

# ALBANIA

## World Bank Group Partnership

### Program Snapshot

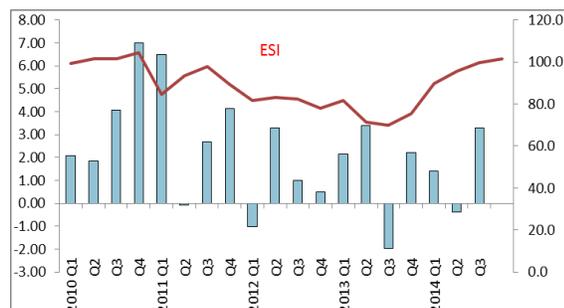
April 2015



## RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Albania's growth indicates signs of recovery since the global economic crisis. The country's growth suffered from the Eurozone crisis, in particular in neighboring Italy and Greece. Exports, remittances, and to some extent foreign direct investment (FDI) fell and were the main channels of the external shocks on the economy. Growth reached its lowest rate of 1.4 percent in 2013, as consumption shrank, investments stagnated, and fiscal and financial vulnerabilities came to the fore. Thanks to an increase in domestic demand supported by sound fiscal policies and structural reforms, growth is estimated to have picked up to 2.1 percent in 2014, due also to an increase in consumption and private investments. Growth is expected to increase gradually over the medium term but will remain significantly below its precrisis levels and its potential. Growth is projected to rise to 3 percent in 2015 and 3.5 percent in 2016 supported by an increase in FDI. Domestic private investment is also expected to gradually pick up in response to an arrears clearance and credit expansion, as well as sustained improvements in the business climate.

**Figure 1. Economic Sentiment Indicator (R) and Real GDP growth (L)**



Source: Bank of Albania, INSTAT.

**Large external imbalances gradually corrected, but external vulnerabilities remain.** The current account deficit (CAD) declined from 15.9 percent of GDP in 2009 to 10.6 percent in 2013, as exports grew from 28.4 percent of GDP in 2009 to 35.0 percent in 2013 and imports changed little as a share of output. The downward trend in the CAD is expected to have reversed in 2014 and reached 14 percent of GDP. Despite this expansion, financing has been available through debt and equity in the financial account.

External debt has increased since 2009 but remained at a manageable 36.7 percent of GDP in 2014.

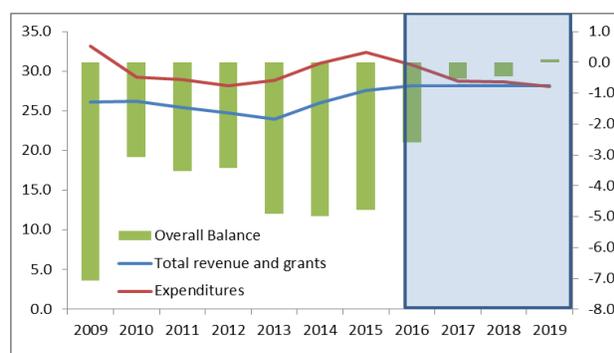
**Inflation remains low on account of a negative output gap and low external inflationary pressures.** The Bank of Albania (BoA) maintains an inflation-targeting monetary policy and a flexible exchange rate regime with relatively little intervention. Despite a long record in maintaining an inflation rate remarkably close to the target in the past decade, monetary policy is now facing the constraints of declining global prices, a persistent negative output gap, and low labor demand, despite substantial monetary policy easing. In January 2014, BoA's policy rate reached a historic minimum of 2 percent. Yet, the full transmission to credit markets has been weakened due to the high euroization, high risk premiums, and sluggish credit demand. The lek (local currency) exchange rate against the euro has changed little since 2011 and appears broadly in line with fundamentals.

### Fiscal Performance

**The Government of Albania is currently implementing a number of reforms with the aim of reducing rigidities in public spending and freeing up resources for more efficient spending.** Public debt has surged since 2008, reaching 71 percent of GDP in 2014. The increase in public debt resulted from loose fiscal policy, the need to support the state-owned power generation company, and external shocks. At the end of 2012, the parliament revoked the 60 percent of public debt-to-GDP limit, without replacing it with any other fiscal or debt anchor. In 2013, public debt increased further, reaching 70.2 percent of GDP, as government arrears to the private sector of 5.2 percent were recognized. The fiscal consolidation program that began in 2014 and is included in the medium-term fiscal framework contains a reduction in the public debt-to-GDP ratio starting in 2015. The fiscal deficit reached 5.6 percent of GDP in 2014, including a repayment of arrears of 2.4 percent of GDP. The annual budget law for 2015 has introduced fiscal measures on both the revenue and expenditure sides, which suggests a further narrowing of the fiscal deficit to 4.8 percent of GDP in 2015. Albania's public debt is projected to fall below 60 percent by 2019, as sustained fiscal consolidation combined with solid GDP growth is expected to put public debt on a steep downward trajectory. This path is, however, vulnerable to changes in the fiscal policy stance, GDP growth,

financing terms, and the exchange rate, as well as the realization of unexpected contingent liabilities from the energy sector.

**Figure 2. Fiscal Revenues Expenditures (L) and overall balance as % of GDP (R)**



Source: Ministry of Finance; World Bank staff calculations.

**The energy sector poses significant fiscal risks.**

About 98 percent of Albania’s energy is generated from hydropower. Recurrent energy shortages due to fluctuations in rainfall, persistently high distribution losses (about 43 percent in 2013), and regulated tariffs below energy costs have resulted in sustained fiscal support from the Government in the form of guarantees for power imports and liquidity injections to the energy generation company KESh. In the distribution sector, low collection rates from households, businesses, and public institutions have contributed to the financial woes of the publicly owned distribution company (OShEE), which faces an unfunded deficit of US\$550 million. In February 2015, the Government prepared a Power Sector Financial Recovery Plan, the implementation of which is supported by the World Bank–financed *Energy Sector Recovery Project*.

**The World Bank supported the design of the Public Financial Management Strategy**, which is also serving as the platform for European Union (EU) budget support. The recently approved Policy-Based Guarantee aims especially at improving macro and fiscal stability.

**Financial Sector**

**The financial sector continues to face important risks, especially external ones, but it has remained stable and recently has shown improving trends.** The outstanding credit contracted by ALL 3 billion in the first quarter of

2014. Overall lending contracted by 1.7 percent in annual terms during the second quarter of 2014. Lending increased during the second half of 2014, reaching an annual growth of 2.2 percent as of the end of the year. The BoA further cut the key interest rate in January 2015 to a record low of 2 percent. As a consequence, during 2015, interest rates continued to fall. The exchange rate to the euro has remained stable. However, as monetary and financial conditions have improved, lending and demand for monetary assets have remained low. Widespread euroization, weak demand, and banks’ risk aversion (due to high nonperforming loan [NPL] levels) hamper the transmission of monetary policy. The Greek economic and debt crisis pose significant risks to Albania as well.

**As of early 2015, the outstanding NPL portfolio was 22.8 percent, a slight improvement from the 23.5 percent at end-2013 and the 24.9 percent in September 2014.** Several legal and administrative measures supported by the World Bank and the International Monetary Fund (IMF) have been taken up by the authorities to address the expedition of NPL resolution. The repayment of arrears so far has not significantly influenced NPL reduction, but a decline is expected in the future as the repayment of arrears advances. However, progress to date in cleaning up these troubled loans has been limited. Meanwhile, during 2015, banks are expected to write off considerable chunks of old, dated NPLs to comply with BoA rules that require mandatory write-offs of loans classified in the “lost” category for more than three years. An economic recovery, clearance of arrears, and reform of the bankruptcy law would help facilitate private balance sheet restructuring and revive loan demand.

**Despite the large NPLs, banks remain sound, with an overall capital adequacy ratio of 16.8 percent at the end of 2014.** The banking sector remained profitable, as the return on assets at the end of the same period recorded a positive result of 0.89 percent, while the return on equity reached 10.5 percent.

**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.** The poverty rate, measured by national

standards, decreased from 25 percent in 2002 to 12 percent in 2008, and rural poverty dropped by an even more impressive rate from 40 to 15 percent over the same period.

**However, the effects of the global and Eurozone crises and sluggish growth appear to have modestly reversed the poverty trend.** Labor markets and transfers—public and private—have been key channels for impacts on living standards. The Living Standards Measurement Study (LSMS) data for 2012 indicate that the poverty rate has increased to 14.3 percent since 2008. The extremely poor population, defined as those with difficulty meeting basic nutritional needs, increased from 1.2 percent in 2008 to 2.2 percent in 2012. Extreme poverty has increased for both urban and rural areas. This development is also supported by Labor Force Survey data on employment, which show that 27 percent of Albanian households had at least one member who had lost a job versus a Europe and Central Asia (ECA) average of 18 percent. Available data on the unemployment rate indicate that it increased from 12.5 percent in 2008 to 18 percent in 2014, with the lack of jobs being more pronounced in vulnerable groups such as youth and women. The persistent output gap and strains in the labor market are also reflected in the declining trend of the labor force participation rate. The increase in poverty was partly mitigated by income from pensions and social transfers.

**There has been progress on 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 main poverty-oriented 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. Overall spending on social assistance is comparable to other countries in the region (about 1.7 percent of GDP), but the composition has gradually shifted away from benefits targeted to the poor. The relative balance in spending on the NE and disability assistance has shifted significantly over time in favor of disability benefits, crowding out resources for NE. Only about one-quarter of total spending on social assistance in Albania (1.6 percent of GDP) is devoted to NE (0.4 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 ECA region, at least 80 percent of benefits reach the poorest 20 percent of the population. The Government, with World 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 the selection of beneficiaries at the municipality level.

**The Bank is supporting social protection in Albania through the ongoing *Social Assistance Modernization Project*,** which is supporting social assistance and disability reform. The project is providing support to the Government's implementation of reforms to improve the equity and efficiency of cash-based social assistance as well as disability programs. Under the equity objective, improving targeting and coverage is a key component of the reforms in both programs.

## Health Sector

**The access to and quality of health services have been improving, but more needs to be done to ensure universal access by poor households.** Albania spends about 2.6 percent of GDP on health care, substantially lower than that spent by other countries with comparable income levels. 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 limited protection to the population 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 is currently supporting the health sector in Albania through** a recently approved project on *Health System Improvement*, which is focused on improving the efficiency and quality of health care. The project seeks to strengthen the management and governance of public hospital services, improve health financing arrangements, and establish health information systems.

## Education and Skills Development

**Albania has significantly increased access to all levels of education. Primary and lower secondary enrollment are nearly universal**, and between 2009 and 2013, preprimary net enrollment shot up from 47.4 to 73 percent and upper secondary enrollment from 76 to 92 percent. However, the poorest quintile have lower education attainment compared to the wealthiest quintile, limiting these groups' access to economic opportunities and the potential assets base of the country.



**The importance of education and skilled labor for individuals themselves and for economic development is well recognized in Albania.** As a result, major and wide-ranging education reforms have been initiated in recent years, including: curriculum reform; improved teacher training; a more equitable distribution of resources across regions; improved learning conditions; an increase in average teacher salaries; and a revamping of the content and administration of the Matura examination. Going forward, the Government could consider incorporating more reforms that specifically target the poorest and most vulnerable children.

**Major higher education reforms have also been initiated.** In higher education, the focus has been on the adoption of the Bologna process for a modular education that is compatible across Europe. To this

end, the Bank is providing technical assistance to review the revised legal framework, conduct a functional review and then advise on the creation of new management structures in higher education, and recommend administrative procedures to implement the provisions of the new law on Higher Education.

**The challenge in Albania is to enhance the quality and relevance of the education and training system to improve labor market outcomes for current workers**, while ensuring that learning outcomes are translated into the relevant skills needed in the labor market. To improve skills and jobs prospects, Albania may consider establishing reliable channels of labor market information for informed policy and programmatic reforms and enhancing the quality of employment services for unemployed workers.

**The Bank's Early Childhood Development Systems Approach for Better Education Results report** highlights the importance of developing good cognitive and socio-emotional foundation skills as a basis for the lifelong acquisition of technical skills. A more streamlined approach to early childhood development (ECD) would be beneficial.

**Going forward, it will be important for Albania's education reform efforts to focus on developing "21<sup>st</sup>-century skills" among its students** and to do so in a way that is evidence-based and linked to labor market needs. Gaps exist in understanding the constraints that hinder a well-functioning labor market in Albania. A comprehensive approach will be required to identify both supply and demand side constraints. Following the *Education Excellence and Equity Project*, cofinanced by the World Bank, future Bank engagements, whether analytical or investment oriented, will require a multi-sectoral approach, as well as close collaboration between key ministries, including the Ministry of Education and Sport and the Ministry of Social Welfare and Youth.

## Agriculture

**Agriculture is a main source of employment and income in the rural areas, contributing 21 percent to GDP in the country and representing 43.3 percent of the workforce (data for 2014).** 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 324,000 agriculture holdings, each with an average of (roughly) only 1.1 hectares of field crops in four plots. In addition to field crops, about 70 percent of farms also have livestock. Over the past 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 forage 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 EU requirements, including harmonization with EU legislation and standards.

**The Bank has supported agriculture in Albania through investments in irrigation, exposure to new technologies and practices,** and improved access to quality market facilities, and also through piloting a small grant program that was subsequently scaled up by the Government. Currently, the Bank is financing the *Water Resources and Irrigation Project (WRIP)*, which aims to establish a strategic framework to manage water resources at the national level and in the Drini-Buna and Semani river basins, and to improve sustainably 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 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. A new project on Environmental Services aims to improve and promote the value of ecosystem services, in partnership with the Swedish Government and GEF. 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* supported the improvement of critical public environmental infrastructure and municipal services of the southern coast and also a reduction in environmental and health risks from industrial pollution. It also supported coastal environmental infrastructure in the Saranda and Himara municipalities and helped to clean up a densely populated area of 280 hectares in Porto Romano from the legacy of an old chemical factory south of Durrës that produced pesticides.

## Transport

The expansion, improvement, safety, and management of the road network are critical to

**Albania’s development.** With support from several development partners, the condition of the road network has been improving. The road network in Albania is a key asset in support of growth and job creation. Currently, its management, financing, and development face several key challenges. Roads in Albania constitute one of the highest asset values, estimated at about US\$6 billion, with substantial increases over the past decade. As such, the sector requires sufficient budget to sustainably manage and operate the road assets, and a program to address the highest priority maintenance requirements of the 3,400 kilometers of national roads needs to be funded and implemented.

**Within the transport sector, the primary emphasis has been on developing the national network,** but these investments have not been adequately maintained. Current transport sector priorities within the draft National Strategy for Development and Integration (NSDI) 2014–2020 include a strong focus on the construction, rehabilitation, and management of the national road network.



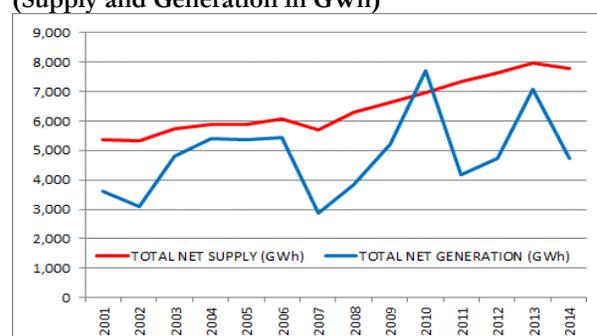
The World Bank will support road maintenance under the recently approved *Results-Based Road Maintenance and Safety Project (RRMSP)*, which will include the development of strategies that can be used to inform future road maintenance management and sector investments and to support increased transparency in public investment management in the transport sector. This project will contribute to providing regional opportunities for sustainable sources of employment and income for the poor, especially in rural communities, where poverty is highest.

## Energy

**The electricity sector is facing a number of systemic challenges that leave the country vulnerable to supply disruptions and mounting contingent liabilities.** The combination of total dependence on hydropower generation and its vulnerability to weather patterns, the lack of self-generation capacity, and the high level of distribution losses that require significant power imports is adding financial stress to the sector and the economy. The retail tariffs do not fully reflect the sector cost structure, which, combined with low collection rates and high arrears, has meant that the power sector is not able to be financially self-sustaining.

**During the past four years, 2011–14, the reliability of supply has deteriorated, and the level of losses and debt in distribution has affected the sector significantly.** The hydrological situation improved in 2013 and 2014, but the security of supply remains an issue, as demand increases and weather patterns vary from one year to the next.

**Figure 3. Albanian Power System 2001–14 (Supply and Generation in GWh)**



Source: The World Bank.

**By the end of 2014, the Government had initiated a vigorous and ongoing outreach and enforcement program to reduce the theft of electricity and improve revenue collections.** As a result, the situation improved and in 2014, losses reached 38 percent compared to 45 percent in previous years. However, the cost of distribution losses remains the same, amounting to US\$200 million. The collection rate improved 90 percent in 2014, but the accumulated arrears reached US\$650 million (including some netting off). New tariffs were approved by the Energy Regulatory Authority (ERE), abolishing the two-tier tariff structure for households and introducing a cost-reflective tariff for all categories of consumer starting in January 2015.



**Energy sector reform will contribute positively to poverty reduction and shared prosperity by helping to sustain growth and reduce fiscal risks.** Higher electricity tariff collection could, however, have a negative effect on poor households, which could be mitigated by adjusting the energy subsidy to the poor. The Government has accepted its responsibility to subsidize vulnerable households against any change in price for the monthly quantity of 300 kilowatt hours (kWh) and has approved subsidies in the amount of ALL 1.7 billion for the 214,000 customers in this category.

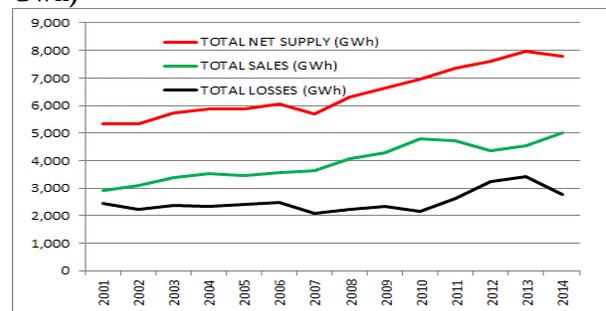
**Further efforts are needed to restore the sector's financial viability** and to ensure that losses, arrears and bad debt are diminished to sustainable levels, not only to reduce pressures on the budget but also to enable a higher security of supply. The World Bank is supporting these efforts through a US\$150 million *Power Recovery Project*, which will assist and support Albania's power sector reforms, particularly efforts to improve the reliability of the electricity supply and the financial viability of the sector.

**A Power Sector Financial Recovery Plan was approved by Government in February 2015.** The effective and consistent implementation of this plan could turn around the power system within the financing package agreed with the IMF and make it self-sustaining by 2018. The plan could also ensure that the fiscal risk posed by the sector is progressively reduced. Steps are being taken by the Government to reduce the country's vulnerability, such as supporting short-term complementary power imports to maintain adequate reservoir levels in the Drin Cascade, enhancing cross-border capacities with the construction of an interconnection line to Kosovo, recommissioning the Vlora thermal power plant, etc.

**The World Bank's engagement in the energy sector, done in close collaboration with the**

**International Finance Corporation (IFC)**, has included support to put the energy sector on a financially sustainable path, with a view to gradually shifting to market liberalization. Ensuring an adequate supply of energy is critical to improving the business environment. The World Bank Group is also leading a program to strengthen the safety of the dams on the Drin Cascade, together with the European Bank for Reconstruction and Development (EBRD), the Swiss State Secretariat for Economic Affairs (SECO), and the German Development Bank (KfW).

**Figure 4. Distribution Activity Performance 2001–2014 (Supply, Losses, and Billed Consumption in GWh)**



Source: The World Bank.

**IFC has assisted the Albanian Government on concessioning and investing in medium-sized hydropower plants** and, via an ongoing Balkans Renewable Energy advisory program, is helping the Government to draft a new renewable energy law to enable the private sector to develop and construct feasible plants.

### Private Sector Development

**Improving the business climate has been an important priority for Albania.** One area of concrete progress is the legal and regulatory framework for business, which has been substantially overhauled and modernized.

**Despite progress in these reforms, challenges in the regulatory environment remain.** Albania's relative standing in the ease of doing business in the *Doing Business 2015* report has increased to 68th, representing a significant improvement compared to *Doing Business 2014*, where the back-calculated position was 108th. Albania's 2015 distance to frontier score is 66.0, while its 2014 back-calculated score was 59.8. IFC is fully engaged in continuing

cooperation to facilitate improvements in the *Doing Business* indicators.

**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. IFC's committed portfolio as of December 2014 was about US\$310 million, 56 percent of which is allocated in the general manufacturing sector, 41 percent in infrastructure, and 3 percent financial sector. IFC's advisory services in Albania aim to improve the investment climate, the performance of private sector companies, and access to finance and to attract private sector participation in the development of infrastructure projects.



**IFC is mobilizing funds, especially for private participation in infrastructure through its advisory services.** It has been using its Public-Private Partnership Transaction Advisory to facilitate privatization/concessioning and provide financial support for public-private partnership (PPP) transactions for hydropower privatization, road operation and maintenance, and health services. The highway Milot-Morine is currently in the process of concessioning to strategic investors with experience in this area. IFC has 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 also includes tax simplification, trade

logistics, debt resolution projects, and trade and competitiveness. IFC has been working toward an integrated approach to business climate reforms through activities promoting energy efficiency, renewable energy, tax simplification, the facilitation of trade across borders, 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; it has supported the establishment of the Corporate Governance Institute of Albania and helped in drafting the first National Corporate Governance Code.

## Governance and Public Sector Management

**Public sector performance is crucial to the country's ambition to gain EU membership.** A coordinated support effort (IMF-World Bank-EU) has been especially focused since the start of 2014 on improving public financial management, including the budget framework and treasury system. The Government has articulated its key priorities of accelerating growth and development and improving public services by making services more transparent and citizen centric. A Delivery Unit (DU) that was established in December 2013 at the Prime Minister's Office is providing daily monitoring support on the progress of the Government's top priorities. The Bank has been providing support to the DU, and further support for the Government program "Innovation against Corruption" is anticipated under the proposed *Citizen-Centric Service Delivery Project*. The project will focus on improving government-citizen interface, including front office reform and the establishment of the one-stop shop, as well as improvements in the information provided to and communications with citizens.

**In partnership with several development partners, the Bank is supporting a number of programs.** Currently there are seven active Recipient-Executed Trust Funds amounting to US\$12.5 million focused on natural resources, an integrated planning system, public sector accounting, and the extractive industries. A set of important trust funds are in the pipeline to support accounting standards and strengthen the supervision capacities of the financial supervisory authority.

## THE WORLD BANK PROGRAM IN ALBANIA

Since Albania joined the World Bank in 1991, the Bank's overall financing to Albania is estimated at US\$2.1 billion, including trust fund resources managed by the World Bank.

**The Bank Group Country Partnership Strategy (CPS) for 2011–14** focused on three strategic objectives: (i) supporting Albania's economic recovery and growth; (ii) broadening and sustaining Albania's social gains; and (iii) reducing vulnerability to climate change and natural disasters. A total US\$442 million of International Bank for Reconstruction and Development (IBRD) commitments was approved during this CPS period. During FY15, a *Power Sector Recovery Project* (US\$150 million), *Health System Modernization Project* (US\$40 million), *Road Safety and Maintenance Project* (US\$80 million), and a Policy-Based Guarantee (US\$200 million) have been approved.

**The Bank Group is now finalizing the next five-year Country Partnership Framework (CPF) for Albania covering 2015–19.** It was preceded by a Systematic Country Diagnostics (SCD) that identified the key constraints on and opportunities for Albania's growth and also with regard to reducing poverty and boosting shared prosperity. Extensive in-country consultations were conducted during the preparation of the SCD and the CPF. The new CPF anticipates deepening World Bank Group engagement in the priority areas identified in the SCD and the Government's draft National Strategy for Development Integration.

**Analytical and Advisory Program.** The latest issue of the semi-annual *Regular Economic Report (RER) for South-Eastern Europe* was launched in January 2015, and a Public Finance Review is being finalized. Analytical work and technical assistance are being provided, often through regional programs, on the financial sector, public financial management, corporate accounting, poverty monitoring, pension reform, the energy sector, and water utilities.

**The current portfolio consists of eight projects** totaling US\$450 million in International Development Association (IDA) credits and IBRD loans. The portfolio has been consolidating significantly in the past few years, from 18 projects at

the end of FY09 to six projects by FY14, with the average size of the project increasing from US\$17 million to US\$56 million per project. In order to further improve performance and results, a number of steps are being taken in collaboration with the Government to streamline the portfolio, restructure projects, and conduct regular portfolio performance reviews.

**Engagement and partnership are cornerstones of the World Bank Group's support to Albania.** The World Bank engaged in a very extensive consultation process during the preparation of the SCD and the new CPF. Consultations took place with representatives of the Government, parliament, development partners, local authorities, the private sector, and civil society at the central and local levels. The Bank office in Tirana has also been promoting the Open Data Initiative by undertaking several tours to universities across the country.

## ALBANIA: SOCIAL ASSISTANCE MODERNIZATION PROJECT

### **Key Dates:**

**Approved:** April 3, 2012

**Effectiveness:** October 31, 2012

**Closing:** June 30, 2017

### **Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IBRD Loan	50.00
Government of Albania	147.82
<b>Total Project Cost</b>	<b>197.82</b>

### **World Bank Disbursements, million US Dollars \*:**

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	50.00	15.00	35.00

\* as of April 2015

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



The objective of the Social Assistance Modernization Project for Albania is to support the country's implementation of reforms to improve the equity and efficiency of its social assistance programs. The project, which has a results-based design, consists of 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 Ndhima 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, payment mechanisms, and reporting and monitoring); and (c) oversight and controls.

(2) Providing technical assistance to strengthen the implementation capacity of social assistance programs. The objective of this component is 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:**

- The training of social administrators on improved NE eligibility criteria (i.e., Unified Scoring Formula) was completed successfully and marks the achievement of the first Disbursement Linked Indicator (DLI) for the project.
- To date, four more DLIs have been achieved, including: (i) screening of more than 80 percent of NE beneficiaries in three pilot areas (Tirana, Elbasan, and Durrës), based on the new Scoring Formula; (ii) developing and testing the NE management information system (MIS) in the three pilot areas; (iii) using an automated system by local government units in the three pilot regions to process NE applications, benefits, program enrollment, and payment orders; and (iv) ensuring information cross-checking of the NE MIS with at least seven government information systems (i.e., tax registry, employment, civil registry, etc.), which will provide lessons for further refinement.
- Activities for the design of disability assistance reforms have been initiated. A policy paper on reforming key pillars of the disability system has been developed and is currently awaiting approval.

**Key Partners:** The Bank team works closely with the Ministry of Social Welfare and Youth.

**Key Development Partners:** European Union (EU).

## ALBANIA: HEALTH SYSTEM IMPROVEMENT PROJECT

### **Key Dates:**

**Approved:** February 27, 2015

**Effectiveness:** Not yet effective

**Closing:** February 28, 2021

### **Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IBRD Loan	40.00
Government of Albania	5
<b>Total Project Cost</b>	<b>45.00</b>

### **World Bank Disbursements, million US Dollars \*:**

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	40.00	0	40.00

\* as of April 2015

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



The proposed **Project Development Objective** (PDO) is to contribute to improving the efficiency of care in selected hospitals in Albania, improving the management of information in the health system, and increasing financial access to health services.

In order to improve the access and efficiency of health care services in Albania, the project will support:

- a) reforming the hospital sector by creating a sound legal framework and management structure for efficient service provision, strengthening performance management and planning, overcoming operational constraints in service delivery, supporting the rationalization of the hospital network, and strengthening the referral system;
- b) improving monitoring and management of service quality and efficiency through the establishment of a health management information system and a medical equipment management and maintenance system; and
- c) reforming the health financing and provider payment systems, improving the capacity of the Health Insurance Fund (HIF) for strategic purchasing, strengthening systems for the efficient purchasing/distribution of pharmaceuticals and medical supplies, and assessing options to expand insurance coverage within the available fiscal space.

### **Results Achieved:**

Project signed, not yet effective

**Key Partners:** The Bank team works closely with the Ministry of Health.

**Key Development Partners:** The Swiss Agency for Development and Cooperation (SDC) and the Austrian Development Cooperation (ADC).

## ALBANIA: INTEGRATED COASTAL ZONE MANAGEMENT AND CLEANUP PROGRAM

### Key Dates:

**Approved:** June 29, 2005

**Effective:** November 25, 2002

**Restructured:** March 22, 2010; November 2012

**Closing:** March 31, 2015

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	18.05
Government of Albania	5.71
Other Donors (Dutch Gov't)	3.11(closed)
Other Donors (Japanese Gov't)	2.23
Other Donors (Austrian Gov't)	2.60
Other Donors (EC)	1.8 (closed)
Other Donors (GEF)	0.95(closed)
<b>Total Project Cost</b>	<b>34.45</b>

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	17.50	16.00	1.50

**\* as of April 2015**

*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 project plays a catalytic role in mobilizing development assistance and improving the 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 Durrës, improving community infrastructure, and enhancing architectural and cultural resources. The project was restructured in 2010 and 2012.

### **Results Achieved:**

- The Southern Coast Development Plan and a regulation was approved in July 2008, following a dialogue with stakeholders from the central, regional, and local levels.
- The cleanup of the Porto Romano hotspot was completed in 2013, 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 the Coastal Village Conservation and Development (CVCD) program, completed in 2010, supported village infrastructure investment in three coastal municipalities and 12 coastal villages, including: a new water supply system serving more than 400 families in Gjilek; the rehabilitation of the water supply system for 167 families in Vuno; the provision of water supply for 315 families in Piqeras; the construction of a 1.3 kilometer access road in Orikum for daily tourists and residents; the construction of a 1.2 kilometer access road serving 132 families and tourists in Palasa; the construction of pedestrian paths in vernacular stone providing pedestrian access to 500 residents and tourists in Dhermi; and the landscaping and upgrading of a 2.6 kilometer scenic road to the Monastery of Saint Theodor in the Gjipe Canyon and a 0.6 kilometer pedestrian access road to the Borshi castle for visitors and pilgrims.
- Phase two of the CVCD program was completed in August 2014 and included village infrastructure improvements, such as access roads and squares and water supply systems in 12 villages in Saranda and Himara municipalities. A pilot roof and facade rehabilitation program and support for small bed and breakfast investments were implemented in selected villages.
- Major infrastructure works completed by the end of December 2014 include: (i) the rehabilitation of the Saranda Gateway-Passenger Terminal, which resulted in the improved capacity of the port to receive large cruise boats and port surface infrastructure.; (ii) the construction of a regional sanitary landfill in Bajkaj-Palavli; and (iii) the rehabilitation of the water supply and sewage system in the tourist area of Saranda.

**Key Partners:** The Ministry of Urban Development and Tourism is responsible for overall project coordination and management; the Ministry of Environment is responsible for cleanup of the hazardous hotspot near Durrës; the Coastal District and Municipal administration, village councils in coastal communities, and local nongovernmental organizations (NGOs). **Key Development Partners** include the Governments of the Netherlands, Austria, and Japan, the European Commission, and the Global Environment Facility.

## ALBANIA: ENERGY COMMUNITY OF SOUTHEAST EUROPE APL5- ALBANIA – DAM SAFETY PROJECT

### Key Dates:

**Approved:** June 30, 2008

**Effective:** December 16, 2008

**Closing:** December 31, 2016

### Financing from all co-financiers, million US Dollars\*:

Financier	Financing
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
<b>Total Project Cost</b>	<b>110.00</b>

### World Bank Disbursements, million US Dollars\*:

	Total	Disbursed	Undisbursed
IDA Credit	35.30	21.73	10.51
IBRD Loan	21.60	0.25	21.75

\* as of April 2015

*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 be risk of dam failure. A “Dam Safety Survey for Hydropower Plants Located on the Drin and Mat River Cascades,” funded by the Swiss State Secretariat of Economic Affairs (SECO), was completed in 2006. The report identified serious deficiencies and concluded that “the present state of 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. The improvement of dam storage capacity can provide considerable benefits for the Southeast Europe electricity grid and promote economic efficiency in the regional market.

**The Project Development Objective** is the development of a functioning regional electricity market in Southeast Europe and its integration into the internal electricity market of the EU 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 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 has 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 provided and major rehabilitation work has been started.
- The Geological, Seismic, and Geodetic Monitoring are completed in three dams in Drin River; the rockfall danger protection in Fierza dam is completed and it is under implementation in Komani dam; the stochastic rockfall modeling is completed;
- Rehabilitation works on the Komani hydropower plant, started in July 2013, is progressing as per the agreed plan. The refurbishment and rehabilitation of the first unit are expected to be reassembled and completed in July 2015;
- The consolidation works for Komani scour area (the rehabilitation of the dam toe and scour area), financed by EBRD, are progressing.
- The Designed Flood Study of the Drin River was presented. Technical assistance for the Prefeasibility and Feasibility Study and for the Preparation of Tender Design and Technical Specifications for Providing Safe Flood Management of Drin Cascade is contracted and progressing.
- Technical assistance for strengthening the institutional setup of the Dam Safety and Emergency Preparation Plan is contracted and progressing.
- There has been some delays in the package for the rehabilitation of Spillway Gates and Stop Logs in three Drin River dams; the package is currently undergoing a restructuring and retendering process.
- The development objectives contributing to the safeguarding of the major hydroelectric dams in Albania are progressing well, and the facilities affected by the safeguard measures have increased by 30 percent.

**Key Partners:** Ministry of Energy and Industry and the Albanian Power Corporation (KESH), the implementing agency of the project.

**Key Development Partners** include the Swiss Secretariat for Economic Affairs (SECO), the European Bank for Reconstruction and Development (EBRD), and the German Development Bank (KfW).

## ALBANIA: WATER RESOURCES AND IRRIGATION PROJECT

### Key Dates:

**Approved:** November 29, 2012

**Effective:** May 13, 2013

**Closing:** May 31, 2018

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD Loan	40.00
Swedish Government	5.00
<b>Total Project Cost</b>	<b>45.00</b>

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	40.0	4.10	35.90
Swedish TF	5.00	1.30	3.70

\* as of April 2015

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



The objectives of the Water Resources and Irrigation Project for Albania are to (i) establish a strategic framework to manage water resources at the national level and in the Drini-Buna and Semani river basins, and (ii) improve, in a sustainable manner, the performance of irrigation systems in the project area.

The project has four components. 1) The Dam and Irrigation and Drainage (I&D) Systems Rehabilitation Component will rehabilitate and modernize I&D systems and dam infrastructure. 2) Institutional support for the I&D component will improve the performance of organizations that provide irrigation services. This includes implementing institutional reforms and strengthening the capacity of local governments, drainage boards, and Water Users Associations and also piloting public-private partnerships in I&D service delivery through the recruitment of third-party operators to deliver irrigation services in three I&D pilot schemes. 3) The Integrated Water Management Component will establish a strategic framework to manage water resources at the national level and at the level of the Drini-Buna and Semani river basins. 4) The Implementation Support Component will manage project resources in accordance with the project's objectives and procedures.

### Results achieved:

The project is being implemented by the Ministry of Agriculture, Rural Development and Water Administration (MARDWA), and the Ministry of Environment (MOE). Project teams in both ministries have completed their project management staffing (manager, procurement, financial management, safeguards) and have launched a number of activities, including notably:

**In the MARDWA:** Issued revised tender documents for a major international competitive bidding works contract for the rehabilitation of several dams (largest contract in the project, tender documents needed lengthy preparations, including preparing specific dam safety plans and obtaining approvals from the dams' "Panel of Experts"); conducted contract awarding and negotiations for preparing feasibility studies and detailed designs for the I&D investments; conducted short listing and prepared terms of reference for the supervision of the rehabilitation of dams (including supervising their safeguards management plans); and prepared detailed specifications to procure water monitoring equipment for the Drainage Boards.

**In the MOE:** Advanced the tendering process for key contracts, including preparation of an Integrated Water Resources Management Strategy (technical evaluation stage), preparation of a water resource database/cadastre and river basin management plans (short-listing stage), rehabilitation works for river basin agencies, and project-wide monitoring and evaluation.

**Key Partners:** The Ministry of Agriculture, Rural Development and Water Administration and the Ministry of Environment are responsible for overall project coordination and management; other partners include drainage boards, local governments, and river basin agencies and councils.

**Key Development Partner** is the Government of Sweden.

## WATER SECTOR INVESTMENT PROJECT

### Key Dates:

**Approved:** December 20, 2013

**Effective:** May 14, 2014

**Closing:** June 30, 2019

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD Loan	85.3
Total Project Cost	<b>85.3</b>

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	85.3	8.4	76.9

\* as of April 2015

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



The objective is to: (i) improve the quality of water and wastewater services in the Durrës Water Utility Service Area; and (ii) improve the financial performance of the Durrës Water Utility. The project components are:

- (i) Priority Water Supply Investments will finance six water supply production wells and a bulk water supply transmission pipeline that will provide up to 6.30 liters per second (l/s) additional supply capacity in the Durrës Utility Service Area; ancillary investments, including elevated reservoirs, linking municipalities/communities within the Durrës area and along the transmission pipeline route to the water supply system; and priority investments in the water distribution network in Durrës, including the provision of leak detection equipment and pressure-reducing valves to reduce losses.
- (ii) Wastewater Network Investments will finance priority wastewater investments, including rehabilitation of critical parts of the existing sewerage system in Durrës City; construction of the secondary and tertiary sewerage network in the Durrës Beach area; provision of high-powered sewer cleaning equipment for Durrës Water Utility; and the strengthening of Durrës Water Utility's initial ability to operate and maintain the new Durrës wastewater treatment plant.
- (iii) Institutional Development Program, Utility Strengthening, and Water Demand Management will support the Government's broad-based policy and reform agenda at the national level with specific interventions at the local level. Investments include design and implementation of a Water Demand Management Program; support to the Performance Monitoring and Benchmarking Unit; preparation and implementation of a Performance Improvement Plan and other support for institutional strengthening of the Durrës Water Utility; Technical Analysis and Capacity Building, in particular with regard to energy efficiency; and a dedicated annual financial audit of the Durrës Water Utility.
- (iv) Project Implementation Support will help implementation of the project, including salaries for Project Implementation Unit (PIU) staff, PIU operating costs, provision of needed equipment, and consultant services supporting project investment technical reviews, as well as overall project supervision, monitoring, evaluation, and reporting.

### Results Achieved:

The project is in its initial phase of implementation. The PIU at the Ministry of Transport and Infrastructure has launched the procurement process, which is resulting in some delays for the bulk water pipeline and associated investments, and the procurement process for the supervision of these investments, as well as complementary activities to increase sewerage connections and support the operation of the wastewater treatment plant. The Durrës Water Utility has also approved a new business plan that outlines how services and the utility's financial situation will be improved over the next five years.

**Key Partners:** The Ministry of Transport and Infrastructure and the Durrës Water Utility are the main partners.

## ENVIRONMENTAL SERVICES PROJECT

### Key Dates:

**Approved:** July 8, 2014

**Effective:** January 29, 2015

**Closing:** June 30, 2019

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD Loan	10.0
Swedish Government	10.0
Global Environment Facility	2.88
<b>Total Project Cost</b>	<b>22.88</b>

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	10.0	0	10.0

\* as of April 2015.

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



**The Project Development Objective (PDO)** is to support sustainable land management practices and increase communities' monetary and non-monetary benefits in the targeted project areas that are mainly in erosion-prone rural upland areas.

This PDO is to be achieved through the support of alternative livelihoods, the provision of environmental services, and the sustainable utilization of wood and pasture products in the long term. The project will particularly focus on enhancing the financial, economic, and institutional sustainability of land use and natural resource management and on helping build the capacities of Albania farmers, community organizations, and government institutions to efficiently use EU funding.

The project has the following components:

- Component 1. Strengthening institutional capacity to improve environmental services for integrated landscape management
- Component 2. Preparing for the planning and provision of Instrument for Pre-Accession Assistance for Rural Development (IPARD)-like grants to improve land management
- Component 3. Introducing payment for environmental services
- Component 4. Supporting project implementation

**Results Achieved: N/A**

**Key Partners:** Ministry of Environment, Ministry of Agriculture, Rural Development and Water Administration.

**Key Development Partner** is the Swedish Government.

## ALBANIA: INTEGRATED PLANNING SYSTEM MULTI DONOR TRUST FUND (IPS 2)

### Key Dates:

**Approved:** December 2012

**Effective:** March 2013

**Closing:** March 2016

**Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IDA Credit	
Other Donors	3.7
<b>Total Project Cost</b>	<b>3.7</b>

**World Bank Disbursements, million US Dollars \*:**

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Grant	3.7	1.6	2.04

**\* as of April 2015**

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



The project aims to address the weakness on the monitoring side by establishing a coherent results chain between the budget programs' results (outputs) and higher-level indicators (e.g, impact indicators at the level of the National Strategy for Development and Integration [NSDI]), through the development of policy/strategy-level intermediate outcomes, which have so far been a missing essential link. Component three is also expected to support the integration of the public financial management and policy processes. This will be facilitated through the integrated Albanian Financial Management Information System (AFMIS) that will link the Medium-Term Budgeting Plan to the treasury, thereby enabling the regular tracking of results at the program level (outputs) and their linkage to budgetary inputs, while the Integrated Planning System Information System (IPSIS) will facilitate the monitoring of program-level outputs as well as policy implementation and strategy-level intermediate outcomes. The project will contribute to strengthening macroeconomic and public financial management, which is one of the main priorities of the World Bank's current Country Partnership Strategy.

The **Project Development Objective** of the IPS 2 is to "Strengthen the implementation of the Integrated Planning System by creating the conditions for introducing a performance orientation in the policy planning and budgetary processes and by improving institutional capacity to monitor results at the strategy and program levels."

The performance orientation is an essential link between strategies and policies (NSDI and supporting sectoral/cross-sectoral strategies) on the one hand, and the budget process on the other. In this context, performance is understood in a broad sense, encompassing measures of technical efficiency (cost effectiveness), as well as program outputs and outcomes.

### Results achieved:

The project is providing assistance to the Ministry of Finance to design and install the AFMIS. The establishment of the Human Resource Management Information System is well under way. Support for the External Assistance Management Information System will soon start to yield concrete results.

The trust fund also provided important initial support for the Delivery Unit at the Prime Minister's Office.

**Key Partners:** Ministry of Finance of Albania; Delivery Unit (Council of Ministers), Department for Development Programming, Financing and Foreign Aid (Council of Ministers), Department of Public Administration; and Ministry of Economy, Tourism, Trade and Entrepreneurship. .

**Key Development Partners:** SIDA; Austrian Development Agency (ADA); Swiss Agency for Development and Cooperation (SDC); EU.

**ALBANIA: EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)  
POST-COMPLIANCE GRANT I**

**Key Dates:**

**Approved:** October 2013

**Effective:** February 2014

**Closing:** June 2015

**Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IDA Credit	
Other Donors	0.3
Total Project Cost	0.3

**World Bank Disbursements, million US Dollars \*:**

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Grant	0.3	0.2	0.1

**\* as of Albania 2015**

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



The Extractive Industries Transparency Initiative (EITI) is a global standard that promotes revenue transparency and accountability in the oil, gas, and mining sectors. It has a robust yet flexible methodology for disclosing and reconciling company payments and government revenues in implementing countries. The Government of Albania officially endorsed EITI at the Global EITI Conference in Doha in February 2009. EITI in Albania is being implemented through the Ministry of Energy and Industry. The implementation of the EITI in Albania is overseen by a multi-stakeholder group (MSG) headed by the Deputy Minister of Energy and Industry and comprised of representatives of the private sector, civil society organizations, and other government ministries and agencies. At the technical level, there is a national EITI Secretariat (AlbEITI) that leads the work on the preparation of the Annual EITI reports. Albania was declared to be EITI compliant on May 3, 2013.

The World Bank has been supporting the EITI process in Albania through the Multi-Donor Trust Fund for EITI (MDTF-EITI) since 2010. The current grant is the third grant from MDTF-EITI and its main objectives are to support Albania's EITI post-compliance goals of: (i) strengthening EITI's role of producing and disseminating critical information to citizens, specifically to those living in producer regions, including extending the scope of the current EITI process by enhancing the coverage of EITI reports to the subnational level; and (ii) supporting the country's goals of building on EITI to improve the overall management and governance in extractive industries. The third EITI-MDTF grant, among other goals, has supported the MSG and AlbEITI in generating the annual EITI reports for 2011 and 2012.

Going forward, AlbEITI is looking to extend the scope of the EITI reports and is currently initiating a study, funded by the MDTF-EITI grant, to assess the feasibility of including revenues from hydropower plants (HPPs) in future EITI reports. In 2015, further outreach and training activities on EITI are planned as part of the MDTF-EITI grant.

**Results achieved:**

The project has provided support to the Ministry of Energy and Industry for the finalization of two annual EITI reports and crucial support for outreach and communication activities. It is also supporting the Albanian EITI Secretariat with capacity building and operational support.

The grant is more broadly providing a platform for dialogue between the Government, private sector, and civil society organizations, with the objective of enhancing the governance of natural resources in Albania.

**Key Partners:** Ministry of Energy and Industry, Ministry of Finance, private sector, CSOs and other line ministries.

**Key Development Partners:** SIDA, Department for International Development (DFID), U.S. Agency for International Development (USAID), EU, the Organization for Security and Cooperation in Europe (OSCE), and other development partners.

## ALBANIA: STRENGTHENING SUPERVISION CAPACITIES OF THE ALBANIAN FINANCIAL SUPERVISORY AUTHORITY

### **Key Dates:**

**Approved:** November 2014

**Effective:** April 2015

**Closing:** December 2017

**Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IDA Credit	
Other Donors	2
Total Project Cost	2

### **World Bank Disbursements, million US Dollars \*:**

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Grant	1.85	0	1.85

**\* as of April 2015**

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



The development objective of the project is to support the Albanian Financial Supervisory Authority (AFSA) in strengthening its capacities to supervise the investment funds sector and the issuance of corporate and municipal bonds. The project is expected to cover two specific areas:

Area 1: Develop the capacities of AFSA to supervise and regulate the investment funds sector

Area 2: Develop the capacities of AFSA to prepare for the issuance of corporate and municipal bonds

AFSA is the direct beneficiary of this project, while the Government, as well the Bank of Albania, have a clear stake in the sound development of the non-bank financial markets.

The project is expected to achieve the following results:

Result 1: AFSA is equipped with a comprehensive supervision methodology and practices for investment funds as well as related operational manuals and tools.

Result 2: AFSA is better able to support the development of the corporate and municipal bonds market through an improved regulatory framework.

Result 3: The professional and human resources of AFSA to supervise capital market activities are strengthened through on-site and off-site capacity-building activities.

### **Results achieved:**

NA – project starts in April 2015.

**Key Partners:** Albanian Financial Supervisory Authority.

**Key Development Partners:** Swiss SECO.

## IFC PROJECTS

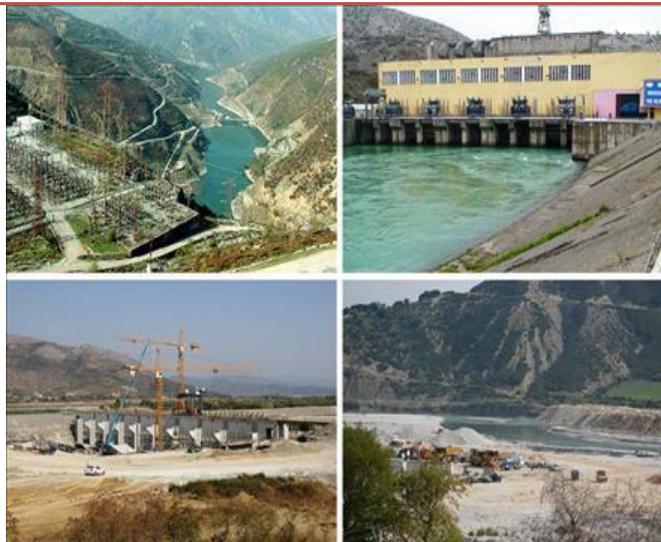
### ALBANIA: KURUM INTERNATIONAL

**Key Dates:**

**Approved:** July 2013

**Financing in million € Euro:**

<i>Financier</i>	<i>Financing</i>
IFC	30
<b>Total Project Cost</b>	<b>120</b>



The loan is to Kurum International SH.A. for financing: (a) the acquisition from privatization of four operational hydroelectric power plants located in Albania with a total installed capacity of 76.5 megawatts (MW); and (b) the rehabilitation investment of these power plants. Total project cost is estimated to be €120 million, of which €109.5 million will cover privatization and the remainder will be used for rehabilitation. The project is sponsored by Kurum Holding AS, a third-tier Turkish company operating in the iron and steel industry. The project can be considered a captive energy project, as the electricity that will be produced will be mostly consumed by the company's steel plant in Albania, which is one of the largest industrial companies in the country, thus securing a reliable power input for the plant, the second most important input after scrap.

**Results to be achieved:**

- Support power sector reform by increasing the share of the private sector in Albania's overall electricity generation
- Help liberalize the Albanian power market and promote private sector participation
- Facilitate the move toward the creation of a regional energy market in Southeast Europe
- Increase foreign direct investment and promote South-South investments in the region
- Mobilize parallel and B lenders
- Help Turkish banks' entry into the Albanian market
- Mitigate climate change (increase clean energy generation by improving efficiencies)

**Key Partners:** Kurum International SH.A.

## ALBANIA: UNION BANK

### **Key Dates:**

**Approved:** May 2013

### **Financing in million € Euro:**

<i>Financier</i>	<i>Financing</i>
IFC	4
Total Project Cost	4



The project is very well aligned with the IFC Country Strategy for Albania, which is to build partnerships with clients in strategic sectors that serve the country's long-term sustainable development. Due to the high liquidity levels in the sector and the dominant presence of foreign players who control 90 percent of the market, IFC has focused on local banks that can benefit from IFC's expertise in specialized products such as trade finance, renewable energy/energy efficiency, etc. The project is also in line with the World Bank Group's objective of facilitating trade flows post-crisis.

### **Results to be achieved:**

- Provide guarantees to support the trade finance operations of the bank and allow the bank to free up capital and decrease costs;
- Signal confidence in the bank and potentially gain support from other commercial banks that are willing to work with Union Bank as the issuing bank;
- Support trade finance operations of the bank at a time when trade finance lines are being cut;
- Support private sector enterprises dependent on trade finance for survival.

**Key Partners:** Union Bank.

## ALBANIA: BANKERS PETROLEUM

### **Key Dates:**

**Approved:** September 2009; December 2012

### **Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>
IFC	105
EBRD	105
Total Project Cost	<b>370</b>



In September 2009, IFC and EBRD jointly financed the project and committed US\$10.4 million in equity and US\$30 million in loans, 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 the further redevelopment of the onshore Patos Marinza oilfield in southern Albania. The estimated cost of the project is US\$370 million, which includes: (i) promoting the expanded 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 water-flood and cyclic steam stimulation, to further increase oil recovery. In addition, in December 2012, IFC and EBRD signed a second loan agreement of US\$50 million each to further support the company's growth.

### **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 develop local skills and transfer know-how and technology for heavy oil extraction in Albania.
- The project contributed to an increase in fiscal revenues to the Government of Albania thanks to a significant oil sales increase.
- Bankers designed and completed a remediation trial project to clean up historical contamination.
- Further plans include the 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.

## ALBANIA: CREDINS BANK

### **Key Dates:**

**Approved:** August 2012

### **Financing in million € Euro:**

<i>Financier</i>	<i>Financing</i>
IFC	10
Total Project Cost	10



The project involves a €10 million renewable energy (RE) loan to Credins Bank, coupled with RE technical assistance and corporate governance and risk management support. The main goals of the Advisory Services engagement include (i) building the operational capacity of the bank to develop and launch viable lending products and support the financing of small hydropower plants (SHPPs), (ii) increasing the bank's knowledge in RE/SHPPs and project financing, (iii) providing initial support for SHPP project assessment and evaluation and monitoring, and (iv) supporting the bank in improving the risk management and internal audit systems.

### **Results to be achieved:**

- Facilitate the development of energy-efficiency investments through making increased financing available for residential and potential small and medium-sized enterprise (SME) clients;
- Improve the competitiveness of the Albanian economy by increasing the efficiency of energy use across sectors;
- Increase lending for RE projects in Albania with a specific focus on SHPPs;
- Improve the local and global environments through the decreased emissions of greenhouse gas and other conventional pollutants while reducing the country's dependence on energy exports.

**Key Partners:** Credins Bank.

## ALBANIA: ANTEA CEMENT

### **Key Dates:**

**Approved:** May 2008, June 2012

### **Financing in million €Euro:**

<i>Financier</i>	<i>Financing</i>
IFC	30
EBRD	30
Total Project Cost	<b>210</b>



The project involves the construction and operation of a greenfield, integrated cement plant with a cement production capacity of 1.4 million tons per year near Burizane village, located 45 kilometers from the port of Durrës and about 35 kilometers from Tirana. The project, with a total cost of €210 million, capitalizes on the domestic market growth prospects and substitute imports. It also exports a portion of its output to smaller neighboring cement markets. The project stimulates competition in Albania and helps address the shortage of domestic cement supply by substituting imports at more affordable prices and supporting the housing and infrastructure sectors. The project observes international environment and social standards. In June 2012, IFC undertook another investment of €5.4 million.

### **Results to be achieved:**

- Modernization of local cement industry
- Benefits to employees
- Benefits to consumers
- Local supply linkages
- Higher-level environment and social performance
- Quantified development impacts benefits

**Key Partners:** Antea Cement, EBRD.

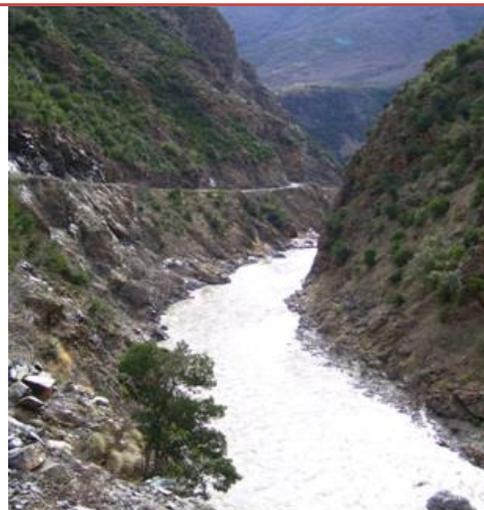
## ALBANIA: ENSO HYDRO ENERGJI

### **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 US\$8.4 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 the Bank's strategy in Albania of stimulating investment in 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.

## RECENT ADVISORY PROGRAM

### ALBANIA: IFC RESIDENTIAL ENERGY EFFICIENCY PROJECT ALBANIA (REEP)

**Key Dates:**

**Approved:** January 2009

**Closing:** September 2016

**Financing in million US Dollars:**

<i>Financier</i>	<i>Financing</i>
Austrian Ministry of Finance (TATF)	0.75
Total Project Cost	0.77



The Residential Energy Efficiency Project provides support to financial institutions to extend micro loans to promote energy efficiency (EE) and lower energy consumption. The project has three components:

- Advisory Services for partner financial institution support to local financial institutions to help develop the new energy-efficiency product and facilitate relevant investments;
- Public Awareness activities to raise public awareness on EE and energy savings;
- Regulatory framework support to the National Agency of Natural Resources (AKBN) in reviewing the draft Energy Efficiency Law and in developing the corresponding bylaws.

**Results achieved:**

- The project is working with five financial institutions—Credins Bank, Societe Generale Albania Bank, Union Bank, BESA Fund (a microfinance institution [mfi]), and NOA (an mfi)—to introduce micro loans targeting EE improvements.
  - ✓ Sixteen seminars, training, workshop events held with banks on EE potential and promotion and loan product development
  - ✓ Five new EE products were launched, and in-depth technical assistance helped to build their internal capacities in the assessment of EE projects in the residential sector, with the aim of facilitating the relevant investments (currently ongoing technical assistance)
  - ✓ Union Bank in-depth advisory on EE finance in FY15 (November 2014–present)
- Technical assistance to Credins Bank led to an IFC investment in EE and renewable energy (RE) finance with the bank (€10 million in EE/RE credit line).
- The lending operations of FIs counts over 4,900 loans worth US\$20 million from inception to date. Lending operations to date have benefited more than 15,000 individuals.
- EE website developed and hosted by the Albanian Bank Association, addressing EE measures and EE products in the market. (<http://www.aab.al/edu/ee/en/index.php>)
- Eleven country-level workshops to increase public knowledge on the economic benefits of EE investment.
- Review of the Energy Efficiency Law and draft of seven bylaws to promote the efficient use of energy and energy savings (support given to the AKBN). Adoption process of the EE package has been put on hold by the Government.

**Key Partners:** National Agency of Natural Resources (AKBN), Albania Association of Banks, Credins Bank, Societe Generale Albania, Union Bank, BESA Fund, NOA.

**Donors:** Austrian Trust Fund (TATF).

## ALBANIA: IFC BALKAN RENEWABLE ENERGY PROGRAM (BREP)

### Key Dates:

**Approved:** January 2009

**Closing:** June 2017

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
Austrian Ministry of Finance	7.40
Total Project Cost Regional	7.91
Total Project Cost Albania	<b>1.70</b>



The project is part of the Regional Western Balkan Program (BREP), implemented in Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro, and Serbia. These countries offer the highest development impact potential and have made sufficient progress on implementing regulatory frameworks. The project has three objectives:

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

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 CO<sub>2</sub> emissions per year.

### **Results achieved:**

- Renewable energy (RE) regulatory work and support to the Ministry of Energy to create a comprehensive framework for RE project development and implementation with a focus on SHPPs in Albania.
  - ✓ The RE law was approved in May 2013.
  - ✓ IFC team is working with the World Bank energy team on commenting on the draft Power Law.
- Work with SHPP concessionaires/sponsors in Albania.
  - ✓ Eight seminars and workshop events with SHPP concessionaires for promoting RE investments.
  - ✓ Business-to-Business workshops, bringing together international and local investors in the renewable sector to promote foreign direct investment (FDI) in this sector.
  - ✓ In-depth technical assistance to ENSO GMBH, an SHPP sponsor, on the approval of the program of activities in the clean development mechanism (CDM) registration process with the United Nations Framework Convention on Climate Change (UNFCCC).
  - ✓ In-depth technical assistance to S.P.E. Gjader, an SHPP sponsor, to review the technical design of a cascade of seven SHPPs (24.3MW).
- Work with selected financial institutions to improve their internal capacities on SHPP and project financing.
  - ✓ Nine workshops, seminars, meetings, and trainings with banks in Albania. A country-level workshop with banks was organized jointly with the Albanian Association of Banks to promote investments in the RE sector.
  - ✓ In-depth technical assistance to Credins Bank to build internal capacities in the assessment of the SHPP project to support the country strategy for the RE sector (currently ongoing technical assistance).
  - ✓ In-depth technical assistance to Inesa Sanpaolo Bank to build internal capacities in the assessment of the SHPP project. The advisory package includes (i) in-depth training to staff, ii) RE assessment manuals and tools, and iii) an assessment of three SHPP projects, increasing internal capacities of bank staff to engage in SHPP lending (currently ongoing technical assistance).

**Key Partners:** Ministry of Energy and Industry (MEI); Enso Hydro GmbH (SHPP); S.P.E. Gjader (SHPP); Credins Bank; Intesa Sanpaolo Bank; Albanian Association of Banks.

**Donor:** Austrian Ministry of Finance.

## 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>
State Secretariat for Economic Affairs (SECO )	3
Total Project Cost (Regional)	3



The 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 works in Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia to achieve two objectives:

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

### **Results achieved:**

- Tax Compliance Survey (completed for 800 businesses)
- Mapping of “as is” and “to be” 12 tax administration procedures
- Recommendations of the survey and mapping shared with the Government, resulting in eight legal changes in the 2014 fiscal package
- Transfer Pricing Needs Assessment Report submitted to the Ministry of Finance in October 2014
- Support to the Ministry of Finance and the General Directorate of Taxation to draft Transfer Pricing primary and secondary legislation
- Support to the Ministry of Finance to prepare a position paper on VAT refund based on comments provided by the IMF
- Support to the General Directorate of Taxation (GDT) to review and amend relevant legislation pertaining to the simplification of tax procedures
- Transfer pricing primary legislation approved by parliament in April 2014
- Advance Pricing Agreements drafted
- Several trainings and regional activities on Transfer Pricing Agreements, Double Tax Treaties provided for the GDT and Ministry of Finance staff
- Support to the Ministry of Finance for the Global Forum Review Phase I in relation to the exchange of information.
- Eight laws and five bylaws were drafted, amended, and approved during July 2014–January 2015

**Key Partners:** Ministry of Finance and General Directorate of Taxation. Cooperation Agreement signed in March 2013 with the Ministry of Finance (US\$50,000 cash fees collected).

**Donor:** SECO.

## ALBANIA: DEBT RESOLUTION

### Key Dates:

**Approved:** July 2012

**Closing:** December 2015

### Financing in million US Dollars:

<i>Financier</i>	<i>Financing</i>
State Secretariat for Economic Affairs (SECO)	
Total Project Cost Albania	<b>0.8</b>



Objectives of the project are:

- Support legislative reform by improving insolvency legislation to introduce rehabilitation and more efficient procedures to Albania
- Develop provisions for the fast-track recognition of negotiated out-of-court workouts (pre-packs) for Albania
- Support regulatory reform by introducing and establishing an out-of-court workout mechanism
- Enhance the capacities of the Albanian Bankruptcy Supervision Agency (ABSA) and relevant professionals, such as judges, attorneys, insolvency administrators, and business people, and raise awareness among stakeholders.
- Provide training and awareness raising among relevant stakeholders; strengthen the role of the ABSA and raise the quality of the bankruptcy administrator profession

The expected result 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.

### **Results achieved:**

- Review of insolvency legislation and recommendations for improvement
- Review of internal ABSA functioning and administrative procedures
- Training for ABSA staff to enable transfer of knowledge, skills, and guidance by an insolvency expert from the United Kingdom
- Official launching of the project on September 2014 jointly with Ministry of Justice and SECO
- Journalists awareness event regarding the Debt Resolution Project at the end of September 2014
- A detailed Action Plan on the three-year project drafted, submitted, and agreed with Ministry of Justice and ABSA
- Five questionnaires drafted for stakeholders such as banks, judges, legal studios, bailiffs, and insolvency administrators to gather feedback on the current legal bankruptcy framework
- A diagnostic report on the Bankruptcy Legislation Gap, analysis and recommendations delivered to the Ministry of Justice in December 2014
- Support to Ministry of Justice to draft a new law on bankruptcy. Expected to be finalized by the end of March 2015
- 30 technical meetings/workshops on the framework of law drafting with Ministry of Finance, Ministry of Economy/National Registration Center, General Directorate of Taxation, State Advocate, Chamber of Commerce and Industry of Tirana, Prosecutors Task Force, seven legal studios, six banks, and consultants
- Six round tables with Banks Association of Albania, Court of Tirana judges, Ministry of Justice/ABSA, insolvency administrators, American Chamber of Commerce, and bailiffs
- Currently negotiating with Court of Tirana to sign a memorandum of understanding and provide advisory services for the judges in the commercial section responsible for bankruptcy cases
- Six recommended regulations approved based on the advisory services provided to the Ministry of Justice

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

**Donor:** SECO.

## ALBANIA: PPP OPERATION AND MAINTENANCE OF MILOT MORINE HIGHWAY

### **Key Dates:**

**Approved:** January 2011, amended in May 2014



IFC is the lead adviser for an Operation & Management (O&M) concession of Milot Morine Highway (114 kilometers). This is the first toll highway in Albania. The transaction structure is innovative for the Southeast Europe region in that it foresees that the Government of Albania will provide a minimum traffic guarantee rather than availability payments (typical in European road public-private partnership [PPP] projects).

The project has two phases. The preparation of the transaction included a complete technical, legal, environmental, social, and financial assessment; the identification of potential investors; an analysis of the various options available for PPPs; and the identification of key decisions and the design of the transaction structure. The implementation phase of the transaction will include the prequalification of potential investors, design and oversight of the bidding process, drafting of and negotiations on contractual documentation, and finally, a bid award process and contractual closure.

### **Results achieved:**

- Related legal framework approved by the parliament
- The bid submission is expected in late spring 2015
- The winning bidder will be announced in late October 2015
- Final contract expected in December 2015
- Concessionaire is expected to invest €25–€30M during the concession term in highway upgrade and slope stabilization measures

**Key Partners:** Ministry of Transport of Albania.

## 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, 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-the-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 also 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, 2010  
**Project Board date:** November 23, 2010  
**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 enterprises (MSMEs) 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 their 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 of 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 toward this goal, as 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.