

EBRD activities in Albania

As at 31 March 2005, the European Bank for Reconstruction and Development (EBRD) had signed 18 investments in Albania, totalling €249 million. Alongside EBRD funding an additional €608 million has been mobilised. A total of 51 per cent of projects are in the private sector.



In Albania the EBRD is concentrating on the development of the private sector and increasing local financial intermediation to support the development of small business, and is emphasising infrastructure development as a prerequisite for business progress. The Bank's present focus for infrastructure activity is the restructuring and rehabilitation of the energy sector and the development of transport and telecommunications networks.

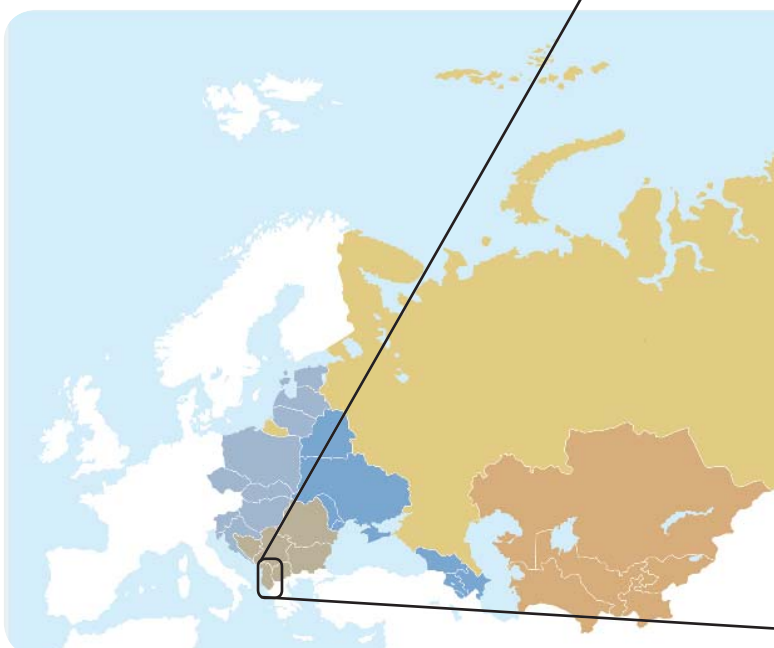
The EBRD is uniquely positioned and fully committed to provide direct support to the country in the development of the private and financial sector, as well as in the rehabilitation and

development of infrastructure as a key factor to the promotion of foreign direct investments.

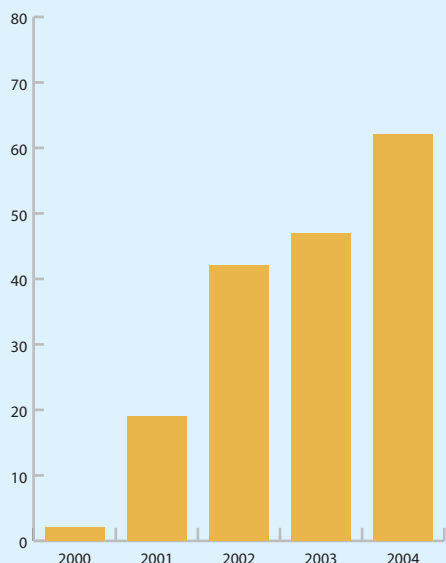
EBRD strategy (approved April 2004)

Albania continues to fulfil the conditions specified in Article 1 of the

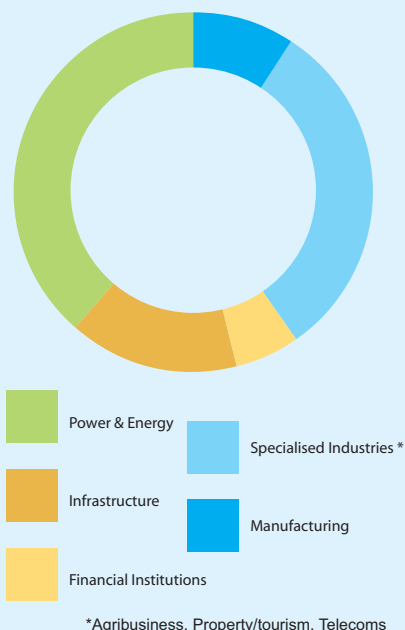
Agreement Establishing the Bank. The conduct of recent elections improved markedly compared to the 1990s, but significant irregularities still occurred. Local elections had to be repeated in many areas, including in more than a third of the districts in the capital, Tirana. The Socialist Party, in power



EBRD commitments by year (EUR mil)



EBRD commitments by sector



Signed projects

For a complete list of signed projects visit:

www.ebrd.com/country

Economic performance and prospects

Inflation remains low and domestic demand and exports continue to increase. Further reforms are needed, however, to improve the business environment and strengthen the private sector.

Output growth and fiscal consolidation, including a broader revenue base, remain critical to sustain the external debt position and long-term spending plans.

Population (millions)	3.4
GDP Growth (%)	5.9
Inflation (%)	2.9
Foreign Direct Investment (US\$ millions)	326
Transition Indicator (average of nine EBRD transition scores)	2.48

All data are at end of 2004. Highest indicator score possible: 4.33.

since the country's near-collapse in 1997, faces the opposition Democratic Party under ex-President Sali Berisha, ousted in 1997. Political turmoil within the Socialist Party brought back Fatos Nano as Prime Minister (in July 2002) for the third time. Nano, who was re-elected Socialist Party leader in December 2003, continued to face dissent within the party. A deal between Nano and Berisha in the summer of 2003 made possible the smooth election by parliament of Alfred Moisiu, a former general, as the country's President. Berisha's party did well in local elections in October 2003. Continuing strife in the Socialist Party led to a formal split. In September 2004, Ilir Meta, a former Socialist Prime Minister, founded a new political party, which has 10 MPs in a 140-seat parliament. The parliamentary elections are due in June 2005.

On the international scene, Albania continues to play a constructive role in south-eastern Europe. The country has signed, and in most cases implemented, free trade agreements with all neighbouring countries in the region and with Kosovo. Albania has also

shown restraint in its official policies towards Serbia and Montenegro and the former Yugoslav Republic of Macedonia over the issue of ethnic Albanians in those countries. In January 2003, the country began formal negotiations with the EU on a Stabilisation and Association Agreement, but progress has been very slow.

Significant progress

Although starting from a low base, Albania has made significant progress in all fields since 1997. Small-scale privatisation is virtually complete and the private sector now accounts for about 80 per cent of employment. Inflation is low, the exchange rate is stable and foreign reserves are maintained at comfortable levels of more than four months of imports. The past two years have also seen progress in structural reforms, an improvement in the dialogue between the government and the business community, advances in the commercialisation of public utilities and serious steps to revitalise the privatisation of large enterprises.

Nevertheless, Albania continues to suffer from problems such as a high level

of corruption and organised crime, poor law enforcement and weak administrative and institutional capacity. Notwithstanding the rapid economic growth in recent years, income per capita at around US\$ 1,800 is still among the lowest in Europe. Poverty levels remain high, especially in rural areas, and about a quarter of the population lives below the poverty line of US\$ 2 per capita a day. Poverty reduction and improvements to health and education are key priorities under the government's Poverty Reduction and Growth Strategy, adopted in November 2001 and supported by the IMF, the World Bank and the international donor community. The sustainability of public debt remains a concern. The external debt level is relatively low at about 23 per cent of GDP, but domestic debt is high, currently around 38 per cent of GDP. Concessional debt from international organisations remains the main source of external borrowing for the government. The annual non-concessional debt ceiling agreed with the IMF for end-2003 was increased from the previous year's level of US\$ 100 million to US\$ 130 million. Despite privatisation of the largest and last state-owned bank in the country, the Savings Bank, the level of cumulative foreign direct investment (FDI) at US\$ 1.128 billion (US\$ 330 per capita) at end-2003 was among the lowest in the region.

Main transition challenges

The main transition challenges for Albania are to:

- encourage private sector development, particularly small and medium-sized enterprises (SMEs), and bring much of the large informal sector into the formal economy. This will require increased access to finance but most importantly, further

Vodafone Albania



The EBRD, together with the IFC and Greece's second largest bank, Alpha Bank, are now giving Vodafone Albania (VFAL) an €85 million loan to enable the company to grow further, stimulating competition in a previously monopolistic, now booming market. VFAL launched services in August 2001 and, in one of the world's fastest roll-outs, it only took the company 17 months to attract 378,000 subscribers and seize 42 per cent of the market.

VFAL's sole competitor is the formerly state-owned Albanian Mobile Communications, now acquired by Cosmote, Greece's partly state-owned mobile telecommunications leader. Vodafone, the world's largest mobile telecoms provider (and one of the 10 largest companies globally), is employing Vodafone-Panafon, the second-largest mobile operator in Greece, as a platform for the Group's operations in

Albania and south-eastern Europe. Vodafone-Panafon closely supports the VFAL on a strategic and technical basis. It carries out network design and implementation as well as billing, also assisting with technical matters, customer care, financial, marketing and IT issues. In the long-run, VFAL is expected to take over its own affairs and Greek management will gradually move on to local hands.

Such deals are vital to Albania. Healthy competition can bring higher-quality services and lower prices, and thus contribute to market growth. Vodafone looks like the ideal company to spread the word and when the EBRD, the IFC and a commercial Bank with a strong regional presence collaborate, there is great potential for a high demonstration effect.

Healthy competition can bring higher-quality services and lower prices, and thus contribute to market growth.

improvements of the investment climate through a stronger and better enforced legal framework, sustained efforts to fight corruption and tackle organised crime, and strengthened institutional and administrative capacity;

- continue to pursue commercialisation and privatisation in utilities and in the financial sector in order to increase competition, improve services and bring new management skills;
- undertake essential investments in the country's dilapidated infrastructure, including further work to resolve the energy crisis, improve provision of municipal services and strengthen local and international transport networks.

The Bank is committed to support the country's efforts in addressing these challenges. Over the forthcoming strategy period, the Bank will focus its efforts on the development of the private sector, carefully balanced with support for critical public infrastructure. This will be complemented by policy dialogue to support institutional building, enhance absorption capacity and promote improvements of the administrative and legal frameworks.

Operational priorities

The Bank will focus both on the implementation of existing projects, aimed at boosting disbursements, and on carrying out new projects, according to the following operational priorities:

- *Private sector development*

The Bank will renew its efforts in playing a major role in promoting private sector development through its involvement in privatised and greenfield enterprises, with a particular focus on general industry and agri-business. In

Power sector rehabilitation and reconstruction



precedent was the signing of a co-management contract with Italy's ENEL in August 2000.

The project will enable KESH to increase the availability and reliability of power supply, with lower downstream costs stimulating industrial activity. It will also help to improve energy efficiency by reducing technical and non-technical losses and lead to the introduction of private management for the sector. In the longer term the management contract should pave the way for full privatisation. The project will be co-financed by the Japan Bank for International Corporation, the Austrian government, the Swiss government and KESH.

In November 1999 the EBRD approved a €30 million loan to Korporata Elektro-energetike Shqiptare (KESH), Albania's electricity utility. The loan replaced two existing loans with KESH for the Drin River Cascade rehabilitation project (€15.7 million) and the transmission and distribution project (€10 million). These could not be implemented as envisaged because of the impact of the pyramid scheme crisis and the Kosovo war. Under the new project, future disbursements are linked to the successful implementation of a co-management contract with a qualified power utility. The main step towards accomplishment of this

To further support the rehabilitation of the power sector in Albania, the EBRD approved a €24 million sovereign-guaranteed loan to KESH in 2002 to finance part of the power transmission and distribution project.

Proceeds of the EBRD's loan will be used to finance supply and installation contracts for the rehabilitation and upgrade of the power transmission and distribution systems and substations in the following cities: Tirana, Kavaja, Korca, Berat, and Lushnja. The aim of the project is to reduce technical and non-technical losses in the Albanian power system.

The project will enable KESH to increase the availability and reliability of power supply, with lower downstream costs.

parallel, the Bank will offer to support forthcoming privatisations, such as in the utilities sector (telecom), through the provision of pre- or post-privatisation long-term financing.

- *Financial sector*

The Bank will seek to support the strengthening of the financial sector as a key factor for the development of SMEs. It will focus on the development of products and facilities already operating in other countries, such as donor-supported risk-sharing facilities and SME lending frameworks combined with technical assistance funds aimed at enhancing the capacity of local banks and boosting financial intermediation. The Bank will also work on the completion of the privatisation of the insurance company INSIG and Italian Albanian Bank.

- *Infrastructure*

Supporting the rehabilitation of the country's infrastructure and its integration within the region will remain a key priority for the Bank. Sovereign-guaranteed financing will be envisaged with due consideration to the country's borrowing limits and continued emphasis will be put on co-financing and blending of resources with donors. The Bank will focus on the following areas:

Energy

The Bank will provide financing for new power generation capacities and support the rehabilitation and extension of the transmission system through regional integration. The implementation of the existing power transmission and distribution projects will also continue to be a priority.

Transport

The Bank's priority will be the upgrading of a new segment of the main road network (regional link with Greece) in addition to the implementation of the existing road rehabilitation project. The Bank will offer to support the private concession for the Tirana airport and will explore co-financing possibilities with other international financial institutions (IFIs) in other areas such as ports.

Municipal and environmental infrastructure

The development of a viable project pipeline in the municipal and environmental infrastructure sector, focusing mainly on water supply and possibly urban transport and solid waste management, will be a priority.

The Bank will pursue the proposed operational objectives and the associated policy dialogue in close co-operation with the World Bank, the EU, the European Investment Bank and other IFIs and donors in order to ensure the successful implementation of its strategy.

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