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Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 25-Jun-2019 | Report No: PIDC196452



BASIC INFORMATION

A. Basic Program Data

Country Albania	Project ID P170891	Parent Project ID (if any)	Program Name Albania National Water Supply and Sanitation Sector Modernization Program
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 20-Jan-2020	Estimated Board Date 31-Mar-2020	Does this operation have an IPF component? Yes
Financing Instrument Program-for-Results Financing	Borrower(s) Ministry of Finance and Economy	Implementing Agency Ministry of Energy and Infrastructure	Practice Area (Lead) Water

Proposed Program Development Objective(s)

To strengthen the policy framework and institutional capacity for improved WSS service delivery in Albania

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	862.00
Total Operation Cost	80.00
Total Program Cost	71.00
IPF Component	9.00
Total Financing	80.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	80.00
World Bank Lending	80.00



B. Introduction and Context

Country Context

- Emerging in the early 1990s from a communist regime and international isolation, Albania has become one of the growth success stories of the Western Balkans - although gaps to the aspirational living standards of the European Union (EU) remain large.** Albania is a small economy in the Western Balkans with a population of 2.9 million.¹ About 53.4% of the country's population is living in cities, with the three largest municipalities (Tirana, Durres and Fier) accounting for half of the total population. Almost 30% of the total population is found in Tirana Municipality followed by Durres Municipality (11%) and Fier Municipality (10%). With a close to four-fold increase in living standards since 1991, it has been one of the fastest developing economies in the region. Today, Albania is at the cusp of opening formal negotiations for accession to EU membership. Yet, despite this significant progress, living standards are still more than three times lower than those inside the EU. Poverty remains widespread, with 39.1 percent of the population living on less than USD \$5.50 a day as of latest measurement.² The production base is only gradually gaining sophistication, with continued high agricultural employment and rampant informality, and the economy remains relatively closed, particularly considering Albania's proximity to the large and affluent markets of the EU.³
- A growth slowdown and a sudden deterioration of public finances disrupted progress after 2008. While budget consolidation has since brought deficits under control, Albania continues to face fiscal risks from high public debt and off-budget contingent liabilities.** Macroeconomic weakening and growing fiscal imbalances required Albania to ultimately enter a three-year IMF program in 2014. While fiscal deficits have since been brought under control, this episode saddled Albania with a high stock of public debt⁴, which is particularly concerning given a still chronically weak public revenue base⁵ and significant spending needs to close gaps in the social budget and infrastructure.⁶ As Albania has increasingly turned to public private partnerships (PPPs) to meet public service needs using private capital, and key state-owned enterprises (SOEs) have continued to underperform financially, off-budget fiscal risks have grown.
- Though the economy has regained speed in recent years, Albania needs to further strengthen the quality of growth.** While GDP growth has picked up again at 3.8 percent in 2017 and 4.1 percent in 2018, this has been supported by favorable one-off factors that are expected to fade out going forward.⁷ Much of the job creation gains recorded in this period have been concentrated in low-sophistication sectors, such as basic textiles manufacturing, administrative support services as well as construction.⁸
- In this context, as pre-condition for growth, Albania is adopting key reforms strengthening the transparency and sustainability of its public finances, with expected support from a Bank's Fiscal Sustainability and Growth Development Policy Financing (DPF) currently under preparation.** The first pillar of the DPL aims to mitigate fiscal risks and to prevent further growth setbacks. First, to build fiscal space and bring down government debt, this pillar reinforces

¹ Albanian National Statistical Authority (INSTAT), January 2019

² World Bank World Development Indicators (WDI): Albanian GDP per capita adjusted for purchasing power parity (PPP) and at constant 2011 dollars increased from USD 3,229 in 1991 to 11,802 in 2017. The equivalent EU figure increased from USD 25,066 in 1991 to USD 37,331 in 2017. The poverty rate is stated for income adjusted by PPP in constant 2011 dollars. Albania's poverty headcount ratio (\$5.50 a day at 2011 PPP) fell from 51.5 percent of the population at its first measurement in 1996 to 39.1 percent of the population at its currently latest measurement in 2012.

³ International Labor Organization (ILO) data for Albania: Agricultural employment 38 percent of total employment in 2018; informal employment estimated at 33.1 percent of total non-agricultural employment in 2013.

⁴ At 69.6 percent of GDP as of end-2018 (WB6 average⁴: 50.2)

⁵ at 27.6 percent of GDP (WB6 average: 35.3)

⁶ World Bank Western Balkans Regular Economic Report (WB RER): Spring 2019

⁷ World Bank Western Balkans Regular Economic Report (WB RER): Spring 2019.

⁸ Favorable one-off factors include the completion of two large foreign direct investment projects. In 2018, strong rainfall enabled an export windfall from higher than usual domestic hydropower generation.



Albania's revenue raising capacity. The operation supports institutionalization of regularly published reviews on the costs and benefits of tax incentives, hence strengthening the quality of tax policy, the strengthened management of off-budget fiscal risks and a strengthened selection and monitoring framework for PPPs aims to ensure that the projects deliver value-for-money and that risks for the budget are contained. At the request of Ministry of Finance and Economy (MoFE) in Albania, the DPF operation will also support the establishment of an enhanced framework for performance-based transfers to municipal water companies, aiming at enhancing incentives for key SOEs to tackle financial underperformance and to more efficiently manage the services and the water resources.

5. **Since 2013, the government started a Territorial Administrative Reform (TAR) in Albania established larger units of local governments, administering a larger, reorganized and consolidated territory and re-organized local government into 61 municipalities. Following the Territorial Administrative Reform and Water Sector Reform, the water supply and sewerage services are reorganized in 58 WSS companies serving 61 municipalities.** Local governments are the owners of the existing water supply and sewerage companies (which are corporatized as joint-stock companies) within their administrative boundaries, as well as of other public asset water supply and sewerage infrastructure in prior communes that have been amalgamated into the newly defined LGU's, which today are struggling to deliver water supply and sewer services to their expanded territories. Meanwhile, most of the 58 municipal water companies continue to underperform, requiring budget support and building up liabilities. High non-revenue water losses due to leakage in the piping system, poor collection of water bills as well as low water tariffs weigh on the revenues of the companies. High staff numbers and the need for substantial investments to maintain and expand municipal water services drive up spending. With 58 individual companies owned by different local governments in a country with a population of less than three million, the high fragmentation of the sector prevents full exploitation of economies of scale. The Central Government continues to support most of the WSS utilities through operating transfers and CAPEX financing from the national budget, as well as guarantees for sub-sovereign lending.

6. **In 2016-2017, the Government of Albania (GoA) launched a so-called ambitious Water Sector Reform agenda, whereby local governments were required to further restructure and improve their water supply and sewerage operations in response to the new realities of TAR and the growing demand for services.** The Government had identified as critical the high degree of illegal connections to the utility networks in the sector which affected also the financial viability of the water companies. The initial stages of the reform focused mainly in a well monitored campaign to fight irregularities by expanding the formal customer base, formalizing the illegal connections to the water supply system, reducing commercial losses due to billing mistakes, and improving collection efficiency and debt recovery amongst others which had remarkable results in increasing the number of formal accounts, improving overall billed volumes on yearly basis (9% in the case of Durres), and collections, as well as metered accounts for which there was also a strong push from the Government. In the case of the WSS sector, strong leadership and oversight (coupled with financial and technical support) from the central level have gone long way in instilling change of behaviors at the local level. The local governments and WSS utilities have also been requested to prepare full inventories of water supply and sanitation systems within their jurisdiction including assets located in rural and more dispersed areas. As part of the reform, WSS utilities are required to transfer these assets to their balance sheets and assume responsibility for service delivery in those areas, where services were either absent, of low quality, and delivered – before the reform – by a range of informal and local service providers.

7. **In addition, Municipalities have been requested to enter into Performance Contracts with the MoIE, setting the targets to be achieved in the short and medium term, and a new guideline links a part of the transfers of operational subsidies based on utility performance (to incentive target achievement under these Performance Contracts).** The Ministry of Energy and Infrastructure (MoIE), which is the line ministry responsible for the WSS sector, has put together during 2018 a detailed program of priority measures under a *National Water Supply and Sewerage Services Sector Strategy 2019-2030* ("NSS" or the "National WSS Sector Strategy"). Although the strategy document is being discussed for



endorsement at higher level of governments (it is expected to be approved by the Council of Ministers by the end of the year), MoE is already implementing a number of these actions as part of the ongoing WSS sector modernization efforts. The World Bank has had a long-standing dialogue with authorities around WSS sector financing issues since 2015 through various policy and TA engagements. The *Water Supply and Sanitation Sector Policy Support TA*⁹ developed a financial model for strategic financial planning to enable the alignment of national sector targets with available funding and outlined a sector financing policy and implementation measures¹⁰ following intense work at the local level with sector counterparts. The Government endorsed the policy in 2016, though many of the implementation measures are yet to be rolled-out and others could be enhanced. These are included in the National WSS Sector Strategy.

8. **Although Albania is relatively water rich, sustaining water resources through efficient use and protection of water bodies from pollution, will remain key to adequately meet all demands from other users at the local level (agriculture, industry, hydropower) and to further develop tourism potential in the country and adapt to the impacts of climate change.** Albania lies in the southwestern portion of the Balkan Peninsula. Most of the country is mountainous, and the country's coast touches the Adriatic Sea to the northwest and the Ionian Sea to the southwest including the Albanian Riviera. Fresh water sources constitute a major resource for Albania. The available average quantity of fresh water is estimated at 8,700 cubic meters per capita per year, which is one of the highest in Europe. Albania has a dense network of rivers and streams characterized by a high flow rate, with eight major rivers and numerous tributaries which mostly rise in the mountainous eastern half of the country and belong to the drainage basins of the Adriatic, Aegean and Black Sea. The water resources in Albania are distributed, hydrographically, across six (6) watershed basins, with main river systems¹¹ flowing in a westerly or northwesterly direction across the country. It is worth noting that these river systems not only drain the land mass of Albania, but also large parts of the inhabited areas of Northern Macedonia, Kosovo, and Montenegro. With more than 250 lakes (mostly of karstic or glacial origin), the country is home to two of the largest lakes in Southern Europe and one of the oldest in the World. The water supply for drinking purposes comes mainly from natural springs and underground water sources, except for Tirana metropolitan area (which is partially supplied from a surface water source supply reservoir) and Kavaje touristic area (which is partially supplied in the summer season from a surface supply reservoir linked to Maskuri artificial lake).

9. **According to the World Bank's Climate Brief for Albania, "climate change is expected to diminish the water resources in the country.** A decrease in the mean annual and seasonal precipitation, along with an increase of the mean annual and seasonal air temperature might lead to a decrease in the long term mean annual and seasonal runoff and would thereby reduce surface water flow. Under reduced surface water flow and increased evaporation, reservoir storage may decrease, affecting drinking water and energy production by hydropower stations. The reduction in water resources would also cause changes in the erosion of riverbeds, and modification of turbidity and sediment load, thereby threatening the quality of the water. Reduction in groundwater recharge, increases in salinity, increases in population and consequently demand for water, will likely lead to a shortage of adequate quality and quantity drinking water. Although currently on average, water availability for drinking water purposes exceeds total demand of water volume in all the jurisdictional areas of the water utilities, there are significant differences in water availability in the different municipalities, and water losses are high or very high in most cases. As basin-level planning and water resources management develops further in Albania, increased efficiency in the use of the water resource (and proper management of wastewater discharges by WSS utilities, with regards to water quality) will be a priority measure for climate change adaptation.

⁹ P152351

¹⁰ *Sector Financing Policy and Implementation Measures (Strategy) Report*, November 2016, Cowi and Valu Add under World Bank Guidance. An update and some upgrades to the financial model was done in 2018 (also with Bank support).

¹¹ The major river systems for the six watersheds, from north to south, are the following: Drini-Buna Rivers, Mati River, Ishem and Erzeni Rivers, Shkumbini River, Semani River, and the Vjosa River



10. **The current legal and regulatory framework for Water sets a clear division of roles and responsibilities.** The fundamental laws governing the water sector are the following: i) **Law on Local Self-Governance**¹², which defines water supply, wastewater and storm water as exclusive functions of municipalities in public infrastructure and services (together with some other 14 decentralized functions); ii) **Law on Water Regulatory Authority**¹³ which establishes the Water Regulatory Authority (WRA) as a public independent institution that regulates the WSS sector to ensure protection of the public interest and to create a transparent regulatory framework, and gives the WRA the exclusive right to review and set tariffs and license operators in the water sector; iii) **Law on Integrated Water Resource Management**¹⁴, which main objective is to protect and improve the water resources management and establishes the national bodies of water administration and management to be the *National Water Council (NWC)*, with the *National Agency of Water Resources Management (AMBU)* as Technical Secretariat, while the integrated management of water resources at the basin level is done through River Basin Councils and River Basin Management Offices; and iv) **Law on Wastewater Treatment**¹⁵ which aims to protect the environment and human health from negative impacts of polluted waters, by defining environmental treatment standards as well and obligations of polluter discharger.

11. **Institutional and Organizational Framework:** The WSS sector is organized as a two-tier system, with national government being responsible for sector strategies and policy development, and local governments for service provision. The Central Government has the primary role of channeling donor and treasury funds for capital improvements, based on needs assessment through a National Master Plan and needs expressed by local governments. It also provides, through MoFE, sovereign guarantees on loans from international financial institutions and operating subsidies to water utilities to cover their energy costs (and since 2018, also for priority service improvement projects, based on performance and target achievement by utilities). The MoIE is responsible to set the main policies and priorities of the WSS sector (development and implementation of the Water Sector Reform; technical assistance to WSS companies in the context of changes because of territorial reform, certification of operational managing staff, and others). Much of this work is done through the *National Agency of Water Supply, Sewerage and Waste Infrastructure (AKUM)*¹⁶, which is a legal, individual and budgetary unit under the MoIE as a technical specialized agency which also conducts analysis, identification and drafting of WSS (and solid waste) policies, planning and the implementation and management of investment projects financed by IFIs. For the broader water sector, in addition to the National Water Council, National Water Agency, River Basin Councils and River Basin Offices mentioned in para. 8, the Ministry of Tourism and Environment (MTE)¹⁷ has the responsibility for ensuring that all environmental aspects of EU Water Framework Directive and other relevant Directives are transposed, coordinated and implemented in Albania. The Ministry of Health and Social Protection is responsible for inspecting and monitoring of drinking water quality through its institutions like the Regional Public Health Structures, the Health State Inspectorate and Institute of Public Health.

Fig 1: WSS Sector Institutional and Organizational Framework

¹² Law 139/2015

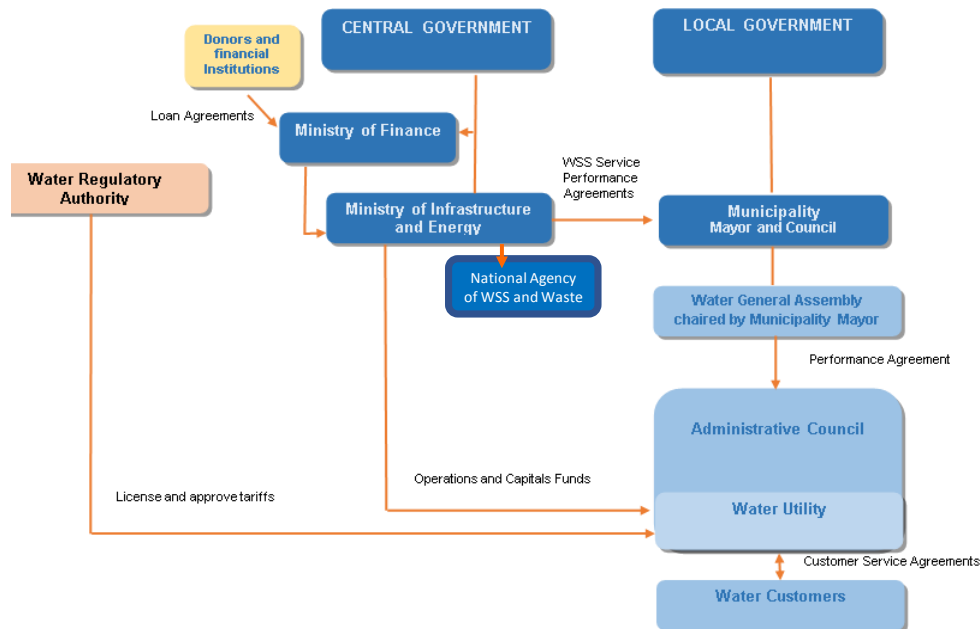
¹³ Law 8102/1996

¹⁴ Law 111/2012

¹⁵ Law 9115/2003

¹⁶ DCM no. 431, date 11.7.2018 "On the establishment, organization and functioning of the National Water Supply, Sewerage and Waste Infrastructure"

¹⁷ Within it, the National Environmental Agency and National Inspectorate on Forestry and Environment have important role on water issues



12. **Albania has significant space to improve its overall WSS sector performance but is improving much faster than its neighbors in the last few years.** According to the Bank’s State of the Sector Report Update 2018 (“SoS 2018”), which looks at 16 countries in the Danube region to undertake a water sector sustainability assessment and rating/scoring for each country based on a sustainability index (WASCO), Albania, with a WASCO of 55 points, ranks one of the lowest (with Montenegro) amongst the 6 Western Balkans countries (where average WASCO is 60). However, Albania has only been surpassed by Kosovo in the progress made since 2015 in the WASCO index, which went up 6 points from 2015 (average increase for 6 Western Balkans countries was 2.5, with Montenegro decreasing its overall WASCO). The WASCO includes 12 variables across four broad dimensions of access, quality of service, efficiency and sector financing. Albania is performing well above the average of candidate countries in wastewater treatment and staffing efficiency, and in collections and investment per capita (although less markedly so) and is performing below the average on all other variables (access to piped water and sewerage, customer satisfaction, continuity of service, NRW, operating cost coverage, etc.). The SoS 2018 also highlighted that Albania performs below its economic-development level, compared in WASCO to some of its neighbors like Kosovo, with a lower GDP per capita and a much higher WASCO of 71 points.

13. **Despite ambitious targets set in the WSS National Strategy 2011-2017, access to water supply and sewerage systems coverage have only improved in urban areas. Coverage of services in rural parts of the country is still lagging far behind, and Roma populations are further disadvantaged. Some areas in the country are facing significant challenges with water quality. Moreover, collection and treatment of wastewater are very low and need significant improvement.** According to the Sustainable Development Goals (SDG) definition of access to safely managed water services, Albania has 69% coverage at national level, whereas the national coverage figure for piped water supply as used in the National Strategy is 78%. National figures for piped water supply and sewerage coverage show huge differences in urban and rural rate coverage (92% vs 59% for water supply and 76% vs 13% for sewerage).¹⁸ However, in rural areas flush-toilet coverage

¹⁸ Data from *National Water Supply and Sewerage Services Sector Strategy 2019-2030*. Data in rural areas has been recently updated by the Government based on different studies (some supported by ADA) and there are some discrepancies with other recent sources. According to the World Bank report *Beyond Utility Reach? How to Close the Urban-Rural Access Gap: A Review of Rural Water and Sanitation in Seven Countries of the Danube Region* which included Albania, based on an assessment of the HBS (2015), it was not possible to disentangle piped water services



is near to universal via on-site sanitation facilities and self-supply for water is widespread. In rural areas, the systems and assets used to be managed by local community groups and most households, even those with self-supply, are taking water from a well or nearby spring which is piped into the household, although 1 in 5 rural households have no piped connection in the yard and still need to travel to collect water varying distances.¹⁹ Self-supply faces water quality issues and water often lacks disinfection at all.²⁰ With regards the treatment of wastewater, only around 10% of the total urban population is connected to wastewater treatment. In addition to the lagging services in rural areas, exclusion of Roma minorities is also prevalent. Roma minorities on average have only 46% access to piped water in their yard, while this is 89 percent for their non-Roma neighbors (this includes piped water both from centralized systems and self-supply)²¹. Similarly, a gap between Roma and non-Roma neighbors can be found for access to sewerage or an on-site sanitation facility (septic tank). With regards to water quality, according to the NSS baseline the average compliance rate for chlorine in 2017 was 96% (with values ranging from 22% to 100%), and 99% for fecal bacteria (with values from 44% to 100%). Although the overall compliance rates are quite high, the ranges show that some utilities are still experiencing important challenges issues to deliver safe drinking water to their customers. Overall there is plenty of room for service quality improvement and only a few utilities can provide water service more than 20 hours of service a day throughout the year (overall average continuity of service has not increased since 2013 and has an average of 12 hours per day vs the WB6 of 22 hours per day).

14. WSS services efficiency remains also generally low because of insufficient maintenance of infrastructure and systems, poor operational and management practices and governance aspects (which in turn affects the financial viability of most of the WSS utilities in the country). In 2017, average non-revenue water (NRW) for the whole sector remains at a high level with 65% (candidate average 55%). There is also rather low performance in terms of metering (68.3% vs candidate average of 87%) and energy efficiency (26% of OPEX). These operational inefficiencies result in high costs, which jeopardize the financial sustainability of the WSS companies. In 2018, 37 out of the 58 municipal water companies continued to rely on budget support and operating subsidies to cover operating expenses (mostly for payment of their energy costs, also chemicals and others). The central government provided a transfer of around 1 billion ALL (EUR 8 million) for operating costs. For CAPEX, some municipal companies are borrowing from IFIs using central government guarantees while others are relying on central government to finance their CAPEX needs (the central government allocated around 10 billion ALL (EUR 80 million) for capital expenditure in 2018). The CAPEX grants and sovereign guarantees are largely allocated on an ad-hoc manner to the local level and not necessarily in alignment with national sector targets and objectives. There is generally also a high rotation of top management of water supply companies which is very often politically driven (instead of merit based) and political economy issues hinder the utilities from increasing their revenue base via increased tariffs or reduction of commercial losses. In some cases, the financial sustainability of WSS services is closely linked with the number of customers they serve, due to the existence of economies of scale, especially when their area of service does not display a high-density rate of customers per km of network. This is mostly the case in rural areas with scarce population. When looking at service efficiency, very small and small services display much lower performance than larger ones.

15. In the perspective of the EU accession process, Albania has included in its National Strategy the objective to move toward convergence of Albanian Law with the EU Water Directives and achievement of EU water-related acquis.

through self-supply (wells piping into the household), or those served by remnants of local operators (not yet fully managed/transferred to utilities (in 2015, utility coverage was just over 20%). JMP WASH data, used in the *State of the Sector Report 2018 Update* also shows high levels of piped coverage for rural and urban (this is due to the piped self-supply), as well as high levels of basic and safely managed sanitation (due to high level of on-site flush toilets).

¹⁹ From Albania survey dor study *Beyond Utility Reach? How to Close the Urban-Rural Access Gap: A Review of Rural Water and Sanitation in Seven Countries of the Danube Region*

²⁰ Survey conducted for the recent regional study indicated people travel for water by cart or donkey

²¹ World Bank (2019). *Breaking the Silence of Roma Exclusion in the Western Balkans*. This is based on 2017 Regional Roma Survey, that was conducted in areas with roma population between 10 to 40% of the population.



Achieving this objective will require the adjustment of water-related legislation to fully harmonize it with, as well as cost recovery principle adoption. In the National Sector Strategy, this effort is to be sustained through a phased approach that should lead to the opening and negotiating of Chapter 27 on Environment for EU Accession. With regards to harmonization of national legislation with EU directives, there is some progress already in the transposition of the Water Framework Directive through the Law on Integrated Water Management; in addition, and through several Decisions of Council of Ministers (DCM), the transposition of EU Drinking Water and Bathing Waters Directives is considered accomplished 100%, as well as some of the provisions of the Urban Wastewater Treatment Directive. The meantime, the MoIE has started in 2018 a close TA cooperation with the EU Delegation for the water sector, including an effective planning, screening and preparation of future negotiating position and use of EU grants. Currently, MoIE is undertaking a gap analysis with EU acquis on water with support from the Swedish Development Agency.

16. **GoA's National WSS Sector Modernization Program, to be implemented with support from the Bank through the proposed PforR, aims to improve the overall WSS service delivery framework to address the above-mentioned sector deficiencies.** GoA has already developed a long-term Financial Policy²² for the WSS sector with support from the Bank, which includes setting national sector policy objectives and targets and lining up investments priorities based on available funding for the sector, which has been adopted for planning and budgeting purposes. The **National Strategy for the WSS Sector**, which was prepared during 2018 through a broad consultative effort with sector stakeholders²³, outlines GoA's vision to establish an organized WSS sector that contributes to ensuring robust health and economic development through quality water supply and sewerage services. The mission statement of GoA's strategy is to provide safe, reliable, sufficient and proper quality of water supply services for the entire population of Albania and to ensure quality collection, treatment and disposal of wastewater to safeguard public health and in compliance with national environmental regulations. The GoA strategy has been prepared under six guiding principles of sustainability, compliance, efficiency, equity, affordability, and transparency and sets seven strategic objectives with specific targets, which are measurable and timebound. MoIE has developed a detailed and clear framework of priority measures to achieve each of the strategy's objectives, which implementation will be supported by the proposed National Water Supply and Sanitation Sector Modernization Program. It is expected that MoIE's strategy will be endorsed by Council of Ministers in 2019.

17. **There is a long history of Bank and donor engagement in Albania's WSS sector.** Currently there are several active donors and IFIs supporting the development of the water and sanitation sector in Albania. The EU Delegation is leading much of the action providing grant funding under its IPA 2014-2020 which is being implemented by a few bilateral donors, including GiZ, ADA and SIDA. SECO is another key donor, working in partnership with KfW and focusing on institutional development and improvements at local level. USAID has supported different developments, such as the preparation of a Non-Revenue-Water Reduction Action Plan and the development of a National Certification Program for WSS professionals. GIZ is currently working with the Government towards developing proper asset management system in several WSS utilities and has implemented EU funds for the development of the National Sector Strategy, amongst others. The World Bank has also worked in close coordination with the EU and other development partners in Albania for the sector financial policy (which was co-funded by an EU Trust Fund) and with GIZ and others for the development of the National Strategy. The EU's Action for a Cleaner Environment in Albania, under preparation with expected approval in December 2019, targets the implementation of affordable municipal wastewater infrastructure in priority areas (also based on performance and other priority criteria), together with efficiency gains of utilities in the management and operation of infrastructure and the improvement of decentralized wastewater infrastructure planning towards compliance with EU acquis legislation, in particular the Urban Wastewater Treatment Directive (UWWT). The Action is expected to be co-financed by KfW through loans for an amount of EUR 80 million, with municipalities and WSS utilities

²² Sometimes referred to as Government's Financial Strategy for the WSS sector

²³ Working Group for the National Sector Strategy 2019-2030



at the local level as direct beneficiaries, and also support MoIE and AKUM at the central level in the improvement of their functions.

Relationship to CAS/CPF

18. **The proposed Program directly responds to the priorities identified in the Country Partnership Framework FY15-FY20 (CPF) agreed upon between the World Bank and the Government of Albania, specifically focus area No. 3 of strengthening public sector management and service delivery.** The CPF has recently been extended until May 31, 2020, following a Program Learning Review (PLR) which benefitted from extensive internal discussion and consultations with government officials, civil society, academia, and private sector. In addition, the proposed Program supports the “priority setting” exercise by the Government in January 2018 which confirmed the main areas on which the Government would focus its work during ongoing political mandate. The priority setting confirmed the CPF focus areas of 1) restoring macroeconomic balances, 2) creating conditions for accelerated private sector growth, and 3) strengthening public sector management and service delivery, and it was agreed that several objectives would be given higher prominence including services for citizens, water, property, and jobs.

Rationale for Bank Engagement and Choice of Financing Instrument

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

To strengthen the policy framework and institutional capacity for improved WSS service delivery in Albania

PDO Level Results Indicators

The Program will support the following three results areas:

- Results Area 1: Strengthened National Sector Framework
- Results Area 2: Improved Access, Quality and Efficiency of WSS Services
- Results Area 3: WSS Utility Aggregation/Regionalization program designed and launched

Below is a (non-exhaustive) list of preliminary possible PDO and intermediate results indicators and/or DLIs.

Results Area 1: Strengthened National Sector Framework

1. National WSS Strategy Approved by Council of Ministers²⁴
2. No. of WSS utilities reporting to Information System on target achievement and performance
3. National Professional Certification program approved

Results Area 2: Improved Access, Quality and Efficiency of WSS Services

1. No. of Annual transfer of Performance Based transfers by Ministry to eligible WSS Utilities
2. No. of WSS utilities meeting their performance goals as in Performance Contract (NRW, Energy Efficiency, etc.)

²⁴ The Strategy has been prepared and is implemented by MoIE. It is expected to be approved at level of Council of Ministers within this calendar year



3. No. of utilities staff certified under national certification program
4. No. of people benefiting from improved access and/or quality of services

Results Area 3: WSS Utility Aggregation/Regionalization program established

1. Utility aggregation framework/program of measures approved
2. No. of utilities successfully integrated under the utility aggregation program

D. Program Description

PforR Program Boundary

19. **The National WSS Sector Strategy (2019-2030) or NSS is the overarching program for the water and sanitation sector in Albania and outlines a program of targeted priority actions.** The NSS sets as GoA's priority challenges to be addressed by the government program: i) **governance, financial and management framework**, where GoA's priority measures focus on improving financial viability of the 58 WSS utilities, improved overall governance through increased accountability and transparency at central and local level, and the design and launch of a utility aggregation program which would improve economies of scale, cost recovery and service delivery; and ii) **technical and operational performance of WSS Utilities**, where GoA's program focus is on reducing high non-revenue water (water losses), improving hours of service, and increasing access to the services by the rural population. The investment needs of the NSS have been estimated at EUR 1.6 billion by 2030 to achieve the targets set forth in the strategy, and of EUR 862 million by 2025. The proposed PforR will focus on supporting the roll-out of the NSS and implementation of priority measures in these 2 priority areas identified by the Government.

20. **The proposed PforR Program will contribute to the NSS by supporting achievement of a subset of its key results during the period 2020-2025 (the government program is envisaged until 2030).** The below table show the total program of expenditures by the Government in the short and medium term and the results of the Government program to be supported by the PforR. Whilst the PforR will support the overall implementation of the NSS and the achievement of all its objectives, a particular effort will go to supporting results under efficiency and quality of service provision in line with preliminary discussions with counterparts. In this regard, the Government has prepared a National Action Plan to reduce Non-Revenue Water²⁵, in line with National Government's objectives (including the reduction of water losses by 16% by 2021 and further by 19% by 2025) which would be rolled out under this PforR. Another area of specific focus for the PforR requested by government counterparts is the design of a strategy for an utility aggregation program based on earlier studies undertaken in Albania and the World's Bank Utility Aggregation Toolkit²⁶. Finally, given the low levels of access in the rural areas in Albania, and the regional knowledge work done by the Bank on successful service delivery models in rural areas²⁷, which included Albania, the Government has preliminary marked increasing access in selected areas to be also included in the PforR program. The rural areas are also where the poorer are living in Albania and this is a good opportunity to improve poverty reduction and social inclusion outcomes.

Table 1: Sector Program of Expenditures and PforR boundary

²⁵ Albanian National Action Plan to Reduce Non-Revenue Water, 2019-2021

²⁶ *Joining Forces for Better Services? When, Why and How Water and Sanitation Utilities can Benefit from Working Together and Utility Aggregation Toolkit*, World Bank, 2016

²⁷ World Bank research on WSS service provision in rural areas



National Strategy for WSS Sector Program of Expenditures (in million EUR)	2019-2030 Total	2019-2025		Total	PforR	IPF
		CAPEX	TA			
1 Water sector data quality, accuracy and consistency	5.25	0.00	5.25	5.25		3.00
2 Access and quality of WSS services	1,112.82	469.42	0.12	469.54	18.00	0.05
3 Efficiency and quality of service	535.11	381.04	0.36	381.40	50.00	0.25
4 Financial sustainability and affordability	0.00	0.00	0.00	0.00		0.20
5 Capacity Building sector workforce	1.50	0.00	1.50	1.50		1.00
6 Sector governance and regulation	2.55	0.00	2.55	2.55		1.50
7 Utility aggregation program	2.50	0.00	1.00	1.00	3.00	1.00
8 PforR Management	0.00	0.00	1.00	1.00		2.00
Total	1,660	850.5	11.8	862.2	71.0	9.00

21. The PforR program would address the existing challenges in a holistic manner by supporting both the strengthening of policies and systems and financing of critical infrastructure investments using performance-based financing. The Program would work simultaneously at the national and local levels. At national level, to support the development of the necessary institutional capacity and systems to monitor, regulate, and implement utility sector modernization process; and at the local level, to support the strengthening the capacities of the WSS utilities in a sustainable, efficient and accountable manner, and to finance critical infrastructure to improve operational efficiency and close the access gap in rural areas, by introducing annual performance-based transfers for CAPEX (investments) along with performance improvement support (the existing performance based transfers is for operating subsidies). Finally, the Program would also support the development of a strategy and action plan to launch a process of utility aggregation in Albania to meet sector goals and in search of greater sector sustainability through the generation of economies of scale and stronger regional utilities. The DLIs will be a mixture of inputs, outputs outcomes, and key reform decisions and are also expected to include key Program Action Plan (PAP) milestones. Disbursement linked indicators (and flow of funds to the municipalities/WSS Utilities) will be structured to provide incentives to the Central and Local Governments to achieve the Program’s intended results (with a first advanced payment much needed to start the work, and future disbursements against achievement of results).

22. The Program would in principle support the following three results areas:

- i) **Results Area 1 – Strengthened national Framework, which would focus on the national sector framework and national policies and programs.** Possible areas under discussion to be included are: fiscal policies and difficult political decisions that pertain to the efforts at the National Government level to support the decentralized model for service provision and finance investments, development of new regulations (in line with EU legislation), national level plans and strategies, tariff setting methodology, national information system, national certification program for water sector professionals, strengthening of MoIE, AKUM, ERRU and other relevant agencies with roles in the WSS sector at national level. A result from the Program would be the establishment of a system of Performance Based Capital Grants from the Central Government to the Local Governments or WSS companies, as an incentive to improve operational performance and efficiency up through a continuous improvement cycle (i.e. “utility improvement ladder”) which would in turn improve the financial viability of the utility and creditworthiness. In addition, financial incentives could also be used to trigger other desired behavior change at the local level (increased access in rural areas, aggregation of utilities in neighboring municipalities, etc.).



- ii) **Results Area 2 – Improved Access, Quality and Efficiency of WSS Services**, would reward the implementation of measures, processes and systems improving the performance of the municipal water companies, including modern business tools, commercial systems, bulk and household metering, non-revenue-water reduction, energy efficiency, increased hours of service and quality of services, improved governance, improved utility financial performance, increased community participation, etc. as well as increased access to WSS services in rural areas. The choice of results to be supported/rewarded would be linked to the operational, coverage and financial targets established in the Performance Contracts of local governments and WSS utilities with MoIE/AKUM, which will be monitored and reviewed on an annual basis. The Performance Assessments will be designed and implemented on a transparent and predictable basis, considering key assessment dimensions/agreed targets;
- iii) **Results Area 3 - WSS Utility Aggregation/Regionalization program designed and launched**, which would reward the preparation of a strategy for utility aggregation, including the definition of its purpose, scope, and design of key items (scope, scale, process and governance) and its launch during the Program. It is preliminary envisaged, based on existing studies and assessments in Albania and preliminary discussions with MoIE, that the aggregation will be incentivized through financial packages and be put forward to local governments and WSS utilities on a voluntary basis to enable the “champions” to come forward and commit to allocating all efforts to a successful process. A couple of potential good candidates are preliminary identified. The financial incentives would be financed from the PforR, whereas the expected service improvements (in quality, access and efficiency) would be rewarded under Results Area 2.

23. **The Program’s institutional arrangements will be aligned with the structures of GoA.** To ensure effective implementation of the NSS and increase oversight and provision of capacity building at the local level, one idea for implementation is the creation of a transitional Program Management Unit (PMU) to be established within the MoIH or AKUM. This PMU would be envisaged as a transitional entity which would be absorbed into the institutional system (and not as a parallel government structure). As Program implementation advances, the PMU would support institutional capacity building and development, program management and coordination and ensuring the effective interaction with the municipal companies (that will ultimately bear the responsibility for decision making and operation of the systems and improvements supported by the program). Technical assistance (TA) for specific policy areas, institutional strengthening and capacity building at both national and local levels (including sector workforce and utility professionals) will be important for successful program implementation and supervision by the Central Government, as well as to replicate the experiences gained and lessons learned at the country level. An IPF component (for an amount to be further defined during preparation in discussion with government counterparts) is expected to be included as part of the PforR and would be implemented by the MoIE. The IPF is also expected to finance DLI verification and M&E activities including impact evaluations and qualitative assessments of Program results.

24. **The Program will foster improved overall governance and increased stakeholder and citizen engagement for WSS sector modernization.** Some aspects of the planned reform, including tariff increases (and further along the road, utility aggregation) will require public outreach and communications to present the benefits of the measures and create willingness to pay for centralized services. Some of the options and activities preliminary proposed include: i) Functional review of the sector to identify service delivery bottlenecks and alternative governance arrangements for providing the right incentives across the delivery chain; ii) Collaborative leadership activities and the use of Rapid Results Initiatives for strengthening the capacity for inter-institutional coordination (vertical among levels of government and horizontal across utilities and municipalities); iii) Social accountability mechanisms for monitoring quality of services and provide right incentives (coalition building) for sustaining the reform; iv) corporate governance of water utilities to increase transparency and effective management of the companies; and v) communication and participation mechanisms for increasing citizen engagement in oversight, business planning and grievance redressal. These mechanisms will be



designed so that hard-to-reach groups can be included, such as remote rural populations, as well as marginalized Roma population. These measures and activities will be developed jointly with the Governance GP of the World Bank under the IPF component and/or mainstreamed under the PforR systems.

E. Initial Environmental and Social Screening

25. **The objectives of the proposed PforR Program, including the provision of improved water supply, sanitation and wastewater services generate substantial environmental and social benefits.** Positive expected impacts include higher quality and reliability of services for residential, industrial and other utility customers, as well as expanded access to safe drinking water, sanitation and hygiene for rural dwellers. Albania is also experiencing an increase in tourism and with that greater demand for reliable WSS service delivery. In supporting the water and wastewater management needs of tourism industry, additional social benefits include employment creation and poverty alleviation, as well as closing the urban/rural gap. Closing the rural access gap can not only benefit individual households, but – if combined with incentives – may also leverage investments from social institutions in improving their WASH facilities in schools and health centers. This will directly contribute to human capital improvements²⁸.

26. **During preparation, the team will undertake an Environmental and Social Systems Assessment (ESSA). The ESSA will use a risk management targeted approach to review and evaluate social and environmental management systems and of the implementing capacities of the respective government agencies that will participate in the Program** and their consistency with the core principles and attributes specified in OP /BP Program-for-Results Financing. It will be prepared, consulted upon, and disclosed prior to appraisal. The ESSA will examine the scope, context and potential impacts of the Program from an environmental and social perspective. The content of the ESSA will include, but not be limited to: (i) a brief description of the Program, including the objectives, relationships between government's Program and the PforR; (ii) potential environmental and social risks, impacts and benefits, (iii) institutional arrangements and mechanisms in place to deal with the potential environmental and social risks; (iv) identification of areas in which the implementing entities should improve procedures and performance, (v) promotion of social sustainability in the Program design; how it avoids, minimizes, or mitigates adverse impacts, including adverse impacts on physical cultural resources and promote informed decision-making relating to the Program's impacts; (viii) protection of public and workers safety against the potential risks associated with:

- (i) construction and/or operations of facilities or other operational practices under the Program;
- (ii) managing of land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards;
- (iii) give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests and concerns of vulnerable groups;
- (iv) promote gender mainstreaming in accessing Program benefits and addresses Program relevant gender gaps (if any);
- (iv) provide adequate, meaningful, timely, empowering stakeholder engagement activities including grievance channels for citizens affected by the program to have be able to express their grievances; and

²⁸ Albania has no data reported under the SDG WASH data portal for schools and health care facilities (now a formal target under the SDGs). WHO assessment stipulates that acces to functional water systems can be found in only 50 percent of schools, and sanitation facilities only in 30 percent of schools. No sex-disaggregated sanitation facilities are required, and lack of privacy is reported as a key-issue for girls. See also http://www.euro.who.int/__data/assets/pdf_file/0020/322454/Situation-water-sanitation-hygiene-schools.pdf?ua=1



(v) inputs to the integrated risk assessment.

27. The ESSA is also intended to assess adequacy of the Programs institutional arrangements in place in the form of institutional, regulatory and overall capacity to manage social benefits (including positive), impacts (including adverse) and risks. The assessment shall focus on legal and regulatory framework in managing social risks and impacts sometimes reside at entity level exclusively without having overarching regulations and the difference in approach, as is case with the legal framework guiding land acquisition and resettlement. The main social risks and impacts seem to heavily gravitate to the results area 2: Improved Access, Quality of Services and Performance Improving access, quality and efficiency of WSS service delivery as activities envisaged to deliver results include investments in new and rehabilitation of existing infrastructure. While rehabilitation is unlikely to generate adverse large-scale social impacts the investment in new infrastructure might require land acquisition and therefore should be diligently screened for potential Type A-Category of impacts and continue to do so throughout the Program preparation and implementation period. With the aim to modernize the sectors governance and creating an enabling environment there is a window to improve the water supply and increase access to water by public systems, while a part of the population currently relies either on local suppliers of self-supply. The PforR will seek ways to enhance the role of women within the water management companies and institution, at state, entity and local level as a way of improving economic opportunities for women.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component

Screening was conducted based on the description of the technical assistance activities in the Sector Strategy.

In terms of potential social impacts, improving the capacity of implementing entities have substantial ripple effects. Access to clean drinking water and sanitation reduces health risks and frees up time for productive activities, as well as increases the productivity of the general labor force. The activities also have the potential to strengthening a culture of accountability in service delivery and enhance the capacity of water sector workforce.

An initial social risk screening identified potential social conflict around the design and implementation of the program to aggregate water utilities. Aggregation is the process by which two or more WSS service providers consolidate some or all of their activities under a shared organizational structure, whether it implies physical infrastructure interconnection or not, and whether the original service providers continue to exist or not. Such activities may give rise to social conflict as a result of competing stakeholder interests and political economy issues. Retrenchment is another related risk stemming from this activity. Effective stakeholder engagement to build ownership and diffuse conflict will be key to mitigating risks associated with this activity. This focus will be part of the TA that looks at the working and outreach of the water utility.

In respect to environmental risks and impact, the activities are unlikely to have any direct negative impact, but may have indirect positive environmental impact, to be manifested in improved energy efficiency, reduced water consumption - both through reduced consumption per capita and reduced water losses in the system - reduced use of chemicals for water conditioning and waste water management, and improved situation in respect to sanitation and water borne diseases.



Transboundary concerns may include the activities are supporting the implementing agencies ability to connect water resources that may have transboundary origins as Albania shares water bodies with Macedonia, Montenegro, and Greece.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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