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The World Bank

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Report No: PAD1897

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EURO 63.8 MILLION  
(US\$71.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF ALBANIA

FOR A

PROJECT FOR INTEGRATED URBAN AND TOURISM DEVELOPMENT

OCTOBER 24, 2016

Social, Urban, Rural and Resilience Global Practice  
Europe and Central Asia Region

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CURRENCY EQUIVALENTS  
(Exchange Rate Effective August 31, 2016)

US\$1.1142 = 1 EUR

FISCAL YEAR  
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADF	Albanian Development Fund
CBA	Cost-benefit Analysis
CIIP	Competitive Industries and Innovation Program
CMS	Coastal Management Strategy
CPF	Country Partnership Framework
DA	Designated Account
ERR	Economic Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMAP	Energy Sector Management Assistance Program
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
EU	European Union
FA	Financing Agreement
FM	Financial Management
GDP	Gross Domestic Product
GIS	Geographic Information System
GLDP	General Local Development Plan
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoA	Government of Albania
HDM	Highway Development and Management
ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
ICZMP	Integrated Coastal Zone Management Project
IFR	Interim Financial Report
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
M&E	Monitoring and Evaluation
MEDTTE	Ministry of Economic Development, Tourism, Trade, and Entrepreneurship
MFSA	Municipal Finance Self-assessment
MoC	Ministry of Culture
MoE	Ministry of Environment
MoF	Ministry of Finance
MOP	Manual of Procedures (ADF)
MoUD	Ministry of Urban Development
NCB	National Competitive Bidding
NPV	Net Present Value

NTDS	National Territorial Development Strategy
O&M	Operation and Maintenance
PCU	Project Coordination Unit
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Assessment
PFM	Public Financial Management
POM	Project Operational Manual
PP	Procurement Plan
PSC	Project Steering Committee
PIUTD	Project for Integrated Urban and Tourism Development
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
UA	Urban Audit
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UPP	Urban Partnership Program
WTP	Willingness-to-Pay
WTTC	World Travel and Tourism Council

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Country Director:	Ellen A. Goldstein
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Practice Manager:	David Sisen
Task Team Leaders:	Paula Restrepo Cadavid, Shaun Mann

**ALBANIA**  
**Project for Integrated Urban and Tourism Development**

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**PAD DATA SHEET***ALBANIA**Project for Integrated Urban and Tourism Development (PIUTD) (P155875)***PROJECT APPRAISAL DOCUMENT***EUROPE AND CENTRAL ASIA**GSU09*

Report No.: PAD1897

<b>Basic Information</b>			
Project ID P155875	EA Category B - Partial Assessment	Team Leader(s) Paula Restrepo Cadavid, Shaun Mann	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 15-Nov-2017	Project Implementation End Date 31-Jan-2022		
Expected Effectiveness Date 01-Feb-2017	Expected Closing Date 31-Jul-2022		
Joint IFC No			
Practice Manager/Manager David N. Sislen	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Ellen A. Goldstein	Regional Vice President Cyril E Muller
Borrower: Ministry of Finance, Ministry of Urban Development			
Responsible Agency: Albanian Development Fund			
Contact: Telephone No.: +355 4 235 597/8	Benet Beci	Title: Email:	Executive Director, bbeci@albaniandf.org
<b>Project Financing Data(in EUR millions)</b>			
<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee	
<input type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input type="checkbox"/> Other	
Total Project Cost:	63.80	Total Bank Financing:	63.80
Financing Gap:	0.00		

<b>Financing Source</b>	<b>Amount</b>
Borrower	0.00
International Bank for Reconstruction and Development	63.80
<b>Total</b>	<b>63.80</b>

#### **Expected Disbursements (in EUR Millions)**

Fiscal Year	2017	2018	2019	2020	2021	2022				
Annual	1.3	6.7	13.5	21.5	12.6	8.2				
Cumulative	1.3	8.1	21.5	43.1	55.6	63.8				

#### **Institutional Data**

##### **Practice Area (Lead)**

Social, Urban, Rural and Resilience Global Practice

##### **Contributing Practice Areas**

Trade & Competitiveness

##### **Cross Cutting Topics**

- Climate Change
- Fragile, Conflict & Violence
- Gender
- Jobs
- Public Private Partnership

##### **Sectors / Climate Change**

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Sub-national government administration	40	20	10
Transportation	Rural and Inter-Urban Roads and Highways	35	10	10
Water, sanitation and flood protection	General water, sanitation and flood protection sector	25		
<b>Total</b>		<b>100</b>		

- I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

##### **Themes**

Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Financial and private sector development	Infrastructure services for private sector development	10
Financial and private sector development	Other Private Sector Development	10
Urban development	City-wide Infrastructure and Service Delivery	35
Urban development	Urban Economic Development	25
Urban development	Cultural Heritage	20
Total		100
Proposed Development Objective(s)		
The PDO of the proposed project is to improve urban infrastructure, enhance tourism assets, and strengthen institutional capacity to support tourism-related local economic development in selected areas in the south of Albania.		
Components		
Component Name	Cost (EUR Millions)	
Component 1: Urban upgrading and infrastructure improvement	44.3	
Component 2: Touristic sites upgrading	8.4	
Component 3: Tourism market and product development	7.7	
Component 4: Implementation support	3.2	
Systematic Operations Risk- Rating Tool (SORT)		
Risk Category	Rating	
1. Political and Governance	Moderate	
2. Macroeconomic	Moderate	
3. Sector Strategies and Policies	Substantial	
4. Technical Design of Project or Program	Moderate	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	Moderate	
7. Environment and Social	Substantial	
8. Stakeholders	Substantial	
9. Other		
<b>OVERALL</b>	Substantial	
Compliance		
Policy		
Does the project depart from the CAS in content or in other significant	Yes [ ]	No [ X ]



respects?			
Does the project require any waivers of Bank policies?		Yes [ ]	No [ X ]
Have these been approved by Bank management?		Yes [ ]	No [ X ]
Is approval for any policy waiver sought from the Board?		Yes [ ]	No [ X ]
Does the project meet the Regional criteria for readiness for implementation?		Yes [ X ]	No [ ]
<b>Safeguard Policies Triggered by the Project</b>		<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36			X
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10			X
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60			X
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Urban Design Studies Satisfactory to Bank	Yes	-	Continuous
<b>Description of Covenant</b>			
The Borrower through MoUD shall cause the Project Implementing Entity to ensure that any urban designs studies undertake under Component 1 (a) of the Project are satisfactory to the Bank.			
<b>Conditions</b>			
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>	
IBRD	Subsidiary Agreement	Effectiveness	
<b>Description of Condition</b>			
The Subsidiary Agreement, satisfactory to the Bank, has been executed on behalf of the Borrower and the Project Implementing Entity (ADF).			
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>	
IBRD	Project Operational Manual	Effectiveness	
<b>Description of Condition</b>			
The Borrower through MoUD shall cause the Project Implementing Entity to prepare and adopt a Project			

Operational Manual (POM) in a manner satisfactory to the Bank.

<b>Source of Fund</b>	<b>Name</b>	<b>Type</b>		
IBRD	MoUD Project Coordination Unit	Effectiveness		
<b>Description of Condition</b>				
The Borrower, through MoUD, has caused the Project Implementing Entity to hire staff for the Project Coordination Unit within MoUD with qualifications, experience and under terms of reference satisfactory to the Bank.				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Paula Restrepo Cadavid	Team Leader (ADM Responsible)	Urban Economist	Co- Task Team Leader	GSU09
Shaun Mann	Team Leader	Senior Investment Policy Officer	Co-Task Team Leader	GTCCS
Benedicta T. Oliveros	Procurement Specialist (ADM Responsible)	Procurement Analyst	Procurement Specialist	GGO03
Jonida Myftiu	Financial Management Specialist	Financial Management Specialist	Financial Management	GGO21
Ahmed A. R. Eiweida	Team Member	Lead Urban Specialist	Lead Urban Development Specialist	GSU08
Delphine Alberta Hamilton	Team Member	Senior Program Assistant	Team Assistant	GSU09
Drite Dade	Environmental Specialist	Sr Natural Resources Mgmt. Spec.	Environment and Natural Resources	GEN03
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Manjola Malo	Team Member	Procurement Specialist	Procurement Specialist	GGO03
Maria Eugenia Davalos	Team Member	Senior Economist	Senior Economist	GPV03
Nightingale Rukuba-Ngaiza	Counsel	Senior Counsel	Project Lawyer	LEGLE

Luz Meza-Bartrina	Counsel	Senior Counsel	Project lawyer	LEGLE	
Odeta Bulo	Team Member	Executive Assistant	Team Assistant	ECCAL	
Rodrigo Archondo-Callao	Team Member	Sr Highway Engineer	Economic Analysis - Roads	GTI03	
Rosanna Nitti	Team Member	Sr Urban Spec.	Senior Urban Development Specialist	GSU09	
Ruxandra Maria Floroiu	Safeguards Specialist	Lead Environmental Specialist	Lead Environmental Specialist	GEN03	
Sagita Muco	Team Member	Operations Officer	Private Sector Development	GTCEU	
Tamara Nikolic	Team Member	Operations Officer	Operations Officer	GSU09	
William Hutchins Seitz	Team Member	E T Consultant	Economist	GPV03	
Christian Daniel Mahler	Team Member	Energy Specialist	Energy Specialist	GEEES	
<b>Extended Team</b>					
<b>Name</b>	<b>Title</b>	<b>Office Phone</b>	<b>Location</b>		
Gianni Brizzi	Senior Regional Development Consultant				
Hyun Soo Kal	Senior Tourism Planner Consultant				
<b>Locations</b>					
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>					
Consultants Required? Consulting services to be determined					

## I. STRATEGIC CONTEXT

### A. Country Context

1. **Albania emerged from the collapse of communism in the early 1990s as one of the poorest countries in Europe.** The country then experienced rapid growth of nearly 6 percent per year rising to the ranks of middle-income country by 2008. The rapid pace of growth helped the country narrow the per capita income gap with the rest of Europe, from 18 percent of average European Union (EU) incomes in 1998 to 30 percent by 2012, and fueled aspirations to join the EU. Growth successfully halved poverty from 25.2 percent in 2002 to 12.5 percent in 2008. However, the global and Eurozone crises in 2008 brought Albania's growth to a near standstill by 2012, and the country is struggling to recover, particularly given its historic ties to Europe's poorer performing economies. The poverty rate rose to 14.5 percent along with rising unemployment in the aftermath of the crises.

2. **A new Government took office in 2013 and is currently implementing a multifaceted reform program.** The reform aims at accelerating growth, creating jobs, restoring trust in government, tackling corruption in public service delivery, and improving the investment climate, furthering progress toward the EU accession. As outlined in the 2015 Systematic Country Diagnostic, economic growth in Albania has been strongly associated with both poverty reduction and increased welfare of the bottom 40 percent of the population. As such, restoring strong growth is a priority to reverse recent poverty trends and boost shared prosperity. An accelerated and inclusive growth model requires deep structural reforms to release binding constraints to growth, in combination with territorial targeting to ensure that all the areas of the country can take advantage of their endowments.

### B. Sectoral and Institutional Context

3. As part of its territorial targeting approach, the Government of Albania (GoA) is moving toward establishing a platform for regional development. As part of this, the GoA is implementing regional development reforms. The reforms aim at achieving greater territorial cohesion by reducing regional disparities in access to services, and supporting local economic development building upon existing local and regional assets. It is also expected to contribute, in the medium term, to EU accession and the absorption of regional development funds.

4. **The GoA has identified the south of Albania<sup>1</sup> as a priority for regional development.** This area is considered a priority given its unique natural resources and cultural heritage assets and its potential to further develop tourism as a driver of local, regional, and national economic growth. Tourism is currently one of the key drivers for economic growth and job creation in Albania.<sup>2</sup> The tourism industry has emerged as a significant contributor to the economy,

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<sup>1</sup> The south of Albania, as referred to in this project, does not correspond to a specific administrative region. It is a geographic area that has been recognized for its tourism potential and includes several of Albania's most attractive and diverse tourism assets. The south of Albania comprises the area between Fier-Vlora and Saranda and covers both the coast and the hinterland, including Berat, Permet, and Gjirokastra. An indicative map can be found in annex 6.

<sup>2</sup> World Travel and Tourism Council (WTTC) data (2015).

contributing directly to an estimated 5.9 percent of gross domestic product (GDP) in 2014 and in total to 21 percent of GDP. Its contribution to employment is also significant, directly supporting 50,500 jobs, and is estimated to grow to 220,000 jobs by 2025. Over the past year, the GoA, led by the Ministry of Urban Development (MoUD), has developed key strategic instruments—the National Territorial Development Strategy (NTDS) and the Coastal Management Strategy (CMS)—that together provide a vision for the development of the south of Albania over the next 15 years (2015–2030). The NTDS supports the creation of a well-structured urban system that is polycentric in nature and identifies four primary centers (Berat, Gjirokastra, Saranda, and Vlora) and two specialized centers (Permet and Himara) in the south of Albania. The CMS, in turn, aims for the south of Albania to become a diversified tourism destination and supports the strengthening of cross linkages between the coast and the hinterland.

5. **This area has been recognized for its tourism potential.** The Ionian coastline and the southern hinterland offer an appealing tourism value proposition in terms of pristine coastlines, mountains, as well as the country’s three UNESCO World Heritage Sites: Butrint, an ancient Greek and Roman city; Berat; and Gjirokastra, a well-preserved Ottoman medieval city. The area also has a vast number of cultural monuments of national importance (for example, Porto Palermo and Orik archeological park), national parks with unique natural and cultural features (for example, Blue Eye and Zvernec Island), and an emerging tourism gateway, in the city of Saranda, with easy air access through Corfu as well as a new cruise ship terminal.

6. **However, a number of obstacles prevent the south of Albania from realizing its full economic potential.** First, basic urban infrastructure is inadequate to meet residents’ needs and growing tourism demand, existing assets are deteriorating due to a lack of maintenance, and newly created municipalities lack the capacity to deliver supporting services in a sustainable way. Second, despite the rich asset base available, tourism activities are concentrated over a short period of time, are not sufficiently diversified, and are dominated by high-volume and low-value local and regional markets. Third, tourism activities, both at the national and local level, are not supported or managed in a coordinated way. These obstacles are further outlined below.

- (a) *Municipalities in the south of Albania do not currently have the capacity to deliver supporting services.* The area includes a range of municipalities<sup>3</sup> at different stages of development and facing different challenges. On the one hand, urban centers on the coast—such as Vlora and Saranda—are under high development pressure because of population growth both in the form of permanent residents and huge influxes of visitors during the summer. On the other hand, historic urban centers in the hinterland—such as Berat and Gjirokastra<sup>4</sup>—have experienced population decline over the past decade, and continue to lag behind in economic growth. Across

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<sup>3</sup> As part of its reform, the GoA is implementing a fast-paced decentralization program which, as a first step, includes the consolidation of local government units. The reform intends to increase operational efficiency at the local level. The newly formed municipalities, while larger, are still facing many of the previous development challenges.

<sup>4</sup> According to the latest census, between 2001 and 2011, Berat and Gjirokastra quartz lost 12 percent and 14 percent of their urban population, respectively. Over the same period, these two quartz also ranked the lowest with regard to total economic growth.

the south, the capacity to deliver services is compromising the potential to deliver a higher-value tourist experience as well as the quality of life for residents.

- (b) *Tourism numbers are healthy and growing, but the market mix and distribution are not.* While tourist numbers to Albania are growing,<sup>5</sup> the current market mix is dominated by Albanians and regional residents with Albanian family connections.<sup>6</sup> The majority of tourists are visiting for business or to see family and friends and a well-defined tourism leisure product has yet to emerge. In addition, there is a long-held tradition and perception that the south of Albania is primarily a seasonal ‘sun, sea, and sand’ destination. While subnational tourism statistics are not available, entry numbers for the main cultural monuments in the south of Albania show a steady and pronounced growth in tourism arrivals, similar to the one observed at the national level, but also reveal a marked seasonality.<sup>7</sup>
- (c) *The south of Albania lacks the delivery system<sup>8</sup> needed to grow a sustainable and successful tourism industry.* There is an institutional failure resulting from the lack of coordination and cooperation in tourism market research, planning, promotion, and product development not only at the local destination level, but also between national and local institutions and between the public and the private sector. To build toward a better performing tourism industry, the south of Albania will need to provide integrated tourism offers that include inland touristic sites, and attractions/activities that are not solely focused on ‘sun, sea, and sand’. To do this, potential source markets need to be identified and promoted, and complementary products need to emerge to sustain existing tourism businesses beyond the summer months and encourage new ones to invest and operate.

7. **Within this context, the GoA has requested the World Bank to support its efforts to foster the regional development of the south of Albania.** To address the abovementioned obstacles, a holistic, integrated, and multisectoral approach is needed. As such, the project will support a package of activities aimed at (a) improving urban infrastructure with catalytic urban upgrading efforts, aimed at enhancing the attractiveness and livability of primary and specialized urban centers; (b) enhancing the touristic appeal and sustainable management of cultural heritage assets; and (c) investing in municipal capacity to deliver services and carry out, in partnership with the national Government and the private sector, tourism destination management. The proposed project is expected to play an important role in piloting an integrated regional

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<sup>5</sup> Between 2007 and 2014, compound annual growth rates in overall visitor numbers in Albania was 18 percent, compared to 4 percent in Croatia, 5 percent in Bulgaria and Montenegro, and 9 percent in the Former Yugoslav Republic of Macedonia.

<sup>6</sup> From over 3 million tourists in 2015, statistics from INSTAT show that over 60 percent are regional (Greece, Kosovo, and southern Italy) and visiting for business and a further 29 percent are Albanian expatriates visiting friends and relatives.

<sup>7</sup> For example, visitors to Butrint National Park—to the south of Saranda—increased from 69,476 in 2011 to over 100,000 in 2014. However, entries are mostly concentrated over the June, July, August period—accounting for almost 80 percent of annual entries.

<sup>8</sup> A tourism ‘delivery system’ is the combination of public and private sector actors, infrastructure, images, and information that together bring tourists to destinations or markets to products.

development approach and provide a model for replication across other economic regions in the country.

**8. Learning from previous experience, the project will concentrate investments in and around the most important touristic centers in the south of Albania.** The project builds, in part, upon the experience and results of the recently closed Integrated Coastal Zone Development Project (ICZMP) and similar projects implemented by the World Bank across the world.<sup>9</sup> To avoid fragmentation and ensure value for money, the project will focus on urban upgrading and infrastructure improvement investments in four tourism centers in the south of Albania: Berat, Gjirokastra, Saranda, and Permet.<sup>10</sup> These urban centers or hubs, while relatively small in terms of resident population,<sup>11</sup> play an important function as clusters of tourism-related goods and service provision (hotels, restaurants, bars, shopping areas, transport, cafes, banking, and so on) and have a critical role in holding and bringing tourists to surrounding sites and attractions. Furthermore, to create a viable and diversified touristic circuit in the south of Albania, investments will also be made to enhance existing touristic sites along the south of Albania touristic corridor.

### **C. Higher Level Objectives to which the Project Contributes**

**9. Link to twin goals of poverty reduction and shared prosperity.** The project will contribute to reducing poverty and promoting shared prosperity in the selected municipalities. A forthcoming report, which estimates poverty rates at a low level of geographical aggregation in Albania, reveals that eliminating poverty remains a challenge in the municipalities benefiting from the project.<sup>12</sup> The project will contribute toward the achievement of the twin goals by helping communities and destinations upgrade their urban infrastructure, supporting the strengthening of tourism assets, stimulating tourism-related jobs and enterprises, and increasing value chain linkages in and around destinations. Activities aimed at improving urban infrastructure, particularly those linked to improvement of public spaces, are expected to increase households' welfare by improving their living conditions. This is particularly important as delivery gaps continue to be disproportionately concentrated among the poor and the less well off. In addition, as part of the project results assessment, a household survey—including a module that would allow identifying poor households—will be deployed. This will allow the monitoring of direct and indirect project outcomes by socioeconomic status and gender.

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<sup>9</sup> Ethiopia Sustainable Tourism Development Project; Jordan Cultural Heritage, Tourism and Urban Development Project; Georgia Regional Development Projects; and Lebanon Cultural Heritage and Tourism Development Project, among others.

<sup>10</sup> Vlora and Himara, the other urban centers in the south of Albania, are currently benefiting from large-scale investments made by the Council of Europe and the Government's Regional Development Fund.

<sup>11</sup> According to the 2011 Census, the population of these four urban centers was between 36,496 (Berat) and 5,946 (Permet).

<sup>12</sup> The incidence of poverty is estimated at 12.4 percent in the municipality of Berat, 10.7 percent in Saranda, and around 7 percent in Gjirokastra and Permet. These rates, although lower than the national average of 14.3 percent, account for a large number of poor people compared to other municipalities in the country, given the much larger total population concentrated in these localities (particularly in Berat, Gjirokastra, and Saranda). The forthcoming report from INSTAT and the World Bank on poverty mapping uses the 2012 Living Standard Measurement Survey and 2011 Census.

10. **The project is aligned with the World Bank Group’s engagement in Albania.** It complements ongoing and completed World Bank Group lending and technical assistance activities.<sup>13</sup> By focusing on strategic aspects of local economic development and tourism, the project supports two themes in the Country Partnership Framework (CPF) for the period FY2015–2019. The overarching goal of the 2015–2019 CPF is to support Albania's aspiration of achieving equitable growth and integration into the EU. This goal will be pursued with a focus on advancing progress toward the twin goals of reducing poverty and increasing shared prosperity. The proposed project supports two focus areas of the CPF, namely Focus Area 2, which aims at creating conditions for accelerated private sector growth and Focus Area 3, which aims at strengthening public sector management and services. In particular, it has a clear link with Objective 2B which seeks to support sustainable tourism development, Objective 2A which aims to contribute to improved business environment, and Objective 3A which supports an increase in the efficiency of public service delivery.

11. **Link to higher-level objectives of the Republic of Albania.** The project will directly contribute to one of the country’s strategic development pillars as outlined in the recent National Strategy for Development and Integration (2014–2020) which seeks to drive growth through sustainable use of resources and territorial development (Pillar 4). More specifically, it will support the goal of driving competitiveness and growth through the development of high-quality and sustainable tourism. In addition, the project will focus on the south of Albania, which has been recognized by both the NTDS and the CMS as a key tourism destination with potential for growth. Beyond this, the project will contribute to the EU accession agenda, which is a crosscutting theme in the CPF and is consistent with the new EU assistance country strategy paper for 2015–2020. Improving socioeconomic development by fostering economic growth and creating jobs is a priority objective of the Government and the EU. The project will contribute to the accession agenda by supporting investments for Albania’s income convergence with the EU, supporting decentralization and promoting better economic governance, and providing technical assistance for the development of institutions.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

12. The Project Development Objectives are to: (a) improve urban infrastructure; (b) enhance tourism assets; and (c) strengthen institutional capacity to support tourism-related local economic development in selected areas in the south of Albania.

### **B. Project Beneficiaries**

13. The primary beneficiaries of the proposed project are the inhabitants in selected municipalities (Berat, Gjirokastra, Saranda, and Permet) and visitors in the south of Albania who will benefit directly from improved urban infrastructure services and improved tourism offers. Inhabitants of selected municipalities are also expected to benefit from increased economic

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<sup>13</sup> The World Bank-financed investment operations that the Project for Integrated Urban and Tourism Development complements and builds on include the pipeline Skills and Jobs Development Support Program, the ongoing Urban Partnership Program (UPP), Competiveness Development Policy Lending, and the recently completed ICZMP.



opportunities. Selected municipalities are home to around 84,000 residents and the south of Albania as a whole is visited—on an annual basis—by an estimated 307,000 tourists.<sup>14</sup> The Government is expected to benefit from increased overall tourism spending, job creation, improved institutional capacity of municipalities and selected government agencies, and improved capacity to operate and maintain assets.

### **C. PDO Level Results Indicators**

14. The achievement of the objectives will be measured by the following anticipated results:
  - (a) New or rehabilitated urban public spaces in selected municipalities (sq.mt)
  - (b) Increased number of tourists satisfied by selected touristic sites (percentage)
  - (c) Increased number of tourists visiting selected touristic sites (percentage)
  - (d) Number of municipalities with functioning destination management partnerships in the project area (number)
  - (e) Number of project beneficiaries - gender disaggregated (core indicator, number)<sup>15</sup>

## **III. PROJECT DESCRIPTION**

### **A. Project Components**

15. The proposed project will consist of the following components:

#### **Component 1. Urban Upgrading and Infrastructure Improvement (EURO 44.3 million)**

16. This component will finance the upgrading of infrastructure in Selected Municipalities by: (a) preparing of feasibility studies and designs (including urban design studies); (b) carrying out construction works to restore selected heritage buildings; (c) upgrading public spaces, the street network and associated infrastructure; and (d) conducting construction supervision.

#### **Component 2. Touristic Sites Upgrading (EURO 8.4 million)**

17. This component will finance investments aimed at improving selected touristic sites along the south of the Albania touristic corridor by inter alia: (a) restoring of selected heritage

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<sup>14</sup> The national tourism statistics system is not well developed and does not include subnational or regional statistics. Estimates are based on the share of tourists who are thought to visit the south of Albania using entries to key cultural monuments in the area as a proxy. Other sources of data suggest that between 15 percent and 24 percent of tourists in the country visit the south of Albania, which would bring the annual number of visitors to an estimated 527,000–843,000.

<sup>15</sup> This only includes direct beneficiaries (residents) from urban upgrading and infrastructure improvements (Component 1) in the four selected municipalities and does not include tourists or indirect beneficiaries. The numbers are based on census data.

and cultural assets and creating rest stops or viewpoints; (b) repairing and improving site infrastructure such as pedestrian’s pathways; (c) preparing the required feasibility studies, site management plans, engineering designs; and (d) conducting construction supervision.

**Component 3. Tourism Market and Product Development (EURO 7.7 million)**

(a) Strengthening the capacity of municipalities to deliver municipal services through *inter alia*: (i) provision of asset management systems, geographic information systems and solid waste collection equipment; and (ii) establishment of site management capacity to enhance the operation of rehabilitated assets.

(b) Carrying out capacity building activities to strengthen the capacity of:

- (i) the Selected Municipalities to promote sustainable tourism growth including: (A) developing and implementing market research and product development strategies; and (B) establishment of pilot Destination Management Partnerships.
- (ii) Participating Central Government Agencies to promote sustainable tourism growth including the establishment of a system for tracking sustainable tourism indicators.

**Component 4. Implementation Support (EURO 3.2 million).**

18. Provision of support to carry out Project implementation, including maintenance of the Project monitoring and evaluation system, as well as training and financing of Incremental Operating Costs.

**B. Project Financing**

**Project Cost and Financing**

19. The total cost of the project is EURO 63.8 million, to be financed through an IBRD loan (US\$71.0 million equivalent).

**Table 1. Project Financing by Component (EURO millions)**

<b>Project Components</b>	<b>Project cost</b>	<b>IBRD Financing (%)</b>	<b>Financing (%)</b>
Component 1: Urban upgrading and infrastructure improvement	44.3	100	100
Component 2: Touristic sites upgrading	8.4	100	100
Component 3: Tourism market and product development	7.7	100	100
Component 4: Implementation support	3.2	100	100
Front-end fee	0.2		
<b>Total Costs</b>	<b>63.8</b>	<b>100</b>	<b>100</b>

### C. Lessons Learned and Reflected in the Project Design

20. Several lessons learned from previous World Bank-financed projects<sup>16</sup> as well as those highlighted in the Implementation Completion and Results Reports (ICR) from Albania and elsewhere are reflected in the project design as follows:

21. *Lesson 1: Investing in livability and service delivery enhances the competitiveness of a location to attract businesses.* The benefits of investing in urban livability, especially in historic areas, has been increasingly studied and debated over the last few decades, with the economic theory underpinning investments becoming substantially more robust. The recent ‘Economics of Uniqueness’ published by the World Bank provides evidence in this regard. A city’s conserved core can differentiate it from competing locations—nationally and internationally—thus helping a location to be more competitive in attracting tourists and investments. Locations that successfully attract investment and business to meet the citizens’ aspirations, while alleviating poverty and promoting social inclusion, are those that harness all their resources, including their heritage. For example, the Lebanon Cultural Heritage and Urban Development Project created the conditions for local economic development in the historic centers of five secondary cities, which resulted in the growth of employment and businesses.<sup>17</sup> To replicate these good examples, the project will support investments in carefully selected urban areas of historic significance, through catalytic urban upgrading interventions with the objective of enhancing their livability and attractiveness for businesses. In addition, aiming to reduce fragmentation of activities within urban areas and achieve greater impact investments in selected municipalities will be identified through the development of detailed urban design studies.

22. *Lesson 2: Proactively linking investments to a supporting delivery system.* Beyond just investing in restoring historical buildings and public spaces, connecting these to national tourism circuits/itineraries and to a supporting tourism delivery system encourages private sector investments. At the local level, experience from a number of countries shows that a critical mass of public investments in pedestrian-scale activities and public assets is required before the renewal becomes self-sustaining. At that point, an upward spiral, involving the private sector, begins. More developers invest in real estate, more businesses open, and more investments are made. Furthermore, as Georgia’s experience showed—after redeveloping old Tbilisi—the Government was able to recoup the cost of investments from increased tax revenues from properties, personal income, corporate income, value-added tax, and property sales’ transaction fees. Acknowledging these results, the project will finance activities in selected municipalities that link public investments in urban renewal with destination promotion and pedestrian-scale investment aimed at encouraging local economic development and creating better places to live and visit.

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<sup>16</sup> ICR for Ethiopia Sustainable Tourism Development Project, ICR for Albania Integrated Coastal Zone Development Project, ICR for Jordan Cultural Heritage, Tourism and Urban Development Project, Madagascar Integrated Growth Poles and Corridors Project 2, Armenia Local Economy and Infrastructure Development Project Gansu Cultural Heritage Protection and Development Project, Georgia First, Second and Third Regional Development Projects, Lebanon Cultural Heritage, and Tourism Development Project.

<sup>17</sup> In Baalbeck, Lebanon, there has been a 105 percent increase in employment in cultural and tourism businesses and 90 percent increase in businesses around the historic core.

23. *Lesson 3: Importance of developing PDO-level indicators that are attributable to project interventions and that consider outcomes at project closure.* For projects aiming to achieve tourism-related outcomes, it is difficult to establish clear attribution of project activities because of the often complex nature of project interventions and the number of unpredictable or exogenous factors that impact outcomes (for example, regional conflicts and financial crisis). The paucity of statistics and the lack of any kind of reliable data on tourists visiting the south of Albania would make it especially challenging to measure tourism-related outcomes. As such, the proposed project's PDO-level indicators were designed to be directly linked and, as much as possible, attributable to the project interventions. Meanwhile, the project will support the establishment of systems that will improve tourism data collection and sustainable institutional structures that can direct and drive tourism growth (destination management partnerships). In addition, while the project results framework will not include indicators such as 'increased job opportunities' and 'increased daily spend from tourists', this data will be tracked as part of the project's M&E system. A baseline survey will be conducted between August and October 2016 to capture pre-project conditions in reference to firms, households, and tourists in selected areas in the south of Albania (refer to the Results Monitoring and Evaluation section for more details).

24. *Lesson 4: The application of safeguards policies for investment projects in Albania requires careful evaluation and monitoring of the environmental, social, and economic contexts.* Lessons from the ICZMP demonstrated that land use planning activities and approaches depend on the client country and its historic, political, and cultural contexts. In addition, the ICR of ICZMP recognized that the application of the World Bank's safeguards policies requires deeper assessment of the social, political, and economic contexts to plan investments in infrastructure. Experience from previous projects in Albania has also revealed that there is overall inadequate capacity at the central and local administration levels to adequately manage potential environmental risk, land acquisition, and resettlement issues. The proposed project has been designed taking into account the abovementioned risks and recognizing the unique and complex sociocultural and political setting of the south of Albania. First, the project will not support land use planning activities and, contrary to the ICZMP, will focus on investments made on public land. Second, specific activities and interventions will be selected and designed to avoid impacts on private property to the greatest extent feasible. During project preparation, a detailed safeguards screening process was put in place for the selection of fast-track investments to be implemented during the first year of implementation and pre-selected touristic sites which could benefit from project support. This involved field visits to all proposed fast-track investments and touristic sites. The screening system will continue to be implemented during project implementation and will be supported by the project's Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF). Third, although the project implementing agency (ADF) has extensive experience in World Bank safeguards compliance, a series of workshops on implementation of the ESMF and RPF are planned as part of the project launch workshop and during the initial year of implementation. These workshops aim to further strengthen the capacity of safeguards specialists and ensure that the main project specialists are able to manage and monitor the environmental and social aspects of the project's activities.

## IV. IMPLEMENTATION

### C. Institutional and Implementation Arrangements

25. The key project partners for the proposed project are the MoUD, the ADF, and selected municipalities in the south of Albania. The MoUD will be the focal ministry for the overall project, while the ADF will be the project implementing agency. The Ministry of Economic Development, Tourism, Trade, and Entrepreneurship (MEDTTE), the Ministry of Culture (MoC), and the Ministry of Environment (MoE) are also project partners with key roles and responsibilities linked to their respective areas of action. Institutional arrangements and responsibilities of the different institutions are outlined below. Detailed roles and responsibilities are described in annex 3 and will be further outlined in the Project Operational Manual (POM).

26. **MoUD.** The MoUD as the line ministry responsible for urban development in Albania will be in charge of overall project oversight and monitoring and will provide technical leadership and coordination with project partners. Implementation responsibilities will be delegated to the ADF. A PCU with key technical staff will be established to facilitate critical technical decisions and actions necessary for successful project implementation. Among the key roles and responsibilities of the MoUD are (a) supporting selected municipalities in the prioritization of activities for integrated urban upgrading through the development of the detailed urban design studies, (b) reviewing consultant deliverables as relevant, and (c) monitoring of project implementation progress periodically.

27. **The ADF.** The ADF will have primary responsibility for overseeing all aspects of project implementation including fiduciary aspects, with financial management (FM) of loan proceeds and procurement of goods, works, and services for the project; compliance with social and environmental safeguards; and ensuring citizen communication and consultation, as well as routine communication with the World Bank. The ADF will also hire qualified consulting companies to support them in supervising the implementation of works. The ADF is an independent agency created in 1993 based on an agreement between the Albanian Government and the World Bank. Since its establishment, the ADF has implemented many infrastructure projects, supported by various donors,<sup>18</sup> and is also in charge of implementing multiple projects under the GoA's Regional Development Fund.<sup>19</sup> The ADF operates under the supervision of the Board of Trustees<sup>20</sup> on the basis of Law No. 10130 that was approved on May 11, 2009.

28. **Selected municipalities.** These are the municipalities of Saranda, Gjirokastra, Berat, and Permet. Each municipality and its staff will take the lead on behalf of the selected municipality

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<sup>18</sup> To this date, with the support and partnership of 15 international financing institutions (that is, the World Bank, EU, German Development Bank [*Kreditanstalt für Wiederaufbau*, KfW], Council of Europe Bank, Islamic Development Bank, Organization of Oil Exporting Countries, and governments of Italy, Switzerland, France, and Japan) and the GoA, US\$569 million have been either managed or are being managed by the ADF to support various infrastructure activities (that is, roads, water supply, sewage, schools and health center rehabilitation, and other urban infrastructure) as well capacity building for the local governments.

<sup>19</sup> Including those supported under the urban development window which are under the MoUD's responsibility.

<sup>20</sup> The ADF Board of Trustees is the highest decision-making body and is led by the deputy prime minister. It comprises 11 members, 5 of whom are representatives of line ministries—including the MoUD—and 6 are representatives of local governments.

in participating in project implementation. As the main beneficiaries of project activities, selected municipalities have been highly involved in project preparation and will continue to play a key role during project implementation. During project preparation, selected municipalities supported the MoUD in identifying specific areas and activities for project support and provided, among others, key inputs for the selection and appraisal of fast-track activities—to be implemented during Year 1. During project implementation, they will review and comment on technical reports and deliverables as relevant; monitor construction works and participate in key points including commissioning of assets; and obtain any required approvals from the municipal council. They will also be responsible for holding periodic citizen engagement meetings together with providing information for citizens' campaigns which explain, to all stakeholders, the project goals, benefits, and implementation progress and disseminating and addressing feedback from community as well as grievance redress mechanisms. Selected municipalities should also ensure participation of women in all community engagement processes. With regard to Subcomponent 3B, selected municipalities will be responsible to ensure the cooperation of their tourism and culture departments for the establishment of the destination management partnerships. Relations between the ADF and selected municipalities will be governed by a Cooperation Agreement.

29. **Key project partners.** Other key project partners include the MEDTTE, the MoC, and the MoE. The MEDTTE is the line ministry responsible for tourism development and as such will play a key role in the development of Subcomponent 3B. The MEDTTE will also be one of the main beneficiaries of Subcomponent 3B activities, in particular those aiming to increase the capacity of the central Government for tourism development. The MoC/Institute of Cultural Monuments will be responsible for supporting the ADF in reviewing activity concepts and approving designs that involve restoration or upgrading of cultural heritage sites. The MoE/National Agency for Protected Areas will be consulted by the ADF throughout the design process of activities that support infrastructure rehabilitation of touristic sites within protected areas. In addition, as per legislation, the MoE will review the environmental assessments of infrastructure activities which require an environmental permit. The MoC and MoE will also be project beneficiaries as some of the project activities will involve the rehabilitation of visitors' infrastructure in protected areas and the enhancement of cultural monuments. Relations between the ADF and the ministries or agencies in charge of project rehabilitated assets will be government by Cooperation Agreements.

30. **Project Steering Committee (PSC).** A PSC including the main project stakeholders—namely, the MoUD, MEDTTE, MoC, MoE, Ministry of Finance (MoF), Department for Development Programing, Financing, and Foreign Aid, the ADF, and representatives from selected municipalities—will be established. The PSC will play a role in the overall project oversight, supporting stakeholder coordination and solving major crosscutting issues or bottlenecks emerging during project implementation. The MoUD will serve as secretariat of the PSC and meetings will be chaired by the deputy prime minister.

#### **D. Results Monitoring and Evaluation**

31. The MoUD will be responsible for overall project oversight and results monitoring, but day-to-day M&E responsibilities will be the responsibility of the ADF. The ADF will work in close collaboration with the selected municipalities and key project partners to collect data and

will be responsible for M&E of the project toward achievement of its objectives. The M&E will build on the ADF's existing M&E system and will be strengthened during project implementation. The ADF has an established M&E and Communication Unit which is in charge of monitoring the implementation of different projects and preparing progress reports for the ADF Board of Trustees.

32. At the project level, the ADF will be responsible for preparing and submitting biannual reports to the World Bank to monitor project progress on the basis of performance indicators defined in annex 1. The frequency and methodology for collection of project indicators is outlined in the Results Framework matrix. In addition to these indicators, the project M&E system will include the development of a detailed Results Assessment. The Results Assessment will be composed of three surveys: a household survey—to capture household-level impacts in the four selected municipalities; a tourist survey—to capture tourism patterns in selected touristic sites supported by the project; and a firm-level survey—to capture firm-level impacts. The household and firm-level surveys are expected to be conducted in the coming months (baseline) and before project completion (follow-up). The tourist survey is expected to be conducted with a higher frequency, having an intermediate assessment during project implementation. The baseline surveys are being financed using Competitive Industries and Innovation Program (CIIP) funding and will be fielded from August to October 2016 to be able to capture the tourist peak season. The tourists' survey results are expected to be ready early September, while the firm and household survey data will be ready in the fall. The midterm and follow-up surveys have been budgeted as part of the projects funds. The survey instruments have been designed to be able to capture project results across different socioeconomic groups, including the poor, and for gender disaggregation.

### **E. Sustainability**

33. The project emphasizes stakeholder ownership and operation and maintenance (O&M) of rehabilitated/constructed assets in the following ways:

- (a) National agencies and municipalities in the project area have been closely engaged in the design of the project. Fast-track investments—to be implemented during the first year of the project—were identified following a bottom-up approach and in close consultation with municipalities and project partners. Detailed urban design studies for integrated upgrading of selected municipalities will also follow a consultative approach for the identification and prioritization of investments. Other project partners will continue to be part of project implementation and supervision as outlined in the Institutional and Implementation Arrangements section. This will contribute to the ownership of project activities.
- (b) Recognizing the long-term sustainability risk for the O&M of rehabilitated assets, the project has been designed to incorporate up front the development of site management plans for touristic sites. The project design also includes targeted technical assistance for local governments aimed at improving their managerial and technical capacity, which is expected to have a positive impact on their overall management of assets. In addition, the ADF will sign Cooperation Agreements with selected municipalities and other ministries/agencies that own the project

rehabilitated assets, which clearly assign the responsibility for operating and maintaining rehabilitated assets.

- (c) The project will be a pioneer in establishing destination management partnerships in the country. To mitigate sustainability risks, the project will pilot destination management using existing local government structures and building in-house capacity. During project preparation, selected municipalities expressed their high willingness to participate in this activity and make available human resources—tourism specialists—for this purpose. At the national level, the project will also support technical assistance activities for the strengthening of the tourism sector. The destination management pilots, if successful, can be replicated throughout the country.

## V. KEY RISKS

### D. Overall Risk Rating and Explanation of Key Risks

- 34. The main risks to achieving the PDO and mitigation measures are the following:
  - (a) **Multiplicity of stakeholders involved might generate coordination issues during project implementation.** Given the cross-sectoral nature of the project, there are multiple project partners who will participate in project implementation. This creates risks in stakeholder coordination which might generate delays during implementation. Two mitigation actions are proposed: (i) the establishment of a PSC which will support stakeholder coordination and solve major crosscutting issues emerging during implementation and (ii) the establishment of a PCU within the MoUD staffed with key technical personnel, which will increase the capacity of MoUD to provide technical leadership and oversight during project implementation. The World Bank will also play an active role through close project supervision, to ensure that any coordination issues are identified and solved on time. In addition, specific roles and responsibilities of each project partner will be clearly outlined in the POM.
  - (b) **Inability of local government and project partners to ensure sustainability of assets financed by the project.** In the case of urban infrastructure, municipalities, through the Cooperation Agreements, will commit to providing funding for O&M of rehabilitated assets. In the case of touristic sites improvements, the project will finance the development of site management plans for the sustainable operation of touristic products. The ADF will also be supported by a site management consultant who will provide advice and guide the development and implementation of site management plans. In addition, the project will include targeted technical assistance aimed at improving the managerial and technical capacities of selected municipalities.
  - (c) **Little in-country experience for destination management.** The project will be a pioneer in establishing destination management partnerships in the country which might pose risks for their operationalization. To mitigate these risks, a destination



management assessment is being conducted using CIIP funding. The assessment is expected to identify specific risks for the operationalization of destination management partnerships and provide recommendations. As mentioned in the previous section, to mitigate sustainability risks, the project will pilot destination management using existing local government structures.

- (d) **Potential political capture of investments for project support.** The project has been designed following a two-staged approach, in which a set of investments and activities are identified up front and the remaining ones will be fully identified following a detailed and agreed selection process. As all specific activities have not been fully identified, there is a need to ensure the transparency in the selection, screening, and prioritization of investments. To mitigate these risks, a detailed selection process was followed for the identification of Year 1 activities and has been agreed up front for further specification of Years 2–5 investments. The specific package of Years 2–5 investments to be supported under Component 1, Urban Upgrading and Infrastructure Improvement, will be fully identified through the development of detailed urban design studies in the four selected urban centers. In addition, specific areas of engagement to be supported in each of the selected municipalities have been identified and agreed up front as described in annex 2. For Component 2, Touristic Sites Upgrading, a detailed screening and ranking criteria was developed during project preparation, which resulted in the pre-selection of eight touristic sites<sup>21</sup> (for more details, refer to annex 2). Furthermore, the project will not include any activity with significant environmental and social impacts (only Category B activities are eligible).

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<sup>21</sup> Any additional touristic sites proposed during project preparation will be considered on an exceptional basis and to be eligible for project financing will need to be screened and ranked using the same criteria and deemed acceptable to the World Bank.

- (e) *Poor technical quality of design and works.* Investments aimed at improving urban infrastructure are expected to be relatively simple from a technical perspective, as they will involve only the rehabilitation and/or upgrading of existing urban infrastructure. Nevertheless, they will need to be designed in a way that ensures high visual impact, considers safety features (for example, pedestrian protection and handicap access), and promotes cost-efficiency practices. For these purposes, an architect with an urban landscaping profile will be mobilized as part of the PCU in the MoUD. Investments aimed at restoring cultural heritage sites might be more complex in nature and will require specific expertise to ensure that technical design and implementation are in line with national and international guidelines (that is, UNESCO). There is already significant in-country experience in the development of similar activities, and experience from the previous project was positive. Nevertheless, to mitigate risks, the ADF will be supported by a cultural heritage consultant who will provide advice and guidance on an ongoing basis for investments dealing with cultural heritage.
- (f) **Multiple actors involved in project area; inadequate capacity of local governments to manage land acquisition and resettlement issues.** Experience from previous projects in Albania (that is, ICZMP) revealed that there is inadequate capacity at the central and local administration levels to adequately manage potential environmental risk, land acquisition, and resettlement issues. The ADF, which has previous experience in the preparation and implementation of safeguards instruments, will be the agency responsible for ensuring safeguard compliance in the project. In addition, contrary to the ICZMP, the project will focus on investments on public land and will select and design specific interventions to avoid impacts on private property to the greatest extent feasible. During project preparation, a detailed safeguard screening process was put in place for the screening and selection of fast-track investments. This system will continue to be implemented to identify and mitigate up front any potential social or environmental risks. As part of project preparation, an ESMF and RPF have been developed by the MoUD and ADF. These frameworks will guide the screening of activities during implementation and the development of specific safeguards instruments, as needed. Finally, the project will also support safeguard-related training and will ensure close World Bank supervision of activities. For the purpose of ensuring adequate communication with citizens and stakeholders and avoid the risk of linking the project with other actors' activities in the project area, the ADF will engage a citizen engagement specialist and prepare and implement a citizen engagement protocol—which will be included as part of the POM.
- (g) **Increased tourism flows might have unintended consequences on the preservation of regional assets.** Increasing tourism flows in the south of Albania could have unintended consequences in the development of this area and increased pressure on natural and cultural resources. While some of the actions to mitigate this risk are beyond the project's reach, as it is privately driven, the project was designed to support the development of a more sustainable type of tourism. First, the project aims to support the diversification of tourism activities moving from 'sun, sea, and sand' type of tourism, which is both spatially and temporally concentrated, to

cultural and ecotourism which are based on the valorization of cultural and environmental assets and are spatially and temporally disaggregated. Second, the project aims to directly support the development of destinations in the hinterland of the south of Albania, trying to connect the coastal corridor tourism products to cultural and ecotourism products in the hinterland. Finally, the project itself has been designed to place an emphasis on the sustainable management of tourism assets, and all tourism site-upgrading activities under Component 2 will be developed with site management plans. This is expected to lead to a more sustainable management of touristic assets and support institutions to better plan and manage of tourism growth.

## **VI. APPRAISAL SUMMARY**

### **D. Economic Analysis**

35. Through its various components, the project is expected to lead to improved urban infrastructure, enhanced cultural heritage assets, and increased capacity for tourism-based local economic development in the south of Albania. The economic benefits linked to the above are multiple. Improved urban infrastructure, such as public spaces, streetscapes, and municipal roads, can lead to a reduction of vehicle operating costs, improved urban livability, and increased safety of movement for locals. At the same time, these investments are expected to make selected municipalities better places to visit and more attractive places to invest, promoting private investment and increasing income-generating opportunities in the project area. Cultural heritage enhancements will lead to the preservation of global public goods, but are also expected to lead to increased willingness to visit/pay for touristic and increased property prices in neighboring areas.

36. The project is expected to deliver substantial benefits by improving urban infrastructure in selected municipalities, which are home to around 84,000 residents, and improved associated infrastructure of around five satellites sites through integrated approaches along the south of Albania touristic corridor. Although subnational tourism statistics are not available, existing data suggest that a minimum of 307,000 tourists visit the south of Albania in a given year.

37. For the purpose of project appraisal, two different economic analyses were conducted. The first economic analysis focusses on the broader medium- to longer-term impacts of the project (hard and soft components), with regard to increased tourism-based local economic activities. However, given the poor quality of national tourism data, the lack of subnational tourism and local economy data, and the difficulties in attributing specific impacts to the project, this analysis should be considered as preliminary. Based on the analysis of tourism outcomes, the overall project is expected to yield an estimated economic rate of return (ERR) of 17.1 percent and a net present value (NPV) of 282.41 EURO million, assuming a social discount rate of 5<sup>22</sup> percent and 25 years of asset life, including five years of project implementation, with corresponding benefits to be realized starting 2022. A sensitivity analysis was also conducted for the overall project to estimate the robustness of results, with a (a) differed project impact (visible

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<sup>22</sup> According to the new guidelines, a 5 percent discount rate is recommended for project evaluation—*Technical Note on Discounting Costs and Benefits in Economic Analysis of World Bank Projects*.

impact only five years after project closure), (b) a lower increase in tourism revenues attributed to the project, and (c) a combination of both. Under all cases, the ERR remains above 9 percent. To complement this analysis, a baseline survey will be conducted between August and October, 2016. The survey will collect firm-, household-, and tourist-level data, which will be repeated before project closure and allow the development of a more robust ex post economic analysis.

38. **The second economic analysis**, develops a cost-benefit analysis (CBA) of the improvement of the Berat Castle vehicle access road, which is one of the identified fast-track investments. For this investment, the economic analysis is based on the broadly used HDM-4<sup>23</sup> model and includes only the costs and benefits directly linked to this investment. Annex 5 contains more detailed information on the methodology and assumptions used for both economic analyses. Based on the analysis of the HDM-4 model, the Berat Castle vehicle access road improvement is expected to yield an ERR of 14.6 percent and an NPV of 1.05 EURO million. A sensitivity analysis of increasing construction costs by 15 percent and reducing benefits by 15 percent yields an ERR of 10.9 percent, which confirms the economic justification of the project.

39. Economic analysis will be used as a screening device in the selection of investments for the remainder of the project. An investment will have to yield a minimum ERR of 5 percent. For relatively small investments, where benefits are difficult to monetize, a cost effectiveness analysis will be carried out in place of a CBA.

## **E. Technical**

40. **Project readiness.** A selected number of fast-track investments—to be implemented during the first year of project implementation—were identified at pre-appraisal. Such investments are all part of Component 1 and were assessed and prioritized, first and foremost based on criteria of relevance to the PDO, followed by technical readiness, and combined with the necessary safeguard screenings. They were validated on the ground both technically and based on sound principles of urban design, to ensure future consistency with existing and upcoming General Local Development Plans (GLDPs),<sup>24</sup> and underwent an extensive consultative endorsement process by both selected municipalities and technical central government agencies. Component 1 investments planned for Year 1 amount to around 9–11 percent of the project envelope and include (a) the upgrading of key pedestrian pathways in Saranda city center, (b) the improvement of streetlighting in the historic core of Gjirokastra, and (c) the rehabilitation and improvement of the Berat Castle vehicle access road and pedestrian access road. Detailed designs are already available for two specific investments: the Berat Castle pedestrian access road and Saranda stairs rehabilitation; a tender for the detailed designs of Berat Castle vehicle access road has been launched and the designs are expected to be ready before the end of 2016; pre-feasibility studies for the street lighting activities were launched early September, 2016 and are expected to be finalized early 2017. Furthermore, key consultancy work for the full identification of Years 2–5 activities will be launched and developed in the coming months. The terms of reference for the detailed urban design studies in Berat and Permet have

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<sup>23</sup> Highway Development and Management (HDM) Model.

<sup>24</sup> GLDPs have already been prepared in Berat and are pending approval; they are in the process of being prepared in Saranda and Gjirokastra. Permet does not currently have a GLDP nor is developing one in the coming year.

been prepared and reviewed by the World Bank and are expected to be launched end-October. The terms of reference to conduct a traffic study, which will support the identification of investments in Saranda and Gjirokastra, have also been prepared and reviewed by the World Bank and the consultant has been mobilized. In addition to these investments, during the first year of implementation, the project will procure equipment for the Himara transfer station (Subcomponent 3A) to ensure completion and functionality of works delivered under the World Bank-financed ICZMP, closed in March 2015. More details on activities by component and respective subcomponents are provided in the following sections and annex 2.

41. **Background analysis that informed project design.** Background analysis that informed project design includes a Tourism Destination Audit for the South of Albania, Institutional Capacity Needs Assessments developed in six municipalities in the project area, technical urban review in selected municipalities, and multiple consultation processes with key project partners, donors, and private sector stakeholders. In addition to these, existing studies and ongoing work<sup>25</sup> carried out by *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), the Albanian-American Development Foundation (AADF), Swiss Cooperation Program, United States Agency for International Development, the World Bank, the MoUD, and the MEDTTE provided valuable context, information, and lessons that informed the overall design of the proposed project.

#### *Component 1. Urban upgrading and infrastructure improvement*

42. The four municipalities participating in this component have been selected and agreed upfront. These are the three primary urban centers of Saranda, Gjirokastra, and Berat, and the specialized center of Permet<sup>26</sup> as outlined in the National Territorial Strategy. These are all secondary cities with a relatively small resident population—of between 5,000 and 40,000 inhabitants—but play a key role in hosting and distributing tourists across the south of Albania. In particular, Gjirokastra and Berat are well established UNESCO Cultural Heritage cities; Saranda is the southernmost port in the country functioning as the tourism gateway for the region and the UNESCO World Heritage Site of Butrint, while Permet, located in the Gjirokastra Qark, complements the southern tourism product as the key pivotal link of the south of Albania tourism circuit within the heart of the Balkans.

43. As part of project preparation, each selected municipality underwent a thorough process of technical urban review and consultation with local governments, local agencies, and stakeholders, cultural heritage agencies, in coordination with the MoUD and the ADF. This process resulted in the identification of areas for project support within each city, fast-track investments to be implemented during Year 1, and specific areas of investment for project support during Year 2–5 (Further detailed in annex 2). Based on the results of the technical urban

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<sup>25</sup> Sustainable Tourism Development Program 2014–2016 (GIZ); Development Plans for Touristic Center of Gjirokastra, 2016 (AADF); Skills Development in Tourism, ongoing project from 2014 (Swiss Cooperation); Albania Tourism Assessment Report, 2008 (United States Agency for International Development); Albania Tourism Investment Climate Assessment, 2008 (World Bank); National Territorial Development Strategy 2014–2018 and Coastal Management Strategy, 2015 (MoUD); Tourism law and background materials, 2015 (MEDTTE).

<sup>26</sup> Vlora is the fourth primary urban center in the south, and Himara, the second specialized center, while playing a critical role in the overall tourism product, will not be targeted by the project as they are already being supported by other development partners (Council of Europe) and by the GoA's Regional Development Fund.

review and to further refine the pre-identified areas of investment, each city will be subject to a detailed urban design study. This will allow the creation of a tailored package of investments with clear synergies, avoiding fragmentation, and aiming to achieve the greatest impact. The urban studies will be done following a consultative process with selected municipalities and key project partners who will ensure that investments are (a) fully aligned with the PDO; (b) consistent with the GLDPs; and (c) prioritized and selected to support the development vision of each of the selected urban centers, ensuring complementarity and avoiding fragmentation. The tailored package of Year 2–5 investments proposed as a result of the detailed urban design studies will need to be deemed satisfactory to the World Bank for project financing.

44. Project investments under Component 1 would include a combination of upgrading of vehicular, pedestrian and multimodal accesses to the city and tourism attractions, strengthening of pedestrian connections and trails systems, integrated street upgrading,<sup>27</sup> upgrading of recreational areas/parks and adaptive reuse of selected structures. Year 1 investments have been identified in Saranda, Gjirokastra, and Berat and will focus on (a) upgrading of key pedestrian pathways in Saranda city center; (b) the rehabilitation of the two main access points to Berat Castle; and (c) the rehabilitation and expansion of street lighting in Gjirokastra’s historical center. Detailed designs are currently available for the key pedestrian pathways in Saranda and one the pedestrian access points to Berat Castle; the design consultancy for the vehicular access point to Berat Castle has been tendered. Pre-feasibility studies for street lighting in Gjirokastra will be developed in the coming months using Energy Sector Management Assistance Program (ESMAP) funding. Detailed urban design studies are expected to be prepared and finalized in January 2017—whose GLDP is already well advanced and pending approval—and Permet; and will be prepared upon project effectiveness in Saranda and Gjirokastra. In addition, as project investments in Saranda will have a strong urban mobility focus, a traffic counting study will be performed during the 2016 touristic season. This study, along with a traffic management study will allow to better inform the prioritization of Year 2–5 investments. The detailed urban design consultancies will also include preparation of required feasibility studies, engineering designs, and construction supervision.

### *Component 2. Touristic Sites Upgrading*

45. During project preparation, a call-for-proposals for touristic sites upgrading was launched by the MoUD. All key project stakeholders were eligible to submit proposals. To proceed to the selection of touristic sites which could benefit from project support, a detailed screening and ranking criteria was developed. The screening process was used to limit the selection of touristic sites to those that (a) were fully aligned with the PDO (for example, along the touristic corridor and with a strong tourism dimension) and (b) did not pose any significant environmental or social risks. Once proposed touristic sites were screened, a ranking process was followed. The ranking process was developed as part of the Destination Audit exercise and was based on six different criteria: (a) tourism attractiveness, (b) potential economic impacts, (c) willingness to develop, (d) contribution to diversified product offer, (e) safeguards and land issues, and (f)

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<sup>27</sup> Integrated street upgrading is intended as a combination of storm water drainage, street lighting, sidewalks, improvement of road safety elements, ducting, undergrounding, rehabilitation of water and sewer connections as needed, tree planting, and façade and signage renovation as deemed necessary by the specific context.

maintenance and sustainability (for more details refer to annex 2). The screening and ranking process received the endorsement of the MoUD and MEDTTE and will be incorporated in the POM. A preliminary list of eight touristic sites<sup>28</sup> with important touristic potential have been identified and pre-selected for project support. Detailed designs for integrated touristic upgrading and site management plans will be developed during the first year of implementation for three of the pre-selected touristic sites. Investments for the integrated upgrading of touristic sites will include restoration of selected heritage and cultural assets; improvement of supporting infrastructure such as last mile access, pedestrian pathways, visitors' centers, and signage in selected touristic sites; and creation of rest stops or viewpoints along the south of Albania touristic corridor. In designing these investments, an integrated approach to touristic sites improvement will be favored, aiming at enhancing visitor experience and satisfaction while ensuring sustainable site management.

### *Component 3. Tourism Market and Product Development*

46. **Subcomponent 3A: Supporting municipal service delivery.** Project preparation activities for Subcomponent 3A were supported by the second phase of the UPP<sup>29</sup> which has ongoing activities in the south of Albania. Under the UPP, Municipal Finance Self-assessments (MFSA)<sup>30</sup> are being conducted in six municipalities<sup>31</sup> and Urban Audits (UAs)<sup>32</sup> are being conducted in Berat and Fier. Both will be expanded shortly to cover a total of seven municipalities in the project area. In addition, for the purpose of the project preparation, an Institutional Capacity Needs Assessment was conducted in seven municipalities in the project area. This assessment revealed that most municipalities lacked, among others, the (a) knowledge/equipment for financial decision making; (b) equipment for planning, collecting, and managing of local taxes and fees; (c) knowledge and skills to prepare project proposals; and (d) knowledge/equipment for establishing GIS and systems for asset management. These assessments confirmed that capacity strengthening for new local governments is much in need and informed design of Subcomponent 3A. This subcomponent will include technical assistance, and equipment for improved municipal management (for example, asset management systems, GISs); targeted technical assistance aimed at improving service delivery (for example, traffic management studies) and enhancing the operation of assets rehabilitated under the project; and selected equipment (for example, solid waste collection) for improved service delivery.

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<sup>28</sup> These include Porto Palermo, Blue Eye, Zverec Island, the touristic Itinerary Borch-Zagoria, viewpoints along the touristic circuit, Orik Ancient City, Labove Church, and Old Military Barracks in Kelcyre.

<sup>29</sup> World Bank – Austria UPP aims to strengthen the capacity of local governments in the southeast Europe region and equip them with practical tools for decision making. While global in scope, this program is targeted at seven Western Balkan countries, including Albania. The first phase of the program (2011–2014) was shaped by the demand of municipalities and local government associations and was focused on municipal finance, urban planning and land management, urban governance/anticorruption, and social accountability. The second phase of the UPP aims to scale up use of local government's diagnostic tools (MFSA and UA) and anchor them as part of the municipal practice. At the same time, UPP II aims to expand the citizen engagement and integrity building agenda.

<sup>30</sup> MFSA is a diagnostic tool that helps the city assess its financial health and identify specific actions to improve mobilization of local resources, public spending, public assets management and maintenance, investment programming, and access to external financing (borrowing + donor funding).

<sup>31</sup> Berat, Fier, Vlora, Himara, Saranda, and Gjirokastra. Permet is expected to be covered by the UPP throughout 2016.

<sup>32</sup> UA provides a snapshot of the level of services and infrastructure in the municipality.

47. **Subcomponent 3B: Tourism products and value chain development.** A rapid tourism sector diagnostic developed as part of the Tourism Destination Audit for the south of Albania and in consultation with key tourism sector stakeholders<sup>33</sup> confirmed the need to diversify and add value to tourism products in the south of Albania. This diagnostic revealed that the south of Albania is not yet prepared to compete for a significant European source market share given, among others, the low levels of market and product development. Preparatory work also revealed that there is no regional management structure that is capable of supporting destination management and that while newly created municipalities have the responsibility for local economic development, their current capacity for tourism and destination management is limited. Among selected municipalities, Berat, Gjirokastra, and Saranda have all identified tourism as their primary economic driver, but have currently committed to supporting its growth to varying degrees. During project preparation, staff in the tourism and culture directorates of each municipality were consulted to assess their capacity and to review ongoing and planned activities. Based on these discussions and aiming to establish sustainable structures that span beyond the proposed project, the project will pilot destination partnerships by strengthening tourism value chains and aggregating and connecting products to markets. To ensure complementary and demand-driven product development across municipalities, this subcomponent will also finance, during the first year of project implementation, market research to guide product development and packaging. Furthermore, recognizing the need to improve tourism statistics, this subcomponent will finance a sustainable system for collecting national tourism statistics. Activities supported under this subcomponent were identified in close consultation with key tourism stakeholders, taking into account areas which are being supported by other development partners and unmet needs.<sup>34</sup>

## **F. Financial Management**

48. An FM assessment was carried out to determine the FM implementation risk and to help establish adequate FM arrangements for the proposed project. The ADF has fiduciary responsibilities for the project. The MoUD, MEDTEE, and selected municipalities will have no FM responsibility, but will provide the ADF evidence of review and acceptance of the goods, works, and consultants' deliverables, as required, to ensure validity of payment requests by contractors, suppliers, and consultants. The assessment showed that the ADF has adequate capacity to maintain adequate FM systems in compliance with World Bank policies. The significant strengths that would provide a basis for reliance include the following: (a) FM arrangements proposed are similar to those of previous projects implemented and found to be adequate; (b) no significant issues in the audits of the previous projects implemented by the ADF; and (c) ADF finance director and FM staff are experienced in implementation of World Bank and donor-funded projects. Overall, the FM risk level is assessed Moderate. To further

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<sup>33</sup> National Tourism Agency (responsible for tourism promotion), the Tourism Directorate (responsible for tourism policies and regulation at the national level), and the Coastal Protection Agency (responsible for management and protection of coastal areas) with the MEDTTE; tour operators from the private sector, tourism departments within selected municipalities, and other development partners currently active in the sector.

<sup>34</sup> Other development partners such as GIZ, Swedish International Development Cooperation Agency, and the Swiss Cooperation Agency are currently supporting the MEDTTE in the development of strategic tourism documents (Tourism Strategy) and the strengthening of tourism regulations, and have targeted programs for tourism skills and tourism-related small- and medium-size enterprises development.



strengthen the project fiduciary environment, a POM will be prepared. The FM part of it will focus on the roles and responsibilities of various institutions involved in project implementation and their interaction with the ADF. The POM will define the flow of relevant documents and approval process, as well as the disbursement and reporting procedures specific to the project. The adoption of the POM will be a condition for project effectiveness.

49. **Disbursements.** Loan proceeds will be advanced to the Designated Account (DA) denominated in euros and maintained in the Bank of Albania (the Central Bank). Reporting on eligible expenditures will be based on summary statements, statements of expenditures, and records submitted. Other allowed disbursement methods will include reimbursements, direct payments, and special commitments.

50. The annual audited project financial statements will be submitted to the World Bank within six months after the end of each fiscal year. In addition, the ADF-audited financial statements will be required. The audit reports will be made publicly available within two months from receipt as required by the World Bank Policy on Access to Information. The details of the FM and disbursement arrangements under the proposed project are provided in annex 3.

## **G. Procurement**

51. **Procurement capacity assessment.** A procurement capacity assessment was conducted on the ADF, which confirmed that its procurement capacity in implementing projects meets IBRD requirements. The ADF has been effectively managing procurement activities under the World Bank-financed Secondary and Local Road Project and other infrastructure projects financed by international finance institutions (KfW, European Investment Bank, and Islamic Development Bank). There were no delays under the Secondary and Local Road Project and this project was also the first in the Europe and Central Asia Region to pilot e-procurement (the business-to-business purchase and sale of supplies and services over the Internet). The Legal and Procurement Department of the ADF is staffed by five well-qualified and experienced procurement specialists, one of whom will be dedicated to the project team. For procurement activities, the procurement unit of the ADF will designate a procurement officer experienced in the procurement of civil works under the World Bank's Procurement Guidelines. However, due to the complex country procurement environment and the other risks identified below, procurement risk rating is Substantial. Risk and mitigation measures were agreed upon and will be addressed by the ADF, MoUD, and World Bank during project implementation.

52. Procurement for the project will be carried out in accordance with 'Guidelines: Procurement of Goods, Works, and Non-consulting services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011 (revised July 2014); 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011 (revised July 2014); and the provisions of the Legal Agreement.

53. The Procurement Plan (PP) for the project has been drafted and will be updated at least annually by the ADF, or as required, reflecting actual project implementation needs as well as improvements in institutional capacity. The PP and detailed arrangements are presented in annex 3.

## H. Social (including Safeguards)

54. **Social impacts.** The project will finance civil works investments in urban and tourism infrastructure. This will include interventions for improvements to historic cultural properties, improved access to areas of natural or environmental significance, as well as investments in urban areas to improve services and enhance the attractiveness of urban environments. Project-supported civil works activities will be undertaken on public land and designed to avoid or minimize any impacts on private property. Nevertheless, it is possible that the project could necessitate permanent or temporary land acquisition or induce changes in land use or land access in the areas of influence of some activities. For example, public roads may need widening or parking areas may need to be expanded to serve a greater number of visitors; changes in the use and physical characteristics of public spaces may have collateral effects on neighboring areas; and income-generating activities (many of which may be informal) in public spaces could be affected. It is clear from the types of interventions proposed that significant economic or physical displacement of people is not anticipated. However, impacts on private land and property, the use of public spaces for income-earning activities, impacts on existing encroachments, or changes in access to land-based resources cannot be completely precluded. To this end, the project is supported by an ESMF and an RPF to ensure that Resettlement Action Plans (RAPs) in line with the requirements of OP 4.12 are prepared and implemented to address any physical or economic displacement of people associated with project interventions. Social impacts are realistically anticipated to be transitory, peripheral, and minor. In the event that small-scale resettlement is required, it was agreed that the primary obligation for resettlement compensation lies with the GoA.

55. **Gender.** The project is fully gender informed and promotes the participation of women in consultation processes and access to the benefits of the project. Given the investments in urban infrastructure, it is expected that among direct project beneficiaries at least 50 percent will be women. However, women are also expected to benefit from project activities that support a tourism-led economic development. For instance, the food production industry, which is at the core of tourism development, has a very high concentration of women in Albania (93 percent of the workforce, 2012 Living Standard Measurement Survey). However, at the same time, women remain underrepresented in the hotel industry (36 percent of the workforce, 2012 Living Standard Measurement Survey). Therefore, the project will closely monitor gender impacts by disaggregating relevant indicators by sex as part of the project's quarterly reports and the Results Framework. The ADF will also monitor the participation of female beneficiaries in capacity-building activities and, where necessary, take corrective actions to ensure gender inclusion. Finally, the baseline and follow-up surveys—conducted as part of the Project Result Assessment—will cover tourists, local residents, and firms and will be designed so as to allow the production of gender disaggregated results.

56. **Citizens' engagement.** The project incorporates robust measures for citizen engagement and public involvement. Identification of specific project-financed activities is typically driven by local, municipal-level demand and will be subject to public consultations and stakeholder feedback at that level. All project-supported interventions, including social and environmental safeguards measures, will be disclosed and discussed in public to ensure that stakeholder input is taken into account in site selection, design, and implementation arrangements. Project preparation has involved consultations with tourism operators as well as central, regional, and

municipal levels of government. The project's grievance redressal mechanism will routinely report and keep records of all salient issues or grievances which arise; the ADF will ensure timely follow-up and tracking of grievances to their resolution. The ADF will also provide citizens with up-to-date information needed to ensure public awareness and engagement on project activities through its website and using social media. The ADF website will link with websites of the MoUD and participating municipalities to ensure multiple access points. The ADF will also engage a citizen engagement specialist as part of the project team and implement a citizen engagement protocol as further outlined in annex 3.

## **I. Environment (including Safeguards)**

57. **Environmental Assessment (OP 4.01).** The project triggers the World Bank safeguard policy on Environmental Assessment (OP/BP 4.01) and is classified as Category B primarily due to the rehabilitation nature of the proposed infrastructure works, which will take place within the footprint of existing infrastructure systems on established lands/zones in known urban areas or might involve limited construction of new facilities such as small visitors' centers near touristic sites in the south of Albania. The physical rehabilitation of the selected existing infrastructure (activities financed under Components 1 and 2) will not involve significant structural modifications or change their operation/scope. Therefore, the envisaged investments are not expected to have irreversible, adverse, and unprecedented environmental and social impacts. However, there will be temporary, site-specific environmental impacts primarily during the civil works period (due to air pollution, noise, and vibration from the operation of equipment, waste generation at the construction sites, and traffic interferences). During the operational period, the environmental concerns would primarily include maintenance activities; awareness campaigns will be raised for the local people to ensure that the aesthetic and proper functions of rehabilitated infrastructure are in line with agreed monitoring/O&M plans.

58. **Climate change.** The project's activities aimed at improving the energy efficiency of urban infrastructure—in particular with regard to the replacement and installment of energy efficient street lighting in city centers—are expected to yield benefits in climate change mitigation. The project is also being complemented by an ESMAP trust-funded activity which will support the four selected municipalities in the development of energy-efficiency diagnostics and identification of energy-saving action plans. Some of the actions identified—once developed—could also contribute to climate change mitigation.

59. **Environmental safeguard instruments.** Not all detailed designs of the planned infrastructure investments will be available before project appraisal, therefore an ESMF has been prepared by the MoUD/ADF. The ESMF is a guidance safeguard document that provides the tools (legal and regulatory framework, regulations, and guidelines) for screening and conducting the assessment of environment and social impacts of specific activities during project implementation once the technical details are known. It includes guidelines for addressing OP 4.11 and 'Chance Finds Procedures' as well as for identifying any impacts on known, endangered, or critical fauna or flora in the project areas and provides details on the type, level, and depth of Environmental and Social Impact Assessments (ESIAs/Environmental and Social Management Plans [ESMPs]) required for each of the investments based on the outcomes of the screening. For those investments defined in terms of scope and location or for which technical details are sufficiently established, ESMPs have been prepared before appraisal. The ESMF and

two specific fast-track ESMPs—for which footprint and technical details are known (for example, the Berat Castle cobblestone road access and the Saranda city center staircase rehabilitation investments)—have been prepared by the borrower and will be disclosed timely at public consultation meetings before project appraisal, in line with national laws and Category B project disclosure requirements.

60. **Natural Habitats (OP 4.04).** The project triggers this policy as some of the proposed touristic investments could be inside protected areas and/or provide improved access to national parks, which could lead to indirect impacts. The environmental assessment process (ESMF development) describes the possibility of project impacts on natural habitats, including protected areas or other sensitive ecological sites in the project area of intervention, for which provisions of appropriate conservation and mitigation measures will be necessary during works (and included in ESMPs). Investments that may raise OP 4.04 issues will not be considered ‘fast tracked’.

61. **Physical Cultural Resources (OP 4.11).** The policy is triggered because project activities will target rehabilitation of physical cultural resources listed as national/UNESCO-level protection. Existing practices for the management of physical cultural resources in the country follow national laws which recognize the importance of implementing specific cultural heritage preservation measures and works (that is, based on designs approved by the MoC and/or in line with international-level physical cultural resources procedures as applicable). Therefore, the project will build on existing practices and country systems and a specific physical cultural resources management plan does not need to be developed for the project.

#### **J. Other Safeguards Policies Triggered**

62. **Projects on International Waterways (OP 7.50).** The project location is along the so-called Albanian Riviera (including the coastline of Adriatic and Ionian Seas) and may have potential impacts on coastal zone resources. The team has consulted with LEGEN/LEGES on the applicability of this policy and the assessment is that the project qualifies for the exception to notification to riparians under paragraph 7(a) given the rehabilitation nature of the project investments. Approval for the noted exception was granted by the regional vice president on July 11, 2016.

#### **K. World Bank Grievance Redress**

63. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit

<http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

## Annex 1: Results Framework and Monitoring

### ALBANIA: Project for Integrated Urban and Tourism Development

<b>Project Development Objective (PDO):</b> The PDO of the proposed project is to improve urban infrastructure, enhance tourism assets, and strengthen institutional capacity to support tourism related local economic development in selected areas in the south of Albania.												
PDO Level Results Indicators	Core	UOM	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
				YR 1	YR 2	YR 3	YR4	YR5				
<b>Indicator One:</b> New or rehabilitated urban public spaces in selected municipalities	<input type="checkbox"/>	Sq. mts	0	15,000	25,000	45,000	55,000	70,000	Biannual	Construction supervision	ADF	Cumulative number (in sq.mt) of new or rehabilitated public spaces <sup>35</sup> in selected municipalities
<b>Indicator Two:</b> Increased number of tourists satisfied by selected touristic sites	<input type="checkbox"/>	Percentage	0	0	0	10	10	25	Mid-term and closure	Beneficiary survey	ADF	Increased number of tourists (in percentage) satisfied with selected touristic sites <sup>36</sup> in reference to baseline
<b>Indicator Three:</b> Increased number of tourists visiting selected touristic sites	<input type="checkbox"/>	Percentage	0	0	0	5.4	10.8	16.2	Mid-term and closure	Beneficiary survey and visitors entry	ADF	Increased number of tourists (in percentage) visiting selected touristic sites in reference to baseline

<sup>35</sup> Public spaces are understood as public parks, green spaces, plazas, pedestrian walkways—including sidewalks and pedestrian roads.

<sup>36</sup> Touristic sites include both touristic sites which are supported under Component 1 and 2. Increased tourism satisfaction with existing infrastructure and number of tourists visiting (Indicator Two and Three) will be measured in reference to baseline values captured through the tourists' beneficiary survey and complemented by visitors' entry statistics in selected touristic sites.

<b>Indicator Four:</b> Number of municipalities with functioning destination management partnerships in the project area	<input type="checkbox"/>	Number	0	0	1	2	3	4	Biannual	Local government	ADF	Number of municipalities with functioning <sup>37</sup> destination management partnerships
<b>Indicator Five:</b> Number of project beneficiaries - gender disaggregated	<input checked="" type="checkbox"/>	Number	0 0	10,000 5,000	15,000 7,500	50,000 25,000	65,000 32,500	84,000 42,000	Multiple	Local government	ADF	Cumulative number of people who benefited from the project (among which female) <sup>38</sup>

<sup>37</sup> Functioning partnerships are those having an annual work program.

<sup>38</sup> This only includes beneficiaries (residents) from urban upgrading and infrastructure improvement in the four selected municipalities and does not include tourists. The numbers are based on census data.

Intermediate Results Indicators	Core	UOM	Baseline	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data collection	Comments
				YR 1	YR 2	YR 3	YR4	YR5				
<b>Component 1. Urban upgrading and infrastructure improvement</b>												
<b>Intermediate Indicator One:</b> Urban roads rehabilitated in selected municipalities	<input type="checkbox"/>	Kilometer	0	1.5	6.0	12.0	13.5	12.0	Biannual	Construction supervision	ADF	Kilometers of urban roads rehabilitated in selected municipalities
<b>Intermediate Indicator Two:</b> Streets with improved street lighting in selected municipalities	<input type="checkbox"/>	Kilometer	0	4.5	6.5	9.5	12.5	14.5	Biannual	Construction supervision	ADF	Kilometers of street lighting improved in selected municipalities
<b>Intermediate Indicator Three:</b> New or rehabilitated pedestrian walkways <sup>39</sup> in selected municipalities	<input type="checkbox"/>	Kilometer	0	3.0	6.0	12.0	14.0	16.0	Biannual	Local government	ADF	Kilometers of pedestrian walkways - new or rehabilitated in selected municipalities
<b>Component 2. Touristic sites upgrading</b>												
<b>Intermediate Indicator One:</b> Number of Site Management Plans developed and endorsed	<input type="checkbox"/>	Number	0	0	2	4	4	5	Biannual	Local government	ADF	Number of Site Management Plans developed and endorsed

<sup>39</sup> Pedestrian walkways are understood as sidewalks, promenades, pedestrian stairs, and pedestrian roads.



<b>Intermediate Indicator Two:</b> Integrated touristic sites designs developed	<input type="checkbox"/>	Number	0	3	5	5	5	5	Biannual	Local government	ADF	Number of Integrated touristic sites designs developed
<b>Component 3. Tourism market and product development</b>												
<b>Intermediate Indicator One:</b> Market Development Strategy for the south of Albania developed	<input type="checkbox"/>	Yes/No	No	Yes	Yes	Yes	Yes	Yes	Annual	Progress report	ADF	Market research and development strategy for the south of Albania developed
<b>Intermediate Indicator Two:</b> Destination Management Business Plans developed	<input type="checkbox"/>	Number	0	0	2	3	4	4	Annual	Progress report	ADF	Cumulative number of destination management business plans developed in selected municipalities
<b>Intermediate Indicator Three:</b> Number of touristic products developed with destination management partnership support	<input type="checkbox"/>	Number	0	0	0	10	15	20	Biannual	Local government	ADF	Cumulative number of touristic products developed with destination management partnership support
<b>Intermediate Indicator Four:</b> Number of municipalities with improved management systems	<input type="checkbox"/>	Number	0	0	3	4	4	4	Biannual	Local government	ADF	Cumulative number of municipalities with improved management systems
<b>Intermediate Indicator Five:</b> Capacity of local governments improved through technical and	<input type="checkbox"/>	Number	0	5	5	10	15	20	Annual	Local government	ADF	Measured through cumulative number of trainings to relevant staff

managerial trainings													
<b>Component 4. Implementation support</b>													
<b>Intermediate Indicator One:</b> Grievances registered related to delivery of project benefits that are actually addressed	<input checked="" type="checkbox"/>	Percentage	0	100	100	100	100	100	100	Biannual	Progress report	ADF	Percentage of grievances registered that are actually addressed
<b>Intermediate Indicator Two:</b> Project website maintained with up-to-date information on project activities	<input type="checkbox"/>	Yes/No	No	Yes	Yes	Yes	Yes	Yes	Yes	Biannual	Progress report	ADF	Project website maintained with up-to-date information on project activities

## Annex 2: Detailed Project Description

### ALBANIA: Project for Integrated Urban and Tourism Development

1. The PDO of the proposed project is to improve urban infrastructure, enhance tourism assets, and strengthen institutional capacity to support tourism related local economic development in selected areas in the south of Albania.
2. The proposed project will consist of the following components:

#### Component 1. Urban upgrading and infrastructure improvement

3. This component will finance design and implementation of urban upgrading and municipal infrastructure improvements in four urban centers: Saranda, Gjirokastra, Berat, and Permet. Investments in these selected municipalities would include the upgrading of public spaces (for example, parks, city squares, and pedestrian walkways); street networks, intermodal nodes and associated infrastructure (for example, sidewalks, street crossings, streetlights, bicycle paths, and bus stations); restoration of selected heritage buildings and façade improvement of selected buildings; and touristic sites enhancement (for example, access roads, visitors' centers, parking, and signage). Water supply and sewage network rehabilitation will be supported on a case-by-case basis.<sup>40</sup> Investments are expected to foster tourism-based local economic development by increasing attractiveness through catalytic urban upgrading efforts and improving livability. This component will also finance preparation of required urban-scale designs, feasibility studies, engineering designs, and construction supervision.

4. Year 1 investments in each of the selected municipalities have already been identified. The tailored package of priority investments (Years 2–5) will be fully identified through detailed urban design studies. This will be done following a consultative process with selected municipalities and key project partners who will ensure that investments are (a) fully aligned with the PDO; (b) consistent with the GLDPs; and (c) prioritized and selected to support the development vision of each of the selected urban centers, thus ensuring complementarity and avoiding fragmentation. The tailored package of Years 2–5 investments proposed as a result of the detailed urban design studies will need to be deemed satisfactory by the World Bank for project financing. A brief description of each of the selected municipalities and proposed approach for integrated urban upgrading can be found below. Specific package of investments will be fully identified and prioritized through the development of the detailed urban design studies.

- (a) **Saranda, Tourism Gateway.** Over the last two decades, the city has developed without a plan, resulting in a heavily built city characterized by high density and lack of green and open spaces. During the tourism season, the city center is affected by problems of traffic congestion and parking management. The road network, within the core urban area, is not yet fully paved and is currently undergoing extensive works for the upgrading of the water supply system (supported by KfW). The city also lacks a bus terminal and a functional intermodal exchange system

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<sup>40</sup> Underground infrastructure will be included as part of street network improvement when needed.

between sea, road, and pedestrian circulation. Urban mobility has been recognized as a guiding element for the prioritization of project investments in Saranda. The package of investments for Saranda is expected to include mobility improvement in the core area, including implementation of a traffic and parking management plan, improvement of junctions/roundabouts, city accesses and intermodal nodes, and other traffic pressure points; street upgrading in the core area, upgrading of old promenade and pedestrian/cycling connectivity between port, city core, recreational areas, and Ksamil to the south; improvement and preservation of green and recreational areas.

- (b) **Gjirokastra, Museum City.** The city of Gjirokastra was inscribed in the UNESCO World Heritage List in 2005, as a rare example of an architectural character typical of the Ottoman period. The town features a series of outstanding two-story houses which were developed in the 17th century, a bazaar, an 18th-century mosque, and two churches of the same period. The city's historic areas (both core and buffer) suffer from disparities in quality of urban infrastructure, quality of urban environment, and tourism pedestrian accessibility. The settlements perched on the hills south of the castle are difficult to access by vehicle. They also suffer from poor streetlighting, lack of sidewalks/pedestrian connections, degraded heritage pedestrian trails, poor drainage and soil erosion, unqualified urban and public spaces, and poor garbage collection. A number of initiatives are under way in the city, including those supported by the Albania-American Development Fund (upgrading of the bazaar area) and KfW (water supply). To implement the vision of the Museum City, the project will adopt the integrated Historic Urban Landscape approach.<sup>41</sup> The integrated upgrading of Gjirokastra is expected to include elements of preservation and cultural heritage management, improved access to peripheral hamlet, integrated street upgrading, improvement of heritage pedestrian trails, and upgrading of urban spaces. Solid waste collection, street lighting, parking and public transport to improve visitation, and addressing soil erosion affecting the southern valley and the access to the castle have been identified as priorities by the selected municipality. The development of a museum circuit has also been identified as a priority for tourism product consolidation.
- (c) *Berat.* Berat features a castle, locally known as the Kala, most of which was built in the 13th century. The protected historic core is composed of three distinct areas: (i) the castle, well preserved and attracting large number of tourists; the vehicular access to the castle is narrow and of poor quality asphalt, ending in a dead end with unorganized and insufficient parking; (ii) Mangalem: at the foothill of the castle, easily accessible by foot but characterized by narrow streets in need of upgrading; and (iii) Gorica, on the south bank of the River Osumi, located in a more isolated and detached area and characterized by a high level of urban decay (both streets and

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<sup>41</sup> Since 2005—the year of the UNESCO's Memorandum of Vienna—the use of 'urban landscape' is accepted and it symbolizes an integrated approach to the 'usual' urban heritage that introduces both recent and contemporary architecture and the notion of sustainable development at the heart of conservation of pre-existing historical urban fabrics.

historic buildings). The buffer areas on the hills on the east and west of the castle are characterized by modern buildings of poor visual value, affecting the views from the castle. The project will adopt a Historic Urban Landscape approach when identifying interventions and priority investments. The city has benefitted over the recent years from the preparation of various strategic and site management plans. The GLDP is at its final stage of preparation and should be approved shortly. Priority investments are expected to include improvement of pedestrian and vehicular access to the castle; integrated upgrading of Gorica, Mangalem, and Qendra areas; upgrading of streets and public spaces; and pedestrianizing and adaptive reuse of selected historic buildings. It could also include the improvements of bike and pedestrian trails and visual improvement of the buffer zone.

- (d) **Permet, ecotourism destination.** Permet is a small municipality surrounded by many ecotourism products, including a hot spring and waterfalls, and with a good potential for trail development. Project activities could support some basic upgrading of urban spaces, river parks, and improvement/development of mountain trails starting from Permet or the surrounding area.

5. Year 1 investments have been identified in Saranda, Berat, and Gjirokastra and are fully aligned with the PDO and proposed integrated urban upgrading approaches. These include (a) the upgrading of key pedestrian pathways in Saranda city center, (b) the improvement of street lighting in the historic core of Gjirokastra, and (c) the rehabilitation and improvement of the Berat Castle vehicle access road and pedestrian access road. A study for the strengthening of the slopes and land-erosion management of the Ali Pasha trail system valley and southern access to the castle in Gjirokastra is also expected to be launched in the coming months.

## **Component 2. Touristic sites upgrading**

6. This component will finance investments aimed at improving selected touristic sites along the south of Albania touristic corridor. Investments would include restoration of selected heritage and cultural assets; improving supporting infrastructure such as last mile access, pedestrian pathways, visitors' centers, and signage; and the creation of rest stops or viewpoints along the touristic corridor. This component will also finance preparation of required feasibility studies, site management plans, engineering designs, and construction supervision.

7. A detailed screening and ranking process was developed during project preparation for the selection of integrated touristic sites interventions. The screening process is used to limit the selection of touristic sites to those that (a) are fully aligned with the PDO (for example, along the touristic corridor and with a strong tourism dimension) and (b) do not pose any significant environmental or social risks. Once proposed sites are screened, a ranking process is followed. The ranking process for touristic site selection is based on the following criteria:

**Table 2.1. Criteria for Touristic Site Selection**

<b>Criteria</b>	<b>Reference</b>
1. Attractiveness	Value of heritage assets/natural beauty, appeal to visitors, and demand
2. Economic impacts on tourism	Impacts on more visits, longer stays, or more spending
3. Diversification	Addition of new tourism product options or synergy creation with other assets in the circuit
4. Willingness to develop	Government priority and commitment, private sector interest, community support
5. Safeguards/land ownership	No irreversible/large environmental or social impacts cumulative in nature, clear ownership perspective
6. Maintenance/operation	Management perspective or fee collection plans

8. A preliminary list of eight touristic sites with important touristic potential have been identified and pre-selected for project support: (a) Porto Palermo, (b) Blue Eye, (c) Zverneć Island, (d) Touristic Itinerary Borsh-Zagoria, (e) viewpoints along the touristic circuit (areas to be defined), (f) Orik Ancient City, (g) Labove Church, and (h) Old Military Barracks in Kelcyre. Detailed designs for integrated touristic upgrading, and site management plans will be developed during the first year of implementation for three of the pre-selected touristic sites.

### **Component 3. Tourism market and product development**

9. This component will finance activities for improved municipal management and service delivery and tourism product and value chain development. This component is divided in two complementary subcomponents.

10. **Subcomponent 3A: Supporting municipal service delivery.** This subcomponent will finance activities aimed at improving service delivery and municipal management in municipalities in the project area. Activities would include technical assistance and tools for improved municipal management (for example, asset management systems, and GISs). This subcomponent would also finance technical assistance aimed at improving service delivery (for example, traffic management studies) and enhancing the operation of assets rehabilitated under the project and selected equipment (for example, solid waste collection) for improved service delivery.

11. An Institutional Capacity Needs Assessment was conducted during project preparation in seven municipalities in the project area. The key institutional constraints identified include lack of the capacities and tools for (a) financial decision making; (b) support in development of various strategies aimed at local development (that is, tourism, transport); (c) tools for planning, collecting, and managing of local taxes and fees; (d) knowledge and skills in preparing project proposals; (e) establishing and operating GIS; (f) establishing a system for asset management; and (g) improving information and communication technology structure to transform and extend the reach of local government services to its citizens (including Internet coverage, software, and hardware). An in-depth assessment is expected to be conducted upon project effectiveness to better tailor project activities under Subcomponent 3A to local needs and demand.

12. Subcomponent 3A activities will be complemented and informed by ongoing technical assistance supported by the World Bank-led UPP. The second phase of the UPP has ongoing

activities in seven municipalities in the south of Albania (Berat, Fier, Vlora, Himara, Saranda, Gjirokastra, and Permet). UPPs support currently focuses on municipal finance, auditing urban systems and services, and integrity building and anticorruption activities. It is also supported by city-to-city dialogues. During project preparation, the mayors of five municipalities in the project area attended the Mayors Symposium—Collaborative Governance for Inclusive Urban Development in South-East Europe—hosted in Graz in February 2016. The event offered a platform for dialogue in South East Europe with a view to sharing innovations happening in the region’s cities and beyond. It also offered an opportunity to present the progress to date in the core areas of the program: municipal finance, urban planning and land management, integrity building and social sustainability, and citizen engagement. A second Mayors Symposium of a city-to-city dialogue is expected to take place in Belgrade in November 2016. Municipalities taking part in MFSAs and UAs, from the project area will be invited to participate in this event. The event will focus on topics such as municipal finance and urban planning. During this event, municipalities will also participate in a workshop to learn about Belgrade destination management experience.

13. **Subcomponent 3B: Tourism products and value chain development.** In support of the overall development objective of the project, the activities in this subcomponent are focused on creating at least 20 new tourism products to grow the tourism economy in the south of Albania by complementing and leveraging investments supported under Components 1 and 2. This subcomponent will include (a) market research to guide product development activities, (b) activities supporting the establishment of partnerships for destination management at the municipal and regional level, (c) the development of at least 20 new tourism products in the project area, and (d) the establishment of a system of national tourism statistics.

14. A tourism sector diagnostic developed as part of the Tourism Destination Audit for the South of Albania and in consultation with key tourism sector stakeholders<sup>42</sup> confirmed the need to diversify products and markets to grow tourism in the south of Albania. This diagnostic revealed that the south of Albania is not yet prepared to compete for a significant European source market share given, among others, the low levels of market and product development. Preparatory work also revealed that there is no regional management structure that is capable of supporting destination management and that while newly created municipalities have the responsibility for local economic development, their current capacity for tourism and destination management is limited. Based on the tourism diagnostic and in consultation with key tourism sector stakeholders, this subcomponent will focus on supporting the following activities.

- (a) **Market research to guide product development.** Before embarking on tourism product development activities there is a need to better understand market sources and demand and to assess the capabilities at the municipal level to drive partnerships for destination management and product development. This subcomponent will support the development of regional level (south of Albania) market research strategy, with deep-dives in the four selected municipalities. This is expected to

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<sup>42</sup> National Tourism Agency (responsible for tourism promotion), the Tourism Directorate (responsible for tourism policies and regulation at the national level), and the Coastal Protection Agency (responsible for management and protection of coastal areas) with the MEDTTE; tour operators from the private sector, tourism departments within selected municipalities, and other development partners currently active in the sector.

provide the basis for market and product development in Years 2–5 of the project. The development of this strategy will entail, among others, (i) conducting extensive regional market research to understand competing brands and so on, (ii) working with the National Tourism Agency to develop a profile of visitors from main source market countries, (iii) conducting research in these market countries to assess growth potential, and (iv) building in a shared vision for the desired future tourism markets.

- (b) **Tourism product development.** This activity would entail (i) defining opportunities for new product tourism value chain development, (ii) establishing partnerships between municipalities and local tourism stakeholders to drive destination management, (iii) developing a business plan for the destination management partnerships which would include concepts for the development of new tourism products, and (iv) investing in at least 20 new tourism products and ensuring that they are connected to potential markets.
- (c) **Broader tourism sector support.** This subcomponent will also support activities aimed at establishing a system of robust tourism statistics which could guide market and product development and, based on available funds, could also support the MEDTTE in the further operationalization of the tourism law (enacted in October 2015).

15. **Component 4. Implementation support.** This component will support project implementation, including (a) core project staff and consultants to assist the project implementing agency (ADF) and the PCU (MoUD) in the implementation of project activities; (b) the maintenance of the project M&E system; (c) the project-related operating costs of both the PCU and the ADF including in-country travel expenditures; (d) the project operating costs, including contributions toward the cost of backstopping assistance by the ADF staff and other eligible expenditures as agreed with the World Bank; and (e) training of staff and other persons associated with project implementation.



## Annex 3: Implementation Arrangements

### ALBANIA: Project for Integrated Urban and Tourism Development

#### Project Institutional and Implementation Arrangements

1. The key project partners for the proposed project are the MoUD, the ADF, and selected municipalities in the south of Albania. The MoUD will be the focal ministry for the overall project while the ADF will be the project implementing entity. The MEDTTE, MoC, and MoE are also project partners with key roles and responsibilities linked to their respective areas of action. Institutional arrangements and responsibilities of the different institutions are outlined below.

2. **The MoUD.** The MoUD as the line ministry responsible for urban development in Albania will be in charge of overall project oversight, stewardship, and monitoring, and will provide technical leadership and coordination with project partners. Implementation responsibilities will be delegated to the ADF. A PCU, with key technical staff will also be established to facilitate critical technical decisions and actions necessary for successful project implementation. For the purposes of the project implementation, the MoUD will maintain a project coordinator/urban specialist, a tourism specialist, and an architect with urban landscaping background. Among the key roles and responsibilities of the MoUD are (a) screening and ranking of touristic sites in coordination with key project partners, (b) supporting selected municipalities in the prioritization of activities for integrated urban upgrading through the development of detailed urban designs, (c) reviewing consultant deliverables as relevant, and (d) periodic monitoring of implementation progress.

3. **The ADF.** The ADF will have primary responsibility for overseeing all aspects of project implementation including fiduciary aspects, with FM of loan proceeds and procurement of goods, works, and services for the project. The ADF will also hire qualified consulting companies to support them in supervising the implementation of works. The ADF was created in 1993 based on an agreement between the Albanian Government and the World Bank. On May 11, 2009, the Albanian parliament approved Law No. 10130 that provides the ADF with a special legal status. Since its establishment, the ADF has implemented many infrastructure projects, supported by various donors.<sup>43</sup> The ADF operates on the basis of the ADF Charter that was approved on July 17, 2009, by the ADF Board of Trustees. The ADF Manual of Procedures (MOP) was approved in 2004 by the ADF Board of Trustees with the latest amendment endorsed in 2013. The MOP outlines the administrative, financial, technical, and safeguards procedures for general investments cycle.

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<sup>43</sup> To this date, with the support and partnership of 15 international financing institutions (that is, the World Bank, EU, KfW, Council of Europe Bank, Islamic Development Bank, Organization of Oil Exporting Countries, and governments of Italy, Switzerland, France, and Japan), and the GoA, US\$569 million have been either managed or are being managed by the ADF to support various infrastructure activities (that is, roads, water supply, sewage, school and health center rehabilitation, and other urban infrastructure) as well capacity building for the local governments.

4. For the purposes of the project implementation, the ADF will maintain a project manager, an architect, an engineer, an FM specialist, a procurement specialist, an environmental specialist, a citizen engagement specialist, and a social specialist. In addition, the ADF should hire or make available supporting staff and consultants who will work on an on-call basis and depending on the intensity of project activities. These include field engineers in each of the urban centers, a field engineer supporting touristic sites, a cultural heritage consultant, and a touristic sites management specialist. Other ADF staff will provide backstopping support on a need basis.

5. In its position as the implementing agency for the project, the ADF will be responsible for carrying out all project implementation in accordance with the POM, which will be prepared and adopted before project effectiveness. This will include procurement, FM and accounting, monitoring compliance with social and environmental safeguards, proactive management of grievances and implementation issues which may arise, and ensuring citizen communication and consultation as well as routine communication with the World Bank. Selected municipalities will be closely associated with all decisions regarding procurement, contract execution, and site supervision. Relations between the ADF, selected municipalities, and other ministries/agencies that own the project rehabilitated assets will be governed by a Cooperation Agreement, which clearly assigns the responsibility for operating and maintaining of the rehabilitated assets.

6. **Selected municipalities.** These are the municipalities of Saranda, Gjirokastra, Berat, and Permet. Each municipality and its staff will take the lead on behalf of the selected municipality in participating in project implementation. As the main beneficiaries of project activities, selected municipalities have been highly involved in project preparation and will continue to play a key role during project implementation. During project preparation, selected municipalities supported the MoUD in identifying specific areas and activities for project support and provided, among others, key inputs for the selection and appraisal of fast-track activities to be implemented during Year 1. During project implementation, they will review and comment on technical reports and deliverables as relevant; monitor construction works and participate in key points including commissioning of assets; and obtain any required approvals from the Municipal Council. Selected municipalities shall also participate, when requested by the ADF, on tender committees. They will also be responsible for holding periodic citizen engagement meetings together with providing information for citizens' campaigns which explain, to all stakeholders, the project goals, benefits, and implementation progress and disseminating and addressing feedback from community as well as grievance redress mechanisms. Selected municipalities should also ensure equal participation of women in all community engagement processes. With regard to Subcomponent 3B, selected municipalities will be responsible to ensure the cooperation of their tourism and culture departments for the establishment of the destination management partnerships. Relations between the ADF and selected municipalities will be governed by a Cooperation Agreement.

7. As the main beneficiaries of project activities, each municipality will also be supported to develop and implement a tourism product and market development strategy. The respective municipalities already have tourism and culture directorates who will be the drivers of these strategies and the project will ensure that training, skills, and embedded expertise are delivered to grow their capacity to function as viable destination management partnerships. The project will support a structured public-private dialogue platform that will serve as a tourism business forum

as well as a mechanism for citizen engagement. Regular public meetings will be held by these destination management teams to receive feedback on activities and promotions being planned.

8. **The MEDTTE.** The MEDTTE is the line ministry responsible for tourism development and as such played a key role in the development of Subcomponent 3B. The MEDTTE will also be one of the main beneficiaries of Subcomponent 3B activities, in particular for those that help increase the capacity of the central Government for tourism development. Among the key roles and responsibilities of the MEDTTE are (a) participating in relevant project activities and (b) reviewing consultants' deliverables as relevant for Subcomponent 3B.

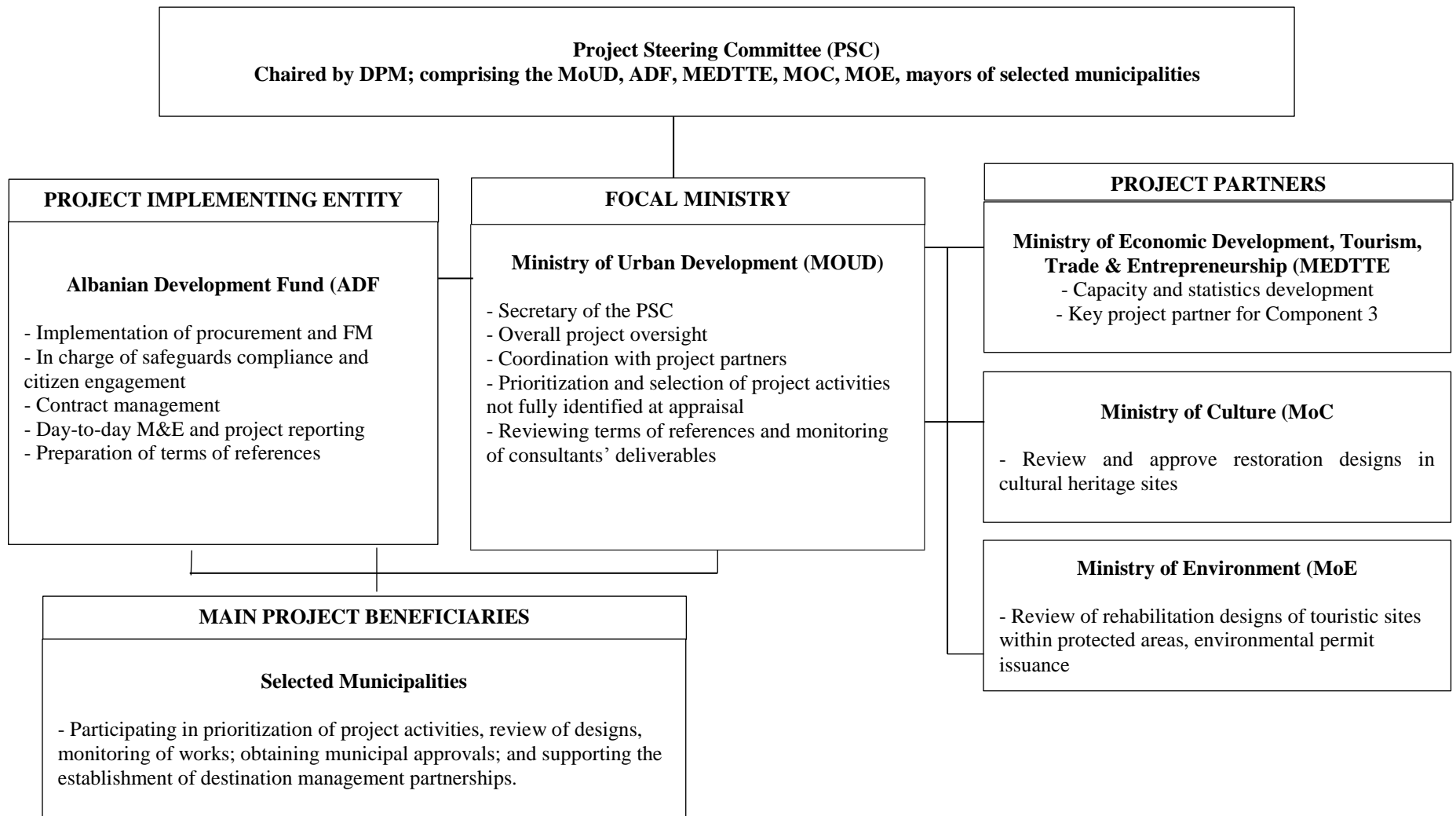
9. **The MoC.** The MOC/Institute of Cultural Monuments will participate in project activities linked to cultural heritage and will be consulted during the development of concept and designs that involve restoration or upgrading of the cultural heritage sites of monuments. The MoC, as per legislation, through the Institute of Cultural Monuments, will also approve designs to enable launching of restoration works in the selected municipalities and cultural heritage sites. Relationship between the ADF and the MoC will be governed by a Cooperation Agreement.

10. **The MoE.** The MoE/National Agency for Protected Areas will participate in project activities linked to protected areas and be consulted by the ADF during the development of concept and design activities that support infrastructure rehabilitation of touristic sites within protected areas and reviving of visitors' centers and signage. In addition, as per the national legislation, the MoE will review environmental assessments of all infrastructure activities which require an environmental permit. Relationship between the ADF and the MoE will be governed by a Cooperation Agreement.

11. **The PSC.** A PSC including the main project stakeholders—namely, the MoUD, MEDTEE, MoC, MoE, MoF, Prime Minister's Office, ADF, and representatives from selected municipalities—will be established. The PSC will play a role in the overall project oversight and support to stakeholder coordination during project implementation. The MoUD will serve as secretariat of the PSC and the PSC meetings will be chaired by the deputy prime minister. The detailed PSC responsibilities will be to provide overall policy guidance as well as inter-institutional coordination; review progress toward annual implementation plans; and assist in resolving issues of coordination or project implementation.

12. Figure 3.1 describes the project's stakeholders and their main roles.

**Figure 3.1. Project Implementation Arrangements Chart**



*Note:* DPM = Deputy Prime Minister

## Financial Management, Disbursements, and Procurement

### *Financial Management*

13. A financial assessment was carried out to determine the FM implementation risk and help establish adequate FM arrangements for the proposed project. As discussed in the institutional and implementation arrangements, the ADF has fiduciary responsibilities. The MoUD, MEDTTE, and selected municipalities will have no FM responsibility, but will provide the ADF evidence of review and acceptance of the goods, works, and consultants' deliverables, as required, to ensure validity of payment request by contractors, suppliers, and consultants. The assessment showed that the ADF has adequate capacity to maintain adequate FM systems in compliance with the World Bank policies. The significant strengths that would provide a basis for reliance include the following: (a) FM arrangements proposed are similar to those of previous projects implemented and found to be adequate; (b) no significant issues in the audits of the previous projects implemented by the ADF; and (c) the ADF finance director and FM staff are experienced in the implementation of World Bank and donor-funded projects. Overall, the FM risk level is assessed Moderate. To further strengthen the project fiduciary environment, a POM will be prepared. The FM part of it will focus on the roles and responsibilities of various institutions involved in the implementation and their interaction with the ADF, flow of relevant documents and evidence of approvals, and disbursement and reporting procedures specific for the World Bank and the project. The adoption of the POM will be a condition for project effectiveness.

14. **Country Public Financial Management status.** Albania has participated in a number of detailed reviews of its public financial management (PFM) systems, among them two Public Expenditure and Financial Accountability (PEFA) assessments (2006 and 2011), a Public Expenditure Review (2006), a Public Finance Review (2013), annual EU-SIGMA reviews, and other analyses by the World Bank, the IMF, the European Commission, and other organizations. The various reviews have plotted the significant progress Albania has made in improving PFM. The last PEFA assessment for Albania from 2011 concluded that Albania has a fiscal and budget management system that is functioning adequately, in the sense that the system has enabled the Government to finance and execute a budget that delivers public services to the general population. Albania scores relatively well on comprehensiveness and classification of the budget, basic Treasury operations (including budget and payroll controls), financial reporting/transparency, and public access to government budget and financial information. Lagging areas, as identified in the 2011 PEFA assessment, include (a) multiyear perspective in fiscal planning and policy formulation; (b) internal audit; (c) implementation of the integrated financial management information system; and (d) scope and nature of the external audit function.

15. **FM staff.** The ADF's organizational structure is adequately designed to achieve the organization objectives. It properly defines authority lines, roles, and responsibilities of departments and employees; ensures segregation of duties; provides a system of coordination for integrating the activities of individuals and departments; and ensures that the four-eye principle is honored. Roles and responsibilities of individuals and departments are defined in the ADF MOP. Overall FM responsibility for the project will be borne by the ADF finance department. The finance department has an excellent track record and high observed compliance in

disbursement and reporting with respect to the previous World Bank-funded projects. At present, the unit comprises six staff. The World Bank assessed that the workload within the department will remain within the same levels, due to scaling down in the other ongoing projects. Therefore, no additional staff would be required for the project. During project implementation, periodic and ongoing training on World Bank disbursement and FM will be provided to the finance staff as part of the World Bank-funded training program.

16. **Budgeting.** The operation will rely on country public budget and planning systems. The mechanisms for budgeting and opening the budget (release of funds) are considered adequate for the needs of the project. The ADF will be responsible for the preparation of the project's medium-term forecasts and annual budgets, in line with the approved implementation plans and PPs. The project budgets and forecasts will be identified and monitored separately. The project annual budget requests will be based on the forecasts and technical inputs provided by the assigned technical staff, procurement specialist, as well as agencies involved in the project. The project annual budgets, as part of the ADF annual budget documents, will be approved by the MoF and the ADF Board of Trustees. The project budget will include investment spending forecast to be financed by the loan proceeds and counterpart funds, if any.

17. **Accounting and maintenance of accounting records.** The ADF has in use an acceptable FM software, which is adequate for maintaining and producing financial information for project management use. The project funds and expenditure will be accounted separately and the project chart of accounts will be defined based on the project activities. Accounting records for all project expenditure will be maintained by category and by component. Periodic reconciliation will be performed between general ledger and project bank accounts and the World Bank disbursement data.

18. **Periodic financial reporting.** Quarterly Interim Financial Reports (IFRs), containing at least (a) the statement of sources and uses of funds (with expenditure classified by category and component) and (b) contract monitoring, will be submitted to the World Bank within 45 days of the end of each quarter. The format and content of the IFRs will be defined in the POM. The annual project financial statements will be prepared in accordance with International Public Sector Accounting Standards on a cash basis. The financial reports will be prepared in euros. The first quarterly IFRs will be submitted after the end of the first full quarter following the first disbursement.

19. **Internal controls.** The ADF Project Operations Manual (POM) provides a comprehensive internal control framework for approval and selection of the applications, authorization of the payments, and execution of the payments, accounting and reporting, as well as information security. In addition, a POM which will define the institutional and implementation arrangements will be prepared for the proposed project. The FM part of the manual will define the FM requirements specific to the project and the World Bank, covering the fiduciary controls, disbursement and fund flows, and will define roles and responsibilities of the various institutions involved in the implementation and their interaction with the ADF with respect the flow of documentation and evidence for the project expenditure. The line ministries (the MoUD and MEDTTE) and the selected municipalities, as beneficiaries and providers of technical input to project activities, as required, will provide to the ADF evidence of review and acceptance of the goods, works, and deliverables, as appropriate, to ensure validity of payment

request submitted to the ADF by the contractors, suppliers, and consultants. A detailed description of such interaction in the processes (budgeting, execution of expenditure, recording, reporting, auditing) will be provided and will depict the key control activities that will ensure proper verification, authorization, and documentation of all project expenditure, proper contract financial monitoring, and duly approval evidence. The manual will also describe procedures for ensuring completeness of accounting transactions, reliability of accounting data, and regular financial reporting. The adoption of the POM will be a condition for project effectiveness.

20. **Annual audit.** The project financial statements will be audited annually by independent auditors acceptable to the World Bank. In addition, annual audited financial statements of the ADF will be required. The auditor for the project will be appointed by the MoF as part of an overall agreement for the audit of the non-revenue earning World Bank-financed portfolio in Albania. The audit service fee is covered by the MoF. Specific terms of reference based on International Standards on Auditing are used for the projects covered by this agreement and are cleared by the World Bank. The audited project and ADF financial statements will be submitted not later than six months after the end of the reporting period. Pursuant to the World Bank Policy on Access to Information (July 2010), the ADF will have to disclose the audit reports within two months of their receipt from the auditors, by posting the reports on their website. Following formal receipt of these reports, the World Bank will make them publicly available as well. At present, there are no overdue audits from the ADF.

#### *Disbursements*

21. **The loan proceeds will be disbursed on the basis of standard World Bank disbursement methods for investment projects.** A DA denominated in euros will be opened at the Bank of Albania, specifically for this project, where the World Bank will advance loan proceeds.

22. Project funds will flow from the World Bank, either (a) through the DA, which will be replenished on the basis of the documentation specified in the Disbursement Letter or (b) by using the direct payment method or the special commitment. Once the funds have been deposited in the DA, the Treasury department at the MoF, on the request of the ADF, will transfer loan proceeds from the DA to the ADF project bank accounts that will be maintained in a commercial bank, acceptable to the MoF, to make project expenditure payments to third parties, that is, consultants, contractors, and suppliers. These bank accounts (one denominated in euros and one in Albanian leke) will be managed by the ADF.

23. **The World Bank will require either copies of the original documents evidencing eligible expenditures ('Records') or summary reports of expenditure ('Summary Reports') as specified in the Disbursement Letter.** Records include such documents as invoices and receipts or a statement of expenditure summarizing eligible expenditures paid during a stated period. Further details on the project disbursement arrangements will be provided in the project Disbursement Letter.

**Table 3.1. Expenditure Categories**

<b>Category</b>	<b>Amount to be Financed by the Loan (in EURO)</b>	<b>Percentage of Expenditures to be Financed (inclusive of taxes)</b>
(1) Works	49,816,500	100
(2) Goods	2,530,000	100
(3) Consultants Services	8,710,000	100
(4) Operating Costs	2,530,000	100
(5) Training	54,000	100
(6) Front-end Fee	159,500	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions
<b>Total</b>	<b>63,800,000</b>	<b>100</b>

*Procurement*

24. **Procurement under the proposed project will be carried out in accordance with the** World Bank’s Guidelines ‘Procurement of Goods, Works, and Non-Consulting Services Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers’ (January 2011, revised July 2014), ‘Guidelines Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers’ (January 2011, revised July 2014), and the provisions stipulated in the Legal Agreement. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants, dated October 15, 2006 and revised on January 2011, will also apply.

25. The various procurement actions under different expenditure categories are described in general below. For each contract to be financed under the Financing Agreement (FA), the various procurement or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame have been agreed between the borrower and the World Bank in the PP.

26. **Advertisements.** A General Procurement Notice will be published by the end of December 2016 in United Nations Development Business online. Specific Procurement Notices will be published as the corresponding bid documents become available.

27. **Debarments.** The borrower will respect debarment decisions by the World Bank and will exclude debarred firms and individuals from participation in the competition for World Bank-financed contracts. Current listing of such firms and individuals is found at the following website address: <http://www.worldbank.org/debarr>.

28. **Procurement of works.** Project represents mostly rehabilitation works generally to rehabilitate and upgrade identified urban areas which are not covered by other investments funded by the Government and/or other financiers. Works to be procured under this project will include urban upgrading and infrastructure improvement of Gjirokastra, Permet, Saranda, and Berat cities (rehabilitation of cobblestone roads, building of access roads, historical center lightening and so on). The main intended bidding approach is summarized as rationalized packaging of roadworks using National Competitive Bidding (NCB) or International



Competitive Bidding (ICB) according to the estimated cost per contract of works. For the NCB packages, exceptions will apply. The borrower will use harmonized bidding documents provided by the World Bank.

29. **Procurement of goods.** Goods contracts to be procured include solid waste equipment, GIS equipment, vehicles, furniture, and IT equipment. Bidding documents will be prepared using the World Bank's Standard Bidding Documents for Goods for all procurement under ICB.

30. **Selection of consultants.** Consulting services will be procured for detailed design and supervision of urban upgrading and infrastructure improvement, institutional capacity building for local governments and tourism, and implementation support for the ADF and the MoUD. Short lists of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions 2.5 of the Consultant Guidelines. Individuals will be selected in accordance with section V of the Consultant Guidelines. All terms of references are subject to the World Bank's prior review irrespective of prior/post review status.

31. **Single-Source Selection of consultants.** The MoUD will select and finance three specialists: project coordinator/urban specialist, tourism specialist, and architect to jump-start project preparation. Once the project is approved, the same specialists will be contracted under the project using Single-Source Selection.

32. **Training, study tours, and attendance of conferences.** Several such activities are foreseen in the PP.

33. **Operating costs.** All incremental operating costs in support of the day-to-day management of the project to be carried out by the implementing agency will be financed under the project. These expenses comprise the salaries (including social charges) of the ADF staff in charge of project implementation as well as customary office expenses, including costs for communications and travel.

34. The procurement procedures and Standard Bidding Documents to be used for each procurement method as well as model contracts for works and goods procured will be described in the POM. The ADF will use World Bank's new Procurement Planning and Tracking System which will help the World Bank and the borrower streamline the procurement processes. Two procurement specialists of the ADF have already been trained. Hands-on training will be provided to other procurement experts as needed.

35. **Assessment of the ADF capacity to implement procurement.** The World Bank team carried out an assessment of the procurement capacities of the ADF in March 2016. The assessment took into consideration the current capacity of the ADF, including a review of the organizational structure of the ADF as well as the necessary interaction between the ADF staff responsible for procurement and the MoUD. The assessment concluded that (a) the ADF has demonstrated satisfactory knowledge of procurement concepts and practices in the vast procurement undertaken so far under earlier World Bank-financed projects, mostly for works and consultants services; (b) the procurement capability for a wide, diversified portfolio of the ADF will need closer monitoring of the ADF at start; and (c) a number of actions need to be taken by

the ADF agency to address the upcoming procurement challenges such as preparation of the POM and updating of procurement knowledge.

36. **Overall procurement responsibility within the ADF will be borne by the Legal and Procurement Department.** This unit is staffed, among others, by three procurement officers who were responsible for implementing the now completed ‘Secondary and Local Road’ World Bank-funded project. At present, the unit comprises five staff positions. Most of these staff work on procurement on a full-time basis. In view of the specific additional workload and to mitigate one of the main procurement risks, the World Bank recommended increase in procurement capacity through selection of an additional procurement officer, who is experienced in the procurement of works under World Bank-financed projects.

37. The initial procurement risk has been rated substantial due to both the increase in the number and size of civil works contract to be procured and the country and sector environment. This procurement risk would evolve to Moderate during the first year with the implementation of the mitigation measures, including reinforcement of the capacity of the ADF procurement unit and training. However, the complex country environment and the potential risk of interference in the procurement process are likely to remain valid concerns during the life of the project. The World Bank will maintain close oversight using its staff in HQ and the Tirana Office. Prior review of all major contracts in agreement with the thresholds given at the end of this annex will be carried out by the World Bank team.

38. A **POM** will be prepared by the ADF which will define the steps, service standards, responsibilities, and accountability of team staff and management for carrying out project activities. In addition, technical staff from the MoUD, MEDTEE, and selected municipalities could be appointed as members of the evaluation committee depending on the expertise required for the procurement package to be reviewed.

39. An **initial PP** has been agreed during preparation and will be made available on the ADF website (without the cost estimates). It will also be made available on the World Bank's external website (without cost estimates). The PP will be updated in agreement between the ADF/MoUD annually, or as required, to reflect actual project implementation needs and improvements in institutional capacity.

**Table 3.2. Procurement Plan**

<b>No</b>	<b>Description of Contract Packages</b>	<b>No. of Packages</b>	<b>Procurement Method</b>	<b>Review By World Bank (Prior/Post)</b>	<b>Contract Signing</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>6</b>	<b>7</b>	<b>8</b>
<b>WORKS</b>					
<b>Component 1. Urban Upgrading and Infrastructure Improvement</b>					
	<b>Integrated urban upgrading of Saranda</b>				
1	Staircase and promenade upgrading	1	NCB	Prior	Mar-17
2	Saranda tourism gateway integrated urban upgrading	2	ICB	Prior	Mar-18
	<b>Integrated urban upgrading of Gjirokastra</b>				

No	Description of Contract Packages	No. of Packages	Procurement Method	Review By World Bank (Prior/Post)	Contract Signing
3	Ali Pasha historic trail and slopes stabilization - Gjirokastra	1	NCB	Post	Mar-17
4	Street lighting historic center - Gjirokastra	1	NCB	Post	Mar-17
5	Gjirokastra Museum City integrated urban upgrading	Multiple	NCB	Post	Sep-17
6	Upgrading and renovation of system of museums	1	NCB	Post	Mar-18
<b>Integrated Urban Upgrading of Berat</b>					
7	Rehabilitation of cobblestone road to Berat Castle and upgrading of vehicle access road to Berat Castle	1	NCB	Post	Mar-17
8	Visual upgrading of selected heritage landscape	1	NCB	Post	Sep-17
9	Berat town of integrated urban upgrading	2	ICB	Prior	Sep-17
<b>Integrated urban upgrading of Permet</b>					
10	Permet integrated urban upgrading	2	NCB	Post	Sep-17
<b>Component 2. Touristic Sites Upgrading</b>					
11	Integrated upgrading of selected touristic sites	Multiple	NCB	Post	Jan-18
<b>Component 3. Tourism Market and Product Development</b>					
12	Tourism product development in four municipalities	Multiple	NCB	Post	Sep-18
<b>CONSULTING SERVICES</b>					
<b>Component 1. Urban upgrading and infrastructure improvement</b>					
13	Concept, design, and supervision of Saranda urban upgrading	1	QCBS	Prior	May-17
14	Concept, design, and supervision urban upgrading Gjirokastra	1	QCBS	Prior	May-17
15	Design and supervision of the Berat and Permet integrated urban upgrading	1	QCBS	Prior	May-17
16	Design and supervision Gjirokastra system of museums	1	CQS	Post	May-17
17	Supervision of fast-track subprojects	2	CQS	Post	Mar-17
<b>Component 2. Touristic sites upgrading</b>					
18	Detailed design and construction supervision for infrastructure for IUTS	Multiple	QCBS	Post	May-17
19	Site management for IUTS	1-2	QCBS	Prior	Jul-17
<b>Component 3. Tourism market and product development</b>					
20	Financial management systems - assessment and technical specifications for goods	1	IC	Post	Jan-18
21	Asset management system - assessment and technical specification for goods	1	CQ	Post	Feb-18
22	GISs - assessment and technical specification for goods	1	CQ	Post	Jun-18
23	Market research and development strategy for the south of Albania and 4 municipalities	1	QCBS	Prior	Mar-17
24	Market development for the south of Albania	1-2	QCBS	Prior	Dec-17
25	Tourism products and value chain development in selected municipalities	2	QCBS	Prior	Mar-17
26	Guesthouse branding and market delivery	1	QCBS	Prior	Mar-17

No	Description of Contract Packages	No. of Packages	Procurement Method	Review By World Bank (Prior/Post)	Contract Signing
27	Tourism information management system and statistics improvement - assessment and technical specification of goods	1	CQ	Post	Mar-17
<b>Component 4. Implementation support</b>					
28	Project coordinator - urban specialist PCU	1	IC	Prior	Jan-17
29	Tourism specialist - PCU	1	IC	Prior	Jan-17
30	Architect - PCU	1	IC	Prior	Jan-17
31	Cultural heritage consultant	1	IC	Prior	Mar-17
32	Site management consultant	1	IC	Prior	Mar-17
33	Results assessment (M&E)	1	CQ	Post	Jun-19
<b>GOODS</b>					
<b>Component 3. Tourism market and product development</b>					
34	Solid waste equipment for Himara transfer station	1	NCB	Post	Mar-17
35	Solid waste collection equipment (Gjirokastra/other as needed)	1	NCB	Post	Jan-18
36	Financial management equipment for 4 municipalities	1	NCB	Post	Feb-19
37	Asset management equipment for 4 municipalities	1	NCB	Post	Feb-19
38	GIS equipment and licenses for 4 municipalities	1	NCB	Post	Feb-19
39	Equipment for local destination management partnerships	1	SH	Prior	Mar-17
40	Equipment for tourism information management and statistic improvement	1	NCB	Post	Dec-17
<b>Component 4. Project Implementation support</b>					
41	Office equipment and licenses for project implementation	1	SH	Post	Apr-17
42	Vehicles	1	SH	Post	May-17

Note: CQ = Selection based on the Consultants' Qualification; IC = Individual Consultant; QCBS = Quality- and Cost-Based Selection; IUTS = Integrated Upgrading of Touristic Sites; SH =Shopping.

40. **Frequency of procurement supervision.** In addition to the prior review supervision to be carried out by the World Bank team, the capacity assessment of the implementing agency recommends supervision missions every six months during the first year of implementation and once every subsequent year.

41. **Post reviews** will be carried out regularly with a minimum sampling of one in ten.

42. **Procurement methods and thresholds.** The Loan Agreement defines the procurement methods available for use for the various procurement actions. Thresholds for procurement methods and prior review requirements are indicated below on the basis of the World Bank's assessment of the capacities of the ADF agency responsible for procurement. The PP will specify for each procurement action whether it will be subject to prior or post review. It has been agreed that if a particular invitation for bid is comprised of several packages, lots, or slices, and invited in the same invitation for bid, then the aggregate value of the whole package determines the applicable threshold amount for procurement and also for the review by the World Bank. The NCB conditions are reflected in the Loan Agreement.

**Table 3.3. Procurement thresholds**

<b>Expenditure Category</b>	<b>Contract Value (US\$)</b>	<b>Procurement Method</b>	<b>Bank Prior Review</b>
Civil Works	≥ 5,000,000	ICB	All ≥/= US\$10 million contracts
	< 5,000,000	NCB	First contract
	< 200,000	Shopping	First contract
	n.a.	DC	US\$60,000
Goods	≥ 1,000,000	ICB	All ≥/= US\$1million contracts
	<1,000,000	NCB	First contract
	<100,000	Shopping	First contract
	n.a.	DC	US\$60,000
Consultant services	n.a.	QCBS, QBS, FBS, LCS, and CQS*	≥ US\$ 500,000; ≥ US\$200,000 for IC; and ≥ US\$5,000 for SSS
	n.a.	SSS	
	n.a.	IC	

*Notes:* DC = Direct Contracting; QCBS = Quality- and Cost-Based Selection; QBS = Quality-Based Selection; FBS = Selection under a Fixed Budget; LCS = Least-Cost Selection; \*CQS = Selection Based on the Consultants' Qualification below US\$300,000 depending on the nature of assignment; SSS = Single-Source Selection; IC = Individual Consultant selection procedure.

43. The prior review thresholds will be periodically reviewed and revised as needed during the project implementation period based on implementation of risk mitigation measures, reports from procurement post-reviews, and improved capacity of the implementing agency.

### **Environmental and Social (including safeguards)**

44. The project is classified as Category B project for environmental and social safeguards and will trigger the following World Bank policies: Environmental Assessment (OP 4.01); Natural Habitat (OP 4.04); Physical Cultural Resources (OP 4.11); Involuntary Resettlement (OP 4.12); and Projects on International Waterways (OP 7.50). Overall environmental and social outcomes are expected to be positive, as will be seen in project-supported enhancements to public spaces and the physical condition of cultural assets, improvements to municipal infrastructure needed to support tourism, and positive economic and social benefits from growth in the tourism economy. Direct impacts of typical rehabilitation civil works to be undertaken by the project on people and the environment are anticipated to be minor, peripheral, and temporary. In line with the Albanian legislation, in the cases when an environmental permit is required, this should be clearly stated in the design terms of reference, specifying which type of environmental assessment instrument is required as part of the technical design outputs.

45. Other activities supported by the project, such as the piloting of destination management partnerships in municipalities in the project area; development of a market research and development strategy for the south of Albania; promotion of tools for improved municipal management (for example, asset management systems, GISs); targeting technical assistance aimed at improving service delivery (for example, traffic management studies); and the undertaking of feasibility study and design of selected urban infrastructure works, as well as other studies will review and assess potential environmental and social impacts of the activities and alternatives considered on a case-by-case basis. Such studies will be developed based on terms of references cleared by the World Bank.

46. **Social impact.** Impacts related to land acquisition or site access will be managed with the aid of an RPF which ensures that any physical or economic displacement of people is fully mitigated in line with OP 4.12 on Involuntary Resettlement. Significant social impacts related to land acquisition or land access are not anticipated as the project's physical interventions will generally be undertaken in public spaces, such as roads, town squares, and public parks, or sites of historical and cultural importance. Improvements to water and sewage systems, street lighting, or other municipal services will take place on public rights-of-way. Project-supported interventions will be designed and implemented to avoid or minimize impacts on private property and economic activities to the greatest extent feasible. However, land acquisition or land access needs, either permanent or temporary, for project interventions could affect the use of public spaces for income-earning activities, raise issues with squatters or encroachments, or affect access to land-based resources. Some examples include the following: public roads may need widening or parking areas may need to be expanded to serve a greater number of visitors; changes in the use and physical characteristics of public spaces may have collateral effects on neighboring areas; and income-generating activities, many of which may be informal, on public land could also be affected. The project is thus supported by an ESMF, which includes an RPF, to ensure that RAPs in line with the requirements of OP 4.12 are prepared and implemented to address any physical or economic displacement of people associated with project interventions. It is anticipated on the basis of the types of proposed interventions that most, if not all, of the land acquisition and resettlement plans will be abbreviated RAPs, involving less than 200 people. The ESMP includes provisions for management of social impacts during construction to ensure public safety, continuity of economic activities, and access to private properties during construction.

### **Summary of ESMF**

47. Given that detailed technical feasibility studies for the majority of planned activities in Berat, Gjirokastra, Saranda, and Permet and touristic sites along the south of Albania corridor will not be carried out by the project appraisal, the ESMF is the tool required for the environmental and social assessment process to be undertaken during project implementation once the respective technical details are available (for example, principles, rules, and procedures to screen, assess, manage, and monitor the mitigation measures of possible project environment and social impacts). The ESMF provides guidance to the MoUD and other implementers (for example, the ADF, municipalities) to ensure that the environmental and social assessments and other safeguard requirements will be carried out in compliance with the national guidelines for conducting environmental impact assessments, other environmental and social regulations, and laws of Albania, and in accordance with the World Bank environmental assessment and social policies and procedures as specified in the World Bank Group safeguard policies.

48. The project investments, depending on its typology, will be assessed for potential social and environmental impacts and a specific environmental assessment safeguard tool consistent with Albanian laws and standards (as applicable) and the World Bank Group requirements will be developed consistent with the procedures and requirements spelled out in the ESMF. The project will have the following proposed approach for addressing environmental and social issues and will include the following safeguard instruments: (a) The ESMF has been prepared before appraisal and approval of the project to inform the overall environmental and social performance of the project; (b) two ESMPs have been prepared for activities to be initiated in the

first year that have been identified at the time of appraisal - the Berat Castle cobblestone road rehabilitation and the rehabilitation of stairways in the city of Saranda; and (c) an initial screening of identified activities (for first year and subsequent years of project implementation) selected in line with a specific set of criteria will identify issues to be included in the terms of reference of feasibility studies and detailed designs. Furthermore, the terms of references for the feasibility studies and detailed designs will include provisions for environmental and social safeguards, including long-term impacts, as well as the environmental assessment instruments and tools required by the respective national laws and World Bank operational guidelines as per OP 4.01, so that the products (feasibility study and design) are prepared taking into consideration possible impacts on the environment; (d) during or after the feasibility studies are completed, additional screening of proposed activities will be carried out by the ADF to determine if site-specific ESIA's are needed; and (e) specific ESIA's and/or ESMPs and other safeguard instruments as required (for example, environmental checklists, RAPs, and so on) will be prepared by consultants selected by the ADF for all investments, once the feasibility studies are completed and technical details will be available during project implementation following the guidance established in this ESMF. In addition, before the commencement of works, an environmental permit (if required) must be in place and its provisions will be reflected in the respective works contract.

49. Two ESMPs, which are in compliance with the project's ESMF, have been prepared for investments identified to be technically ready by appraisal, including the refurbishment of the cobblestone road in Berat and the rehabilitation of stairways and extension of a seaside promenade in the city of Saranda.

50. Project activities are expected to be at the level of Category B, according to environmental impact assessment Albanian law and World Bank policies. Each project activity category will be decided based on the magnitude of the impact, sensitivity of the site, and the impact significance level. Potential negative environmental impacts may include (a) temporary construction-related effects on noise, dust, and air quality; (b) temporary localized water quality impacts resulting from possible drainage and sewage pollution; and (c) temporary changes in access to and the use of public spaces during construction. Small-scale rehabilitation works are envisaged in a selected number of protected areas as outlined by the national legislation such as Zvervec Island and Narta Lagoon or at the Blue Eye. However, these rehabilitation physical interventions will not lead to conversion or degradation of critical or other natural habitats.

51. Effective implementation of the ESMF will require technical capacity in the human resources of implementing institutions as well as logistical facilitation. Sufficient understanding of the mechanisms for implementing the ESMF will need to be provided to the stakeholders implementing the project investments. It will be important to support the stakeholders at the local level in their role in providing supervision and M&E, including environmental reporting on the projects activities. The ESMF findings reflect that the ADF has adequate capacity to implement and monitor the performance of the ESMF and its provisions, and there are dedicated environment and social safeguard specialists assigned to specific tasks such as (a) preparing, together with the implementing entities, annual work programs and budgets linked to the ESMPs; (b) monitoring project progress as it relates to compliance with the ESMF guidelines and ensuring that overall project implementation proceeds smoothly; (c) collecting and managing

information relevant to the project and accounts (that is, environmental and social monitoring and reports); and (d) organizing and providing training sessions.

52. A series of training workshops on implementation of the ESMF will take place as part of the project launch workshop and during the initial year of implementation. Such training will ensure that the main local specialists are able to manage and monitor the environmental and social aspects of the project activities. In addition, the project will provide technical assistance to the MoUD and the ADF during the first year of project implementation. This assistance will provide hands-on training especially on social related aspects, make recommendations on screening process and formats, and assist with the preparation of the terms of references.

53. The ADF will supervise the implementation of the environmental management plans and will contract a qualified laboratory for the monitoring (as applicable), including the testing analysis and reporting. The ADF will check with local environmental authorities to determine if the project implementation is meeting all specified ESMF, ESMP, and related safeguard requirements (for example, the RAP). They will also perform supervision site visits during works as well as the operation stage of the project to confirm that the ESMPs and related safeguard instruments are being adequately implemented. A supervision report covering the environmental and social management issues should be included in the overall site visit report; a summary of the environmental issues encountered should be reported in the biannual implementation report to the World Bank. The World Bank will also review these reports during the periodic supervision missions.

54. **Public disclosure and consultation process.** According to OP 4.01, the environmental assessment process should be available to the public, thus the borrower should consult all the involved parts on project safeguard documents at least once (for Category B projects) during the process. The public consultation provides a summary of the proposed project's objectives and a summary of the environmental assessment conclusions. Invitations have been issued and documents circulated and posted on the MoUD website in both English and Albanian languages two weeks before the meetings scheduled in Tirana, Berat, and Saranda between June 6 and June 8, 2016. The draft ESMF was disclosed on June 21, 2016, in Albania and on June 22, 2016, in InfoShop. Public consultations of the ESMF and the two ESMPs were held between July 6 and July 8, 2016, in Tirana, Berat, and Saranda. Consultations were attended by key project stakeholders, citizens, nongovernmental organizations, media, and private sector companies. Minutes of consultations have been attached to the ESMF and ESMPs. The final two ESMPs (for the 'Rehabilitation of the Saranda staircases' and the 'Rehabilitation of the cobblestone road to castle Mihal Komneno and the Panoramic View Point Tabja') incorporating comments from the public consultations were disclosed on the World Bank's InfoShop, and on the project implementing website on June 22, 2016, and on June 24, 2016, respectively.

55. **Citizen's engagement.** The project incorporates robust measures for citizen engagement and public involvement and stakeholder buy-in. Specific project-supported interventions are typically driven by local, municipal-level demand and will be subject to public consultations and feedback at that level. All project-supported interventions, including social and environmental safeguards measures, will be disclosed and discussed in public fora. Stakeholder input will be taken into account in design and implementation arrangements. Project preparation has involved consultations with tourism operators as well as central, regional, and municipal levels of



government. The ADF will ensure that all grievances and salient issues raised by stakeholders with regard to project-supported interventions are documented and tracked to resolution. The ADF, the agency responsible for safeguards oversight and public participation, will ensure that grievances and citizens' concerns are proactively addressed. Public consultations will provide stakeholders with information on the grievance redressal mechanism and give contact details of individuals assigned to manage issues or grievances which may arise in implementation of specific project activities. In addition, the MoUD and the ADF will maintain up-to-date information on the project and its activities in their respective website.

56. To assure citizens engagement during project implementation, the ADF will engage a citizen engagement specialist as part of the project's core team. The role of this specialist will be to ensure that, in addition to information and reporting obligations, public consultations and the proactive management of project or activity related issues raised by stakeholders, that local electronic and printed media is kept informed about project activities. Activity-specific information packages such as brochures will be prepared to describe the salient features of each activity and provided to the public in advance of consultations; in addition, short, focused satisfaction surveys will be carried out at an appropriate time after completion of activities, to measure and, if needed, respond to citizens' feedback. The overall citizen engagement protocol will be included as part of the POM.

### **Project Monitoring and Evaluation**

57. The MoUD will be responsible for overall project oversight and results monitoring, but day-to-day M&E responsibilities will be the responsibility of the ADF. The ADF will work in close collaboration with the selected municipalities and key project partners to collect data and will be responsible for M&E of the project toward achievement of its objectives. It will prepare and submit to the World Bank biannual reports to monitor project progress on the basis of performance indicators defined in annex 1. The frequency and methodology for collection of project performance data is outlined in the Results Framework matrix.

58. A baseline assessment—including a household survey of potential beneficiaries, a survey of tourists visiting the project area, and a tourism-linked firm-level survey—will be conducted in the project area during the 2016 summer season. A final beneficiary assessment will be conducted before project closure. In addition to the specific monitoring indicators required as part of the formal Results Framework for the project, the ADF will be required to monitor additional project implementation indicators as outlined in the POM.

59. The M&E will build on the existing ADF M&E system already in place and will be strengthened during project implementation. The ADF has an established M&E and Communication Unit which is in charge of monitoring the implementation of different projects and preparing progress reports for the ADF Board of Trustees. The ADF will update and maintain their website for wider dissemination of the project results and progress. At a minimum, the following information will be available on the Internet: all surveys, all services funded by the project, progress reports, and consultants' reports.

## **Annex 4: Implementation Support Plan**

### **ALBANIA: Project for Integrated Urban and Tourism Development**

#### **Strategy and Approach for Implementation Support**

1. The Implementation Support Plan describes how the World Bank will assist the client in achieving the PDO of the project. In particular, the Implementation Support Plan places emphasis on accomplishing the following objectives: (a) provide necessary technical advice to the client and bring international experiences and good practices to ensure that the project meets the World Bank's technical standards; (b) ensure that the implementing agency's measures meet the standards approved by the World Bank with regard to construction supervision; (c) ensure that the required fiduciary, social, and environmental safeguards are put in place and implemented according to the Loan Agreement and other project documents; and (d) ensure that the annual training plans and programs exclusively benefit the main project beneficiaries, that is, the selected municipalities.
2. The project will be implemented over a period of five years commencing January 2017, the planned date of effectiveness of the IBRD loan. The mid-term review will be conducted no later than June 2019.

#### **Implementation Support Plan**

3. **Technical implementation support.** During the implementation phase, the task team will continue to engage experienced urban specialists, tourism planners, and engineers to ensure the technical quality of outputs. Specifically, an urban specialist/architect and civil engineer will be engaged to review designs before tender. The tourism specialist/planner will also provide close supervision to activities developed under Subcomponent 3B. Recognizing that skills are currently limited within municipal staffing structures to deliver the activities that destination management partnerships will need to implement, this subcomponent will require extra hand-holding in addition to the expertise hired to strengthen the municipal team. The task team will be applying for additional CIIP funds to support this subcomponent and to ensure that these destination management partnerships can be sustainable. Technical implementation missions will be implemented three times a year during the first 18 months of project implementation, followed by biannual supervision missions. The project team will carry out site visits where works are ongoing or where service has recently commenced.
4. **Procurement supervision and ex post review.** Routine procurement reviews and supervision will be provided by the procurement analyst based in the country office. In addition, two supervision missions are expected to take place per year, during which ex post reviews will be conducted for the contracts that are not subject to World Bank prior review on a sample basis (20 percent with regard to the number of contracts). One ex post review report will be prepared per fiscal year, including findings of physical inspections for not less than 10 percent of the contracts awarded during the review period.
5. **FM implementation support.** During project implementation, the project team will supervise the project's FM arrangements in the following ways: (a) review the project's quarterly IFRs as well as the project's annual financial statements, the auditor's management letters, and remedial actions recommended in the auditor's management letters and (b) during the World

Bank team’s on-site missions, review the following key areas: project accounting and internal control systems; budgeting and financial planning arrangements; disbursement arrangements and financial flows, including counterpart funds, as applicable; and any incidences of corrupt practices involving project resources. As required, a World Bank-accredited FM specialist will participate in the implementation support and supervision process.

6. **Environmental and social safeguards implementation support.** A World Bank environmental specialist will review the implementation of the project’s ESMPs and provide guidance to the implementing agency’s environmental specialist to ensure compliance with the World Bank’s environmental safety guidelines. Similarly, a World Bank social specialist will review the implementation of the project’s RAPs (if any) and provide guidance to the ADF to ensure compliance with the World Bank’s social safeguards guidelines.

7. **Social mobilization.** The social specialist will also review citizen engagement under the project, including the commitment to gender representation, and provide support regarding the implementation of the grievance mechanism in place. Assistance will also be provided toward adopting demand-side management to improve commercial practices of utility operators.

**Table 4.1. Implementation Support**

<b>Time</b>	<b>Focus</b>	<b>Skills Needed</b>	<b>Resource Estimate</b>	<b>Partner Role</b>
First twelve months	<ul style="list-style-type: none"> <li>• Designs developed for selected municipalities under detailed urban design studies.</li> <li>• Procurement of fast-track investments and initiation of works</li> <li>• Launching of Subcomponent 3A and 3B activities</li> </ul>	Entire team with particular focus on urban and tourism planning	US\$100,000 annually	Coordinate with key project partners, and key donors active in project area (KfW, Albanian American Development Fund, GIZ)
12–60 months	<ul style="list-style-type: none"> <li>• - Closely supervise development of construction works and safeguards compliance</li> <li>• - Supervise activities under Subcomponents 3B and 3A</li> </ul>	Entire team with particular focus on urban and tourism planning, site management, capacity building, and citizen engagement	US\$100,000 annually	Coordinate with key project partners, and key donors active in project area (KfW, Albanian American Development Fund, GIZ)

**Table 4.2. Skills Mix Required**

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips</b>	<b>Comments</b>
Task team leaders	30	10	Non-field-based staff
Urban specialist (Architect)	20	10	Non-field-based staff
Private sector development specialist	6	3	Field-based staff
Municipal engineer	6	6	Field-based staff
Environmental specialist	4	6	Field-based staff
Social specialist	8	8	Field-based staff
M&E specialist	2	2	At mid-term review and project end
FM specialist	4	4	Field-based staff
Procurement specialist	8	8	Field-based staff

## **Annex 5: Economic Analysis**

### **ALBANIA: Project for Integrated Urban and Tourism Development**

1. Through its various components the project is expected to lead to improved urban infrastructure, enhanced cultural heritage assets, and increased capacity for tourism-based local economic development in the south of Albania. The economic benefits linked to the above are multiple. Improved urban infrastructure such as public spaces, streetscapes, and municipal roads can lead to a reduction of vehicle operating costs, improved urban livability, and increased safety of movement for locals. At the same time, these investments are expected to make the selected municipalities better places to visit and more attractive places to invest, thus promoting private investment and increasing income-generating opportunities in the project area. Cultural heritage enhancements will lead to the preservation of global public goods but are also expected to lead to increased willingness to visit/pay for tourist and increased property prices in neighboring areas.

2. The project is expected to deliver substantial benefits by improving urban infrastructure in selected municipalities, which are home to around 84,000 residents, and improved associated infrastructure of five satellites sites through integrated approaches along the south of Albania touristic corridor. Although subnational tourism statistics are not available, existing data suggest that a minimum of 307,000 tourists visit the south of Albania in a given year.

3. For the purpose of project appraisal two different economic analysis were conducted. The first economic analysis, focusses on the broader medium- to longer-term impacts of the project (hard and soft components), with regard to increased tourism-based local economic activities. However, given the poor quality of national tourism data, the lack of subnational tourism and local economy data, and the difficulties in attributing specific impacts to the project, this analysis should be considered a preliminary. To complement this analysis a baseline survey will be conducted, over the 2016 summer period, in the project area. The survey will collect firm, household, and tourist-level data, which will be repeated before project closure and allow the development of a more robust ex post economic analysis.

4. The second economic analysis, develops a CBA of the improvement of the Berat Castle vehicle access road, which is one of the identified fast-track investments. For this investment, the economic analysis is based on the broadly used HDM-4<sup>44</sup> model and includes only the costs and benefits directly linked to this investment. More detailed information on the methodology and assumptions used for both economic analyses can be found below.

#### **Economic Analysis – Broader Tourism Economic Impacts**

5. The project is expected to lead, in the medium to long terms, to increased economic activities linked to tourism. The outcomes are expected to be observed in increased tourist visitation, income generation through tourist spending, and jobs. The project, by providing support in the form of cultural heritage site improvement, urban centers upgrading and institutional development, and capacity building is likely to contribute to the broader objectives of economic diversification and inclusive growth.

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<sup>44</sup> HDM Model.

6. The economic analysis of this type of project faces some difficulties particularly where there is an indirect relationship between the technical assistance provided under the project in its stream of benefits, and from the lagged effects of the project. In addition, most of the benefits do not easily lend themselves to being assigned a precise monetary value and more difficulty cannot always be unambiguously attributed to the project, for example tourism revenues. As such, the economic analysis presented below should be considered preliminary and be complemented once more up-to-date information—baseline survey—is available. Furthermore, to address the limitations of this approach, a conservative set of assumptions were used and a sensitivity analysis has been conducted to assess the robustness of results. In addition, for a project of this type, the focus of the analysis is on estimating the economic benefits and costs rather than financial analysis.

7. Based on the information available and experience from similar project in other countries, the following assumptions were made:

- (a) Given the lack of subnational tourism data, the economic analysis uses entrances to three of the main touristic attractions in three of the four selected municipalities as a proxy of the number of tourists in Albania who are visiting the project area. These touristic attractions are Butrint, Berat Castle, and Gjirokastra Castle; most of the tourists visiting Saranda, Berat, and Gjirokastra, respectively, visit these attractions. This number was compared with the official statistics of domestic and international tourist arrivals for the same years and it was estimated that around 15 percent of tourists visiting Albania visit the project area.
- (b) To estimate the benefits of increased tourism arrivals, the economic analysis uses data of tourists' spending. The data, computed by the WTTC, is interpreted as tourists' willingness-to-pay (WTP) for visiting Albania. Based on this information and using INSTAT, the arrival of foreign tourists and the average spending per foreign tourist over the past five years was estimated at 494 EUR.
- (c) To estimate the benefits on overall tourism spending by foreign tourists, the analysis assumes differentiated growth rates in the number of tourists and in the WTP. Based on WTTC projections, Albania is expected to receive increasing flows of tourists at a rate of 5 percent per year over the next 10 years. As a conservative estimate, it is assumed that the project will generate an increase of 0.5 percent (leading to 5.5 percent increase) of tourists. Furthermore, a 0.4 percent increase in the WTP of foreign tourists without the project and a 0.5 increase with the project is estimated. The sensitivity analysis incorporates variation of the incremental growth rate (of both tourism increase and increase in WTP) to test for robustness.
- (d) All project costs, including Components 1, 2, 3, and 4, are included in the analysis. A value added tax of 20 percent is discounted for works under Components 1 and 2.

8. Based on the analysis of tourism outcomes, the overall project is expected to yield an ERR estimated at 17.1 percent and an NPV of 282.41 EUR million, assuming a social discount

rate of 5 percent<sup>45</sup> and 25 years of asset life, including five years of project implementation, with corresponding benefits to be realized starting 2022. A sensitivity analysis was also conducted for the overall project to estimate the robustness of results, with a (a) differed project impact (visible impact only five years after project closure), (b) a lower increase in tourism revenues attributed to the project, and (c) a combination of both. Under all cases, the ERR remains above 9 percent, which confirms the economic justification of the project.

### **Economic Analysis - Berat Castle Vehicle Access Road**

9. This annex summarizes the economic analysis undertaken for the improvement of the Berat Castle vehicle access road to confirm its economic viability. The evaluation was done using the HDM Model version 4, which assessed streams of changes on road user costs and road works costs (as compared to a reference or ‘without’ project scenario) over an evaluation period. Road user costs consist of vehicle operating costs and travel time costs of passengers and freights. The basic parameters of the model, including existing pavement conditions, traffic volumes, and unit costs of vehicle operation, were obtained mostly through field surveys and desk reviews.

10. The basic input vehicle fleet economic costs and basic characteristics used are as shown in table 5.1. Traffic growth is primarily driven by economic development and the corresponding increases in vehicle ownership and vehicle usage. The International Monetary Fund’s forecast of GDP growth for Albania from 2017 to 2021 has been used for the forecast of normal traffic growth adopting an elasticity of 1.2 for passenger vehicles until 2021 with 1.0 thereafter and 1.0 for goods vehicles throughout the evaluation period. Accordingly, the passenger vehicles’ normal traffic was estimated to grow at 4.8 percent per year from 2017 to 2021 and at 4.0 percent per year thereafter. The goods vehicles’ normal traffic was estimated to growth at 4.0 percent per year throughout the evaluation period. Generated traffic was estimated to be 50 percent of the normal traffic, considering that travel speeds are estimated to more than double with the project.<sup>46</sup>

11. The project will upgrade to two-lane asphalt concrete road of the Berat Castle road that totals 1.9 km. Currently, the road is a single-lane road, which is in poor condition with an average roughness of 5.0 International Roughness Index, m/km. The road carries, on average, 238 vehicles per day, of which 31 percent are trucks and buses. The upgrading cost is estimated to be EUR 1.17 million that corresponds to EUR 613,862 per km. After the upgrading, the road will become an 8.9 m wide two-lane road with asphalt concrete surface.

12. The net benefits of the project are estimated as a reduction in the costs of road works and road user costs as compared to the reference scenario. Over 20 years, the NPV, at 5 percent discount rate, is EUR 1.05 million and the ERR is 14.6 percent. Under a worst case sensitivity scenario of increasing the construction costs by 15 percent and reducing the project benefits by 15 percent, the ERR is 10.9 percent, which confirms the economic justification of the project.

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<sup>45</sup> According to the new guidelines, a 5 percent discount rate is recommended for project evaluation—Technical Note on Discounting Costs and Benefits in Economic Analysis of World Bank Projects.

<sup>46</sup> The current travel speeds on the project road are about 15–20 km per hour. With the project, the travel speeds are expected to increase to about 40–50 km per hour.

13. The CO<sub>2</sub> emissions of the vehicle fleet over the evaluation period were computed using the HDM-4 model. The project is expected to reduce CO<sub>2</sub> emission by 4.0 percent over the 20-year evaluating period, from 2,021 to 1,940 tons of CO<sub>2</sub> emissions.

**Table 5.1. Vehicle Fleet Characteristics**

	Mini			2-Axle	
	Car	Van	Bus	Bus	Truck
<b>Economic Costs</b>					
New vehicle price (US\$)	22,600	27,120	54,240	113,000	54,240
Replacement tire (US\$)	41	50	50	118	90
Fuel/liter (US\$)	0.78	0.66	0.66	0.66	0.66
Lubricant/liter (US\$)	6.22	6.22	6.22	6.22	6.22
Maintenance labor costs (US\$/hour)	5.09	5.09	7.23	7.23	7.23
Crew costs (US\$/hour)	2.49	2.49	3.28	3.28	3.28
Overhead (US\$)	585	1,322	1,393	3,230	1,714
Annual interest (%)	6	6	6	6	6
Passenger working time (US\$/hour)	2.52	2.52	2.52	2.52	0.00
Passenger non-working time (US\$/hour)	0.99	0.99	0.99	0.99	0.00
Cargo delay time (US\$/hour)	0.00	0.00	0.00	0.00	0.17
<b>Basic Characteristics</b>					
Annual vehicle utilization (km)	10,000	30,000	30,000	40,000	40,000
Annual working hours (hours)	400	1,200	1,200	1,750	1,750
Vehicle life (years)	16	20	8	25	25
Passengers (number)	2	6	12	25	0
Gross vehicle weight (ton)	1.20	1.80	2.50	8.00	8.00
Equivalent Single Axle loading factor (number)	0.00	0.00	0.04	0.70	1.25



## Annex 6: South of Albania Tourism Circuit

### ALBANIA: Project for Integrated Urban and Tourism Development

