The Guidelines for the Adoption of European Building Codes, and Eurocode 8 in particular, providing guidance on the introduction of seismically resilient construction standards were developed and published and respective training was organized.
- The emergency management and hydromet operations centers were established with state-of-the-art software for the monitoring and forecasting of wild fires and floods, and daily weather bulletins for these hazards are being issued to emergency response authorities.
- The development of the Comprehensive Flood Risk Assessment and Management Study financed by the Global Facility for Disaster Reduction and Recovery GFDRR was completed. The study provides a blueprint for the follow-up flood protection investments in Drini-Buna River basin, and a basis to approach future financiers in order to make the implementation possible.

Key Partners: The Bank team works closely with the Ministry of Interior; the Institute for Energy, Water and Environment; the Ministry of Public Works, Transport, and Telecommunications; and the Ministry of Finance for the catastrophe risk insurance component. **Key Development Partners:** The Italian Civil Protection Department is the key bilateral donor agency providing parallel support to the project.

ALBANIA: LAND ADMINISTRATION AND MANAGEMENT PROJECT (LAMP)

Key Dates:

Approved: February 22, 2007

Effective: July 23, 2007 **Restructured:** January 21, 2011

Closing: June 30, 2013

Financing in million US Dollars:

Financier	Financing
IDA Credit	15.40
IBRD Loan	20.22
Government of Albania	0.64
Albania Municipalities	0.96
SIDA	2.44
PHRD	1.54
Total Project Cost	41.20

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IDA Credit	15.00	9.71	5.55
IBRD Loan	19.96	9.90	10.49

* as of August 2012. Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Secure property rights, along with an efficient and transparent land management regime, are fundamental to creating well-functioning land and property markets in any country. These, in turn, provide incentives for local and international businesses, households, and individuals to invest in land and properties. Well-established land records and ownership rights constitute *sine qua non* conditions for the fiscal decentralization and municipal autonomy deriving from property tax revenues. The Land Administration and Management Project (LAMP) aims to link land and property systems reform with strengthened urban planning and municipal investments. Together, these measures are intended to improve the prospects for local development. In addition, with the recent flooding in the Shkodra and Lezhe Prefectures, some project financing has been reallocated to enable the reconstruction and rehabilitation of the flood protection infrastructure and water supply systems. **The Project Development Objective** is to improve the efficiency and effectiveness of land administration and management through enhanced tenure security and improved urban planning; and to rebuild physical assets and restore essential services in the flood-affected areas in Shkodra and Lezhe Prefectures.

Results achieved:

- Under Component A of the project, the registration of over 85,500 titles has been completed.
- Digitization of property records at some Immovable Property Registration Offices (IPRO), among other measures, has reduced property registration time from 47 days to fewer than 10 days.
- Cross-cutting strategy for improvement of property rights has been approved, and immovable property registration law has passed.
- Full automated property registration system is operational in Tirana, Dures, Elbasan, Shkodra and Fier, with an online connection to notaries in the Tirana office.
- An independent evaluation of IPRO services indicates that customer satisfaction has improved from being “very poor” at the project outset to “good.” A new *Territorial Planning Law* (TPL) (supported by Component B) was enacted in April 2009 and the National Territorial Planning Agency (NTPA) was established in late 2009. With World Bank technical and financial support, a Technical Manual and Citizen’s Guide to the new TPL and secondary legislation have been produced and disseminated widely to raise awareness about the new planning regulations and procedures.
- Future planning and development of eight cities and towns in Albania will now be guided by Comprehensive Territorial Plans that were completed under the project in November 2010, based on extensive community consultations.
- Municipal investments (supported by Component C) were completed in four cities with financing awarded on the basis of each satisfying key performance criteria. The investments helped provide retail market space for small-scale businesses previously operating under makeshift structures on sidewalks on the main street of the town of Berat; paved streets to improve commuter and pedestrian mobility and access in the cities of Shkodra and Kamza; and improved and restored building facades and downtown amenities in the town of Elbasan.
- A comprehensive street addressing system was installed in 13 towns, improving the provision of municipal services and tax collection.
- A storm water collection network measuring over 1 kilometer was installed in the city of Shkodra to protect 150,000 residents, as well as numerous homes and business of the city from seasonal heavy rains and flash floods. In addition, under the same Component D, the after-the-flood restorations have been completed, as well as the protection works of the Diobrac and Bahcallek Water Supply Pumping Stations, serving the entire city of Shkodra (150,000 residents).

Key Albanian Partners: Ministry of Justice of Albania and IPRO, the Ministry of Public Works and Transport of Albania, the National Territorial Planning Agency, the Ministry of Interior, the Ministry of Agriculture, the Food and Consumer Protection of Albania and its Irrigation Boards, and selected municipalities. **Key Development Partners:** Swedish International Development Cooperation Agency (SIDA); Japan through the Policy and Human Resources Development (PHRD) Fund; U.S. Agency for International Development (USAID); European Union (EU); and the Council of Europe (CE).

ALBANIA: SECONDARY AND LOCAL ROADS PROJECT

Key Dates:

Approved: July 31, 2007

Effective: October 25, 2007

Closing: June 30, 2013

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	20.00
Government of Albania	5.00
OPEC	15.00
Total Project Cost	40.00

World Bank Disbursements, million US Dollars *:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	20.00	17.9	1.5

* as of March 2013.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Over half (57 percent) of the Albanian population lives in rural areas, and over one-third (35 percent) of the rural population was estimated (at the time of project preparation) to live in poverty. A qualitative survey of both poverty and its causes noted that, after employment and income, many Albanians considered poor transport infrastructure to be the main cause of their difficulties and a significant factor in their low standard of living. Forty-nine percent of rural producers stated, at that time, that a lack of adequate transportation, primarily good roads, was their biggest marketing problem. Rural inhabitants and leaders acknowledged that poor road access makes it difficult for farmers to reach markets, contributes to rural-to-urban migration, and affects the delivery of essential health and education services. The Government of Albania recognized these problems and asked the World Bank for assistance in preparing a program to: (i) improve the management, financing, and condition of secondary and local roads in Albania; (ii) support the introduction of the private sector into road maintenance on the secondary and local road network; and (iii) act as a catalyst for other donors in the sector and play a leading role in both preparing the program and attracting other international financing institutions to contribute.

The Project Development Objective is to improve access to essential services and economic markets via the provision of all-weather roads for the resident population in the hinterland of the project roads. The project will achieve this objective through the (i) improvement of priority sections of the secondary (regional) road network across Albania; (ii) improvement of priority sections of the local road network across Albania; (iii) introduction of the private sector into the maintenance of the secondary and local road network; and (iv) strengthening of the management of the secondary and local road network.

Results achieved:

- The works have been substantially completed on all 11 of the road sections within the project, with five of them handed over to the regions, and the rest expecting to complete the Defect Liability Period (110 kilometers). All five project-monitoring indicators have been met. The preparation of the Secondary and Local Roads Project, involving the design of a wider program, has generated considerable interest among other donors, leveraging a total confirmed, committed, or provisionally agreed funding amounting to about US\$500 million, from all sources. This is estimated to be sufficient to reconstruct about 1,600 kilometers of regional and local roads.
- The implementing agency—the Albanian Development Fund (ADF)—has been providing training to local commune officers on the importance of good maintenance, what is required to meet that standard, and the procurement and management of private contractors to undertake the maintenance activities.
- Following the Council of Ministers' decision, still to be adopted, part of the regional roads network improved under the program is in the process of formally being transferred from the regional councils to the Albanian Road Authority (ARA), which will be responsible for its operation and maintenance. On May 16, 2012, the Government of Albania requested a six-month extension of the project closing date and a reallocation of International Development Association (IDA) credit proceeds in order to utilize some of the remaining funds (about US\$1.4 million) for the improvement and rehabilitation of an additional road section (IDA, thus increasing the number of kilometers rehabilitated under the project).

Key Partners: Ministry of Public Works and Transport and the Ministry of Finance of Albania, and the Albanian Development Fund, which is the main body responsible for the implementation of the project.

Key Development Partners: EU, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), German Development Bank (KfW), Organization of the Petroleum Exporting Countries (OPEC), and Council of Europe Bank (COEB).

ALBANIA: ENERGY COMMUNITY OF SOUTH EAST EUROPE APL5- ALBANIA – DAM SAFETY PROJECT

Key Dates:

Approved: June 30, 2008

Effective: December 16, 2008

Closing: December 31, 2016

Financing from all cofinanciers, million US Dollars*:

<i>Financier</i>	<i>Financing</i>
IDA Credit	35.30
IBRD Loan	21.60
KESH	8.70
Other Donors (SECO)	7.40
Other Donor (EBRD)	16.50
Other Donor (KfW)	20.50
Total Project Cost	110.00

World Bank Disbursements, million US Dollars*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	33.20	6.63 (20%)	26.57
IBRD Loan	20.74	0.25	20.48

* as of March 2013.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The last Albanian hydropower dam was completed in the mid-1980s. These major infrastructure facilities have been inadequately monitored and maintained for more than 15 years, and there may now be a risk of a dam failure. Following the World Bank's warning on this issue, a "Dam Safety Survey for Hydropower Plants Located on the Drin and Mat River Cascades" was funded by the Swiss Secretariat of Economic Affairs (SECO) and completed in late 2006. The report identified serious deficiencies and concluded that "the present state of the dam safety is uncertain, and a disaster could be considered as possible, if matters are left to deteriorate further." Support for Albania's hydropower will also improve the country's overall hydropower operation and benefit the entire regional electricity system. Most important for the regional electricity market is the significant storage capacity of the dams, which can provide considerable benefits for the South East Europe electricity grid. Storage of electricity in hydropower dams can promote economic efficiency in the regional market.

The Project Development Objective is the development of a functioning regional electricity market in South East Europe and its integration into the internal electricity market of the European Union through the implementation of priority investments supporting electricity market and power system operations in electricity generation. The project will contribute to safeguarding the major hydroelectric dams of Albania and improve their operational efficiency, and also enhance the stability of the power supply for the regional electricity market. The project will help Albania to maximize its benefits from existing hydropower by improving the operational practices of existing facilities and enabling more effective participation in the regional electricity market. The project will also promote private sector investment in hydropower by collecting, organizing, and making available better data and studies on the country's hydropower potential.

Results achieved: The project has achieved several intermediate outputs:

- The study for the design of remedial works in the Dam Safety Project has been finalized (carried out by Consultant Poyrty and financed by the Swiss State Secretariat for Economic Affairs [SECO]);
- The Dam Safety Expert Panel was selected and has been active since 2009;
- An assessment of rehabilitation works at Drin River Hydropower Cascade, in light of the flooding in early and late 2010, have highlighted the urgent need to expand the scope of these efforts and provide additional investment to scale up the project's impact and achieve development objectives;
- Additional Financing was approved and the implementation of major rehabilitation and civil works has been started;
- The Designed Flood Study of the Drin River Hydropower Cascade was presented and based on that paper, the preparation of feasibility study, design and bidding documents for Providing Safe Flood Management and New Spillways Capacities is to be carried out.
- Based on the above expertise, the Strengthening of Dam Safety, Implementation of Risk Studies Methodology, and Preparation of Emergency Preparedness Plan are to be carried out.

Key Partners: Albanian Ministry of Economy, Trade and Energy and the Albanian Power Corporation (KESH), the implementing agency of the project. **Key Development Partners** include SECO Swiss, EBRD, and KfW.

ALBANIA: PARTIAL RISK GUARANTEE (PRG) FOR THE PRIVATIZATION OF THE POWER DISTRIBUTION SYSTEM OPERATOR

Key Dates:

Approved: May 5, 2009

Effective: May 15, 2009

Closing: May 31, 2017

Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD Loan	78.00
Total Project Cost	78.00

World Bank Disbursements, million US Dollars *:

	Total	Disbursed	Undisbursed
IBRD Loan	78.00	0.00	78.00

* as of March 2013.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Albania has been facing a major electricity crisis since the summer of 2000. The crisis was initially the result of excessive demand stemming from the failure to curb the illegal use of electricity and nonpayment of bills. At the root of the electricity sector's problems has been the Distribution System Operator (OSSH), recently incorporated as a separate company. The Government, recognizing the importance of improving the performance of power distribution and the long-standing inability of a state-owned structure to make significant progress, has decided to privatize it. The potential investors expressed concerns about the regulatory risks associated with the OSSH privatization; the International Finance Corporation (IFC) recommended that the Government request the World Bank's Partial Risk Guarantee (PRG) instrument to help facilitate the transaction.

The Project Development Objective of the PRG operation is to facilitate the privatization of the Distribution System Operator (DSO) and Retail Supplier (RS) in the context of a new and untested regulatory framework, put in place in July 2008 only a few months prior to privatization, and in the absence of a regulatory track record with a private DSO and current market structures. Outcomes: The project's intermediate outcome indicators are: (i) the initial equity investments are made by the investor for the purchase of shares from the Government; and (ii) the operation of the DSO and RS are in accordance with their license obligations and the implementation of the investment programs approved by the Energy Regulatory Entity (ERE). Key outcome indicators are: (i) reduction in electricity distribution losses; and (ii) improvement in collections in accordance with parameters set out in the Regulatory Framework.

Results achieved:

- The electricity supply situation in the Distribution System and Retail Supply and the reliability of supply were improved. The net supply in Albania has increased by 5 percent annually in the last four years and achieved the value of 7,621 gigawatts (GWh) in 2012; the import amount was 3,000 GWh (€200 million) in 2011 and 2012;
- Levels of distribution loss and bad debt were considerably worse during the last two years, following the deteriorating financial situation for distribution activity and for the entire power sector;
- The wholesale and retail tariffs were approved for the third regulatory period 2012–14, but CEZ Shperndarje and the ERE worked in a very noncollaborative spirit in attempting to reach agreements on the sector's required revenues based on the Regulatory Statement;
- The ERE revoked the licenses of CEZ Shperndarje and appointed a new administrator;
- Both parties—the Government of Albania and CEZ—claim breach of the Share Purchase Agreement and Regulatory Statement and the PRG was called by CEZ Shperndarje; claims for arbitration were filed by both parties;
- The privatization of the distribution has not yielded results with respect to distribution service improvements; further efforts are needed to restore the sector's financial viability, not only to reduce pressures on the budget, but also to enhance the security of supply and maximize revenue management, enabling the Bank to step in to help the sector.

Key Partners: The Ministry of Finance; the Ministry of Economy, Trade and Energy; the Albanian Distribution System Operator (CEZ Shperndarje); the Albanian Energy Regulatory Authority; the Albanian Power Corporation KESH; and OST.

ALBANIA: IMPROVED NATURAL RESOURCES MANAGEMENT PROJECT

Key Dates:

Approved: April 3, 2012

Effectiveness: May 31, 2012

Financing in million dollars:

<i>Financier</i>	<i>Financing</i>
Swedish Government represented by the Swedish International Development Agency	2.7



The objective of the project is (i) to provide continuous support for improved community-based management of natural resources in upland and mountainous erosion-prone lands in Albania through participatory planning and investments and (ii) to prepare the proposed Environmental Service Project. The project will :

- (i) Support the scaling-up preparation of participatory forest and pasture management plans and micro-catchments plans, as already supported under the Natural Resources Development Project (NRDP) financed by the Bank and the Swedish Government;
- (ii) Support the scaling-up implementation of forest and pasture, carbon sequestration, and micro-catchment works, as is already supported under NRDP;
- (iii) Support the preparation of the proposed Environmental Service Project; and
- (iv) Pilot competitive grant schemes for watershed management to support target measures and areas for agri-environmental measures and community-based approaches to the agri-environment.

Results achieved: NA

Project just started implementation and is proceeding with the initial activities.

Key Partners: The World Bank is acting as administrator of grant funds provided by the Government of Sweden. The Ministry of Environment, Forests and Water Administration has overall responsibility for the project, and the Directorate for Forests and Pastures is responsible for its implementation through its Project Management Team.

ALBANIA: LIBERALIZING MOTOR THIRD PARTY LIABILITY (MTPL) INSURANCE MARKET

Key Dates:

Approved: July 2011

Effective: September 2011

Closing: April 2013

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
FIRST Initiative	0.328
Total Project Cost	0.328

World Bank Disbursements, million US Dollars *:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
FIRST	327,700	202,000	

* as of February 2012.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



The Project Development Objective: The project is to assist the Albanian Financial Supervisory Authority (AFSA) in the development of policies and processes to enable the move away from centrally managed tariff-based pricing toward fully liberalized risk-based pricing of the products on the Motor Third Party Liability (MTPL) insurance market. This move will result in more homogenous risk underwriting practices and administrative and regulatory efficiencies, as well as increased consumer responsibility through the introduction of a dynamic link between costs of an MTPL premium and road behavior. The project will also assist the AFSA in bringing the relevant domestic insurance market legal framework in accordance with the European Union directives, in line with Albania's commitments under the Stabilization and Association Agreement with the European Union.

Results achieved:

- The Assessment of the current situation on the MTPL insurance market and a review of the Compulsory Insurance Information Center's systems architecture
- The Road Map paper setting up the principles for the liberalization of the MTPL market
- Workshop discussion of the Road map with AFSA technical staff
- Report providing review and recommendations on the changes needed to the existing legal framework to enable MTPL liberalization
- An actuarial model and detailed description of the methodology for the calculation of premiums, reserves, and tariffs
- The interim set of internal tariffs based on the available underwriting information
- Guidelines for the new organizational structure for insurance companies
- The claims database and guidelines on how to adapt it to the liberalized market
- Final summary report and action plan with time line
- Report on Reserving
- Actuarial Training Seminar in Tirana
- Study tour to Italy and Turkey

Key Partners: Albanian Financial Supervisory Authority.

IFC PROJECTS

ALBANIA: RESIDENTIAL ENERGY EFFICIENCY PROJECT ALBANIA (REEP)

Key Dates:

Approved: January 2009

Closing: December 2015

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IFC Loan	0.76
Total Project Cost	0.76



The Residential Energy Efficiency Project will provide support to financial institutions to extend micro loans to provide energy efficiency, lower energy consumption, and comfort improvement. In addition, the objective is to work very closely with Investment Services to magnify the impact of the project. The project consists of three components: (i) Public Awareness: several activities will be conducted in order to raise public awareness on energy efficiency and energy savings; (ii) Advisory Services for Partner Financial Institutions: this component is to support partner financial institutions (FIs) develop the new Energy Efficiency Product and roll it out to the right target market; and (iii) Regulatory Framework: to support the National Agency of Natural Resources (AKBN) in reviewing the draft Energy Efficiency Law and in developing the corresponding bylaws.

Results achieved:

- The project developed an energy-efficiency website, the first of its kind in Albania, and, partnering with key energy agencies, also organized six country-level workshops to increase public knowledge of technical issues and the economic benefits of energy-efficiency investment.
- Partnering with four FIs, the introduction of micro loans specifically targeting energy-efficiency improvements. By December 2012, the project had disbursed 2,000 energy-efficiency loans for US\$7.5 million, leading to 11,000 megawatts (MWh) average energy savings and up to 14,000 (tons/year) greenhouse gases (GHG) avoided.
- The project supported the energy agency (AKBN) in reviewing the draft Energy Efficiency Law and developing the corresponding bylaws that promote solutions by funding initiatives related to the efficient use of energy and energy savings. The legislative package of seven bylaws has been submitted and is awaiting approval.

Key Partners:

National Agency of Natural Resources (AKBN); Albania Association of Banks; Financial Institutions: Credins Bank sh.a, Societe General Albani, BESA Fund, NOA.

Donors: Austrian Funds (TATF).

ALBANIA: RENEWABLE ENERGY ALBANIA SMALL HYDROPOWER PLANTS

Key Dates:

Approved: January 2009

Closing: June 2017

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IFC Loan	1.7
Total Project Cost	1.7



This five-year project is part of the larger regional Western Balkan Program #550626 (the Program). The Program will be implemented in three Western Balkan countries—Albania, Bosnia and Herzegovina, and FYR Macedonia—that offer the highest development impact potential and where there has been sufficient progress by the federal governments in implementing regulatory frameworks.

The overall goal of the project in Albania is to create a comprehensive framework for small hydropower plant (SHPP) project development and implementation. This goal will be achieved through a staged implementation of three individual objectives:

1. Improve the existing regulatory framework to enable SHPP sponsors to develop and construct feasible SHPPs
2. Work with SHPP sponsors to improve their SHPP designs and business plans
3. Work with selected financial institutions (FIs) in Albania to improve their internal capacities and knowledge on SHPP and project financing

Results achieved:

- Create a comprehensive framework for renewable energy project development and implementation with a focus on SHPPs in Albania.
- Address market barriers to enable investments into SHPPs by working on legislation with developers and through FIs.
- The expected impacts are: to facilitate at least US\$90 million of investment into SHPP construction; to support the construction of 30 SHPPs with total installed capacity of 60 megawatts (MW); and to directly avoid 0.15 metric tons of CO₂ emissions per year.

Key Partners: Ministry of Economy, Trade and Energy (METE), Union of Chambers of Commerce and Industry of Albania (UCCIAL Albania), Enso Hydro GmbH, Diteko sh.p.k, Credins Bank sh.a.

Donors: Austrian Ministry of Finance.

ALBANIA: IFC WESTERN BALKANS TRADE LOGISTICS PROJECT

Key Dates:

Approved: September 1, 2011

Closing: June 30, 2014

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
European Commission	2
Total Project Cost Regional	2
Total Project Cost Albania	0.35



The Western Balkans Trade Logistics Project operates in Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro, and Serbia to achieve two primary objectives:

- Reduction in the number of documents and days needed for goods to be exported and imported
- Streamlined procedures for the flow of cargo by road, air, and river

The Western Balkans Trade Logistics Project aims to reduce regulatory and administrative bottlenecks to cross-border trade in the region through more streamlined export, import, and transit procedures; closer and more harmonized inter-agency cooperation in country and between countries, and greater use of electronic systems for data exchange, risk based controls, and trade logistics-related payments. The objective of the project is to improve the competitiveness of the private sector in the region through more efficient access to regional and global markets. The activities implemented by the project are to result in US\$10 million in private sector savings.

Results achieved:

- Several meetings with customs and noncustoms agencies as well as private sector representatives to identify bottlenecks in trade logistics and discuss potential solutions.
- Currently working on finalizing Transit Trade Facilitation Agreement between Albania and Kosovo for goods entering port of Durres with destination Kosovo through Vermica–Morina Border Crossing Point.
- Cooperating with United Nations Conference on Trade and Development (UNCTAD) to develop a software module for real-time access for customs with regard to payments made by traders in local banks in order to reduce the transaction time.

Key Partners: Ministry of Economy, Trade and Energy and General Directorate of Customs.

ALBANIA: SOUTHEAST EUROPE TAX TRANSPARENCY AND SIMPLIFICATION PROGRAM

Key Dates:

Approved: December 6, 2012

Closing: June 30, 2015

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
SECO	2.88
Total Project Cost (Regional)	3



The overall project goal is to improve tax compliance by increasing the transparency and simplicity of tax administration procedures. The Southeast Europe Tax Transparency and Simplification Program will work in Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia to achieve two objectives:

1. Simplify tax administration procedures to reduce tax compliance costs, especially for small and medium-sized enterprises (SMEs).
2. Improve the legal framework and efficiency of administration of international taxation procedures, with a focus on Transfer Pricing (and Double Taxation Treaties).

Results achieved:

- Tax Compliance Cost Survey under the process (1,000 businesses to be interviewed) to identify and address related issues
- Training for General Directorate of Taxation Staff on transfer pricing

Key Partners: Ministry of Finance and General Directorate of Taxation.

ALBANIA: DEBT RESOLUTION

Key Dates:

Approved: July 2012

Closing: December 2015

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	n/a
Other Donors (xxx) if any	TBD
Total Project Cost Albania	0.75



The expected result of the full-scale implementation of the Western Balkans Program in Albania, is to make the Albanian debt resolution system more efficient by improving the insolvency framework and practice, which will lead to a strengthened avenue for nonperforming loan (NPL) resolution, increase returns to creditors, and protect economically viable companies.

Particular outcomes per objective and activities are given below:

1. Regulatory and legislative reforms: establishment and provision of a legal and regulatory, efficient and effective framework in the field of bankruptcy
2. Procedural reform, enforcement and implementation, institutional reform
3. Capacity building and awareness raising activities

Results achieved:

The project is in the preimplementation phase. So far the program has focused its work on:

- reviewing legislation and providing assistance to improve the legal framework for debt resolution activities
- providing training for Albanian Bankruptcy Administration Agency staff to enable transfer of knowledge, skills, and guidance by an insolvency expert from the United Kingdom

Key Partners: Ministry of Justice and Albanian Bankruptcy Supervision Agency.

ALBANIA: ENSO HYDRO ENERGJI

Key Dates:

Approved: February 2012

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IFC equity	8.4
Total Project Cost	105



IFC invested €6 million for a 20 percent stake in Enso Hydro Energji to help it build a series of small hydropower projects in Albania. This investment will increase the country's electricity generation capacity and reduce energy imports. Austrian hydropower developer Enso Hydro established Enso Hydro Energji to develop small and medium hydropower plants in Albania. During 2012–15, the company aims to invest around €75 million in the country to build new plants that will have the capacity to produce up to 50 megawatts of hydropower. This investment supports our strategy in Albania of stimulating investment into sustainable renewable energy sources such as hydropower.

Results achieved:

- The project helps reduce infrastructure bottlenecks to enhance Albania's economic growth.
- The project supports the development of a sustainable power sector that is less reliant on expensive imports, and therefore improves the competitiveness of the Albanian economy.
- The project's success will also send a strong signal of support for continued power sector reform, which is critical for the long-run success of the power sector.
- The project supports the development of power generation projects based on renewable energy and helps support water conservation in the hydropower dams by increasing production in run-of-the-river type hydropower plants.

Key Partners: Enso Hydro Energji.

ALBANIA: BANKERS PETROLEUM

Key Dates:

Approved: September 2009

Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IFC	55
EBRD	55
Total Project Cost	370



IFC and EBRD jointly financed the project and have committed US\$10.4 million in equity and US\$30 million in loans for the project, as well as a loan of up to US\$5 million each in the form of a special purpose environmental term loan.

The project involves further redevelopment of the onshore Patos Marinza oilfield in southern Albania. The estimated cost of the project is US\$370 million, and it includes: (i) expanding the reactivation of existing wells in the field; and (ii) drilling new vertical and horizontal wells, and carrying out parallel testing and application of additional strategies, including waterflood and cyclic steam stimulation, to further increase oil recovery. The estimate timing of the project is five years, depending on oil prices.

Results achieved:

- The investment helped promote and integrate cleaner and more sustainable environmental practices in oil production in Albania.
- The project helped accelerate domestic oil production and recovery rates from existing resources in the country.
- The project helped to further the development of local skills and transfer of know-how and technology for heavy oil extraction in Albania.
- the project contributed to an increase in fiscal revenues to the Government.
- Oil sales averaging over 14,000 barrels of oil per day as of the second quarter of 2012, which is an increase of 17 percent over the same period one year prior.
- Strong production has translated into high royalty payments to the Albanian government. For example, in 2011, US\$67 million was paid to the Albanian government and related entities compared to US\$23 million expected when the transaction was committed.
- Bankers designed and completed a remediation trial project in 2011 to clean up historical contamination.
- Further plans include remediation of contaminated areas in the project area, the implementation of robust waste management plans, and the environmental cleanup of one of the historical ecology pits.

Key Partners: Bankers Petroleum; EBRD.

MIGA PROJECTS

ALBANIA: ENERGJI ASHTA SHPK (ASHTA)

Project ID: 7869
Fiscal year: 2012
Status: Active
Guarantee holder: EVN AG
Investor country: Austria
Host country: Albania
Environmental category: A
Sector: Power
Date SPG disclosed: November 07, 2011
Project Board date: January 31, 2012
Gross exposure: US\$159.4 million
Project type: Non-SIP
Strategic priority area: Complex Project
ESRS: Environmental and Social Review Summary for Energji Ashta Shpk in Albania

On February 1, 2012, the Multilateral Investment Guarantee Agency (MIGA) issued guarantees totaling €121.4 million (US\$159.4 million) to EVN AG of Austria for its investments in Energji Ashta Shpk (Ashta) in Albania. MIGA's coverage is for a period of up to 20 years for its equity investment and up to 10 years for its loan guarantee. Coverage insures against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract.

The project involves the construction of a 52.9 megawatt (installed capacity) run-of-river hydropower plant on a build, own, operate, and transfer basis under a 35-year concession agreement originally entered into between VERBUND AG and the Ministry of Economy of Albania. In 2010, the two project sponsors, EVN AG and VERBUND AG, negotiated a shareholder agreement to jointly develop and operate the project.

The project is the fourth plant on the Drin River but the first to be built in 30 years. It is located in the district of Shkoder in northwestern Albania. The developers have also entered into power off-take and cascade agreements with the Albanian public wholesale electricity supplier, Korporate Elektroenergjete Shqiptare Sh.A (KESH).

The project is expected to have high developmental impact by providing clean, renewable energy while helping to alleviate the power shortage in the country in the mid- and long term. The project will also reduce the country's load shedding and electricity imports. The project aligns well with the current World Bank Country Partnership Strategy for Albania. One of the three strategic objectives of the strategy is to accelerate Albania's economic recovery through improved and more financially sustainable infrastructure services such as roads, energy, and irrigation. In the energy sector, the strategy focuses on consolidating current reforms and completing ongoing investments, while promoting new and private financing mechanisms.

ALBANIA: PROCREDIT GROUP CENTRAL BANK MANDATORY RESERVES COVERAGE

Project ID: 9186
Fiscal year: 2011
Status: Active
Guarantee holder: ProCredit Holding
Investor country: Germany
Host country: Albania
Environmental category: FI
Sector: Banking
Date SPG disclosed: October 05, 2011
Project Board date: January 31, 2012
Gross exposure: US\$25.0 million
Project type: Non-SIP
Strategic priority area: Complex Project

On December 22, 2010, MIGA issued a guarantee of US\$25 million to ProCredit Holding (PCH) covering its investment in its subsidiary in Albania. The coverage is for a period of up to 10 years against the risk of expropriation of funds for mandatory reserves held by the subsidiary in the central bank of its jurisdiction.

This project is part of a master contract that MIGA has issued. PCH is headquartered in Germany and is the parent company of 21 banks (ProCredit group). The ProCredit group is a provider of finance to some 750,000 micro, small, and medium-sized (MSMEs) enterprises in Latin America, Eastern and Central Europe, and Africa. Throughout the world, banks are required to maintain mandatory reserves with the central banks of their respective jurisdictions. The ProCredit group's capital adequacy ratio (CAR) is calculated according to the German Banking Act. Under this act, at a consolidated level, reserves deposited at the various central banks can attract a risk weighting of 100 or even 150 percent depending on the country. This risk weighting determines the amount of equity required to maintain a specified CAR in accordance with the German Banking Act.

The guarantee issued by MIGA will help PCH obtain capital relief from the CAR requirements. By obtaining MIGA's insurance against the risk of expropriation of funds, the risk weighting for mandatory reserves held at the central bank can be reduced. A lower risk weighting will allow PCH to free up equity currently tied up for CAR maintenance purposes, thereby allowing these funds to be injected into its subsidiary banks. This in turn will allow PCH's emerging market subsidiary banks across its network to increase its lending activities.

MIGA's support will help PCH optimize its capital management across its 21 banks, allowing PCH to direct equity to subsidiaries with the greatest need. These banks will be able to offer additional financial services to MSMEs at a time of macroeconomic challenges. Supporting productive small businesses will help stimulate growth, generate employment, and reduce poverty.

MIGA's support for this project is aligned with the World Bank Group's microfinance strategy, which includes improving the supply of microfinance in large, but underserved markets; enhancing deposit capacity by assisting microfinance institutions in savings mobilization; promoting capacity building; creating and shaping markets; and fostering innovation.

ALBANIA: GIORGI ALFO SH.P.K.

Project ID: 1163
Fiscal year: 2000
Status: Active
Guarantee holder: Ge.Por.Tur. s.a.s.
Investor country: Italy
Host country: Albania
Sector: Tourism
Gross exposure: US\$1.6 million
Project type: Non-SIP

In its first project in Albania, MIGA issued a guarantee for US\$1.6 million to Ge.Por.Tur. s.a.s. of Italy (Ge.Por.Tur.) for its equity investment in Giorgi Alfo Sh.p.k. Ge.Por.Tur will design, construct, and operate a tourist marina—including a lodge, restaurant, supermarket, yachting club, and moorings for leisure boats—on the southern Albanian coast. The guarantee insures against the risk of expropriation.

The project is contributing to the World Bank- and European Commission-led reconstruction efforts in the Balkans in the aftermath of the Kosovo War, which caused numerous disruptions in trade, infrastructure, and tourism in neighboring countries.

The Albanian government expects tourism to become a major source of income. The first marina on the Albanian coast will be a modest step towards this goal—it is expected to help meet increasing demand from European countries for leisure ports in the Southern Adriatic Sea. It is also expected to create permanent jobs and training for some 50 local citizens. The port is environmentally sensitive in design, as it minimizes the disturbance of landscape to maintain the beauty of the coastline.