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Report No: PAD3586

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 67.3 MILLION
(US$75.0 MILLION EQUIVALENT)

AND A PROPOSED GRANT
IN THE AMOUNT OF US$6.3 MILLION

TO THE

REPUBLIC OF ALBANIA

FOR THE

ALBANIA NATIONAL WATER SUPPLY AND SANITATION SECTOR MODERNIZATION PROGRAM

April 21, 2022

Water Global Practice
Europe And Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2022)

Currency Unit =	Euro
EUR 1=	US$1.14
US$1 =	EUR 0.8961

Currency Unit =	Albanian LEK
US$1=	ALL 105.69
ALL 1 =	US$0.0093

FISCAL YEAR

January 1 - December 31

Regional Vice President:	Anna Bjerde
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Country Director:	Linda Van Gelder
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ABBREVIATIONS AND ACRONYMS

ADA	Austrian Development Agency
ADF	French Development Agency (*Agence Française de Développement*)
AMBU	National Agency of Water Resources Management
APA	Annual Performance Assessment
ASA	Advisory Services and Analytics
AKUM	Agency of Water Supply, Sewerage and Waste Infrastructure
BCC	Behavior Change Communication
CAPEX	Capital Expenditure
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DLI	Disbursement-Linked Indicator
DLR	Disbursement-Linked Result
DMA	District-Metered Area
DWP	Danube Water Program
ERRU	Water Regulatory Authority
ESF	Environment and Social Framework
ESSA	Environmental and Social System Assessment
EU	European Union
FSA	Fiduciary Systems Assessment
GDP	Gross Domestic Product
GiZ	German Development Agency (*Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH*)
GoA	Government of Albania
GRM	Grievance Redress Mechanism
HSC	High State Control, Albania State Audit Institution
IBRD	International Bank for Reconstruction and Development
IEC	Information, Education And Communication
IFC	International Financial Corporation
IFI	International Financial Institution
IPA	EU Instrument for Pre-Accession Assistance
IPF	Investment Project Financing
KfW	German Development and Investment Bank (*Kreditanstalt für Wiederaufbau*)
KPIs	Key Performance Indicators
LGU	Local Government Unit
M&E	Monitoring and Evaluation
MoFE	Ministry of Finance and Economy
MoIE	Ministry of Infrastructure and Energy
MTBP	Mid-Term Budget Plan
MTE	Ministry of Tourism and Environment
NRW	Nonrevenue Water
NWC	National Water Council
NSS	National Sector Strategy
NWSSMP	National Water Supply and Sanitation Sector Modernization Program
O&M	Operation and Maintenance

OPEX	Operating Expenses
PAD	Project Appraisal Document
PAP	Program Action Plan
PBG	Performance-Based Grants
PforR	Program for Results
PCU	Program Coordinating Unit
PDO	Program Development Objective
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PMU	Program Monitoring Unit
POM	Program Operational Manual
PPA	Public Procurement Agency
PPL	Public Procurement Law
RA	Results Area
SAI	Supreme Audit Institution
SDGs	Sustainable Development Goals
SECO	State Secretariat for Economic Affairs (Switzerland)
SHUKALB	Water Supply and Sewerage Association of Albania
SIDA	Swedish International Development Cooperation Agency
SOE	State-Owned Enterprise
SOP	Social Standard Operating Procedures
TA	Technical Assistance
TAR	Territorial Administrative Reform
TDOs	Regional Treasury Offices
TORs	Terms of Reference
USAID	United States Agency for International Development
UWWTD	Urban Wastewater Treatment Directive
WASCO	Water Sector Sustainability Assessment and Rating/Scoring index
WSS	Water Supply and Sanitation

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name
Albania	Albania National Water Supply and Sanitation Sector Modernization Program

Project ID	Financing Instrument	Does this operation have an IPF component?	Environmental and Social Risk Classification (IPF Component)
P170891	Program-for-Results Financing	Yes	Moderate

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Fragile State(s)
[ ] Contingent Emergency Response Component (CERC)	[ ] Fragile within a non-fragile Country
[ ] Small State(s)	[ ] Conflict
[ ] Alternate Procurement Arrangements (APA)	[ ] Responding to Natural or Man-made Disaster
[ ] Hands-on Enhanced Implementation Support (HEIS)	

Expected Project Approval Date	Expected Closing Date
12-May-2022	31-Dec-2027

Bank/IFC Collaboration

No

Proposed Program Development Objective(s)

The Program Development Objectives are to improve operational and financial performance of water supply and sanitation (WSS) utilities and increase access to safely managed water supply services in the Republic of Albania.

Organizations

Borrower :	Republic of Albania
Implementing Agency :	Ministry of Infrastructure and Energy
Contact:	Erjola Muka
Title:	General Director
Telephone No:	355692047027

Email:	erjola.muka@infrastruktura.gov.al
Implementing Agency :	National Agency of Water Supply, Sewerage and Waste Infrastructure (AKUM)
Contact:	Klevis Jahad
Title:	Director
Telephone No:	355042256091
Email:	klevis.jahaj@akum.gov.al

COST & FINANCING

SUMMARY

Government program Cost	560.00
Total Operation Cost	141.30
Total Program Cost	134.81
IPF Component	6.30
Other Costs	0.19
Total Financing	141.30
Financing Gap	0.00

Financing (USD Millions)

Counterpart Funding	**60.00**
Borrower/Recipient	60.00
International Bank for Reconstruction and Development (IBRD)	**75.00**
Trust Funds	**3.00**
Albania NWSSSM	3.00
Cofinancing - Other Sources (IFIs, Bilaterals, Foundations)	**3.30**
SWITZERLAND, Gov. of: Fed. Off. for For. Eeo. Affrs. (FOFEA)	3.30

Expected Disbursements (USD Millions)

Fiscal Year	2022	2023	2024	2025	2026	2027	2028
Absolu	0.00	15.00	15.00	15.00	15.00	10.00	5.00

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Cumulative	0.00	15.00	30.00	45.00	60.00	70.00	75.00

INSTITUTIONAL DATA

Practice Area (Lead)
Water

Contributing Practice Areas
Governance

Climate Change and Disaster Screening
This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Moderate
9. Other	
10. Overall	Moderate

COMPLIANCE

Policy

Does the program depart from the CPF in content or in other significant respects?

[ ] Yes [✔] No

Does the program require any waivers of Bank policies?

[ ] Yes [✔] No

Legal Operational Policies

	Triggered
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
Community Health and Safety	Not Currently Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

Loan Agreement, Schedule II. Section I.A.1: Not later than three (3) months after the Effective Date, the Borrower, through MoIE, shall establish, and thereafter maintain throughout Program implementation, a Program Monitoring Unit ("PMU") with key staff including at minimum a Program manager, a legal/institutional specialist and a monitoring and evaluation specialist, all with qualifications, experience, responsibilities and terms of reference acceptable to the Bank; to be responsible for Program monitoring and other responsibilities as set forth in the Program Operational Manual.

Sections and Description

Loan Agreement, Schedule II. Section I.A.2: Not later than three (3) months after the Effective Date, the Borrower, through MoIE, shall cause AKUM to establish, and thereafter maintain throughout Program implementation, a Program Coordinating Unit ("PCU") with key staff including at minimum a Program manager/coordinator, a legal specialist, a water technical specialist, a water business analyst specialist, a data management and monitoring specialist, a financial management specialist, a procurement specialist, a social, citizen engagement and communications specialist and an environmental specialist, all with qualifications, experience, responsibilities and terms of reference acceptable to the Bank; with the responsibilities as set forth in the Program Operational Manual.

Sections and Description

Loan Agreement, Schedule II. Section D.1: No later than six (6) months after the Effective Date, the Borrower, through MoIE, shall: (i) recruit an independent verification agency or independent verification agencies, as the case may be, under terms of reference(s) satisfactory to the Bank ("Independent Verification Agent" or "IVA"), to be responsible for preparing and providing verifications reports in accordance with the Verification Protocol, certifying the achievement of those DLI/DLRs indicated to be verified by such independent verification agency/agencies in the Verification Protocol; and (ii) furnish the verification reports to the Bank in such scope and in such details as the Bank shall request.

Sections and Description

Loan Agreement, Schedule II. Section E.2: The Borrower, through MoIE, shall, and shall cause AKUM to, not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, any of the Program Action Plan provisions without the prior written agreement of the Bank.

Sections and Description

Loan Agreement, Schedule II. Section IV: The Borrower, through MoIE, shall not later than eight (8) months after the Effective Date submit the proposed National Aggregated Score for Direct Operating Cost Coverage for the calendar year 2020, including the calculation and any supporting documentation, verified by the IVA, in accordance with the criteria set out in the POM, for approval by the Bank

Sections and Description

Grant Agreement. Schedule 2. Section I.A.1: Not later than three (3) months after the Effective Date, the Recipient, through MoIE, shall establish, and thereafter maintain throughout Project implementation, a Project Monitoring Unit ("PMU") with key staff including at minimum a Project manager, a legal/institutional specialist and a monitoring and evaluation specialist, all with qualifications, experience, responsibilities and terms of reference acceptable to the Bank; to be responsible for Project monitoring and other responsibilities as set forth in the Project Operational Manual.

Sections and Description

Grant Agreement. Schedule 2. Section I.A.2: Not later than three (3) months after the Effective Date, the Recipient, through MoIE, shall cause AKUM to establish, and thereafter maintain throughout Project implementation, a Project Coordinating Unit ("PCU") with key staff including at minimum a Project manager/coordinator, a legal specialist, a water technical specialist, a water business analyst specialist, a data

management and monitoring specialist, a financial management specialist, a procurement specialist, a social, citizen engagement and communications specialist and an environmental specialist, all with qualifications, experience, responsibilities and terms of reference acceptable to the Bank; with the responsibilities as set forth in the Project Operational Manual.

Sections and Description

Grant Agreement. Schedule 2. Section I.D.5: The Recipient, through MoIE, shall, and shall cause the Project Implementing Entity to, not later than thirty (30) days from the Effective Date, establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Bank.

Sections and Description

Grant Agreement. Schedule 2. Section I.C.1: Not later than November 30 in each calendar year (or one month after the Effective Date for the first year of Project implementation), the Recipient, through MoIE, shall prepare or cause to be prepared for the purpose of forwarding to the Bank: (i) a draft annual work plan and budget for the Project (including Training and Operating Costs) for the subsequent calendar year of Project implementation, of such scope and detail as the Bank shall have reasonably requested; and (ii) any instruments required by the ESCP for the implementation of the activities included in the draft annual work plan and budget.

Conditions

Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Loan Agreement. Article V. 5.01 The Additional Conditions of Effectiveness consist of the following: (a) the Program Operational Manual has been adopted by MoIE and AKUM in form and substance acceptable to the Bank. (b) the Grant Agreement has been executed and delivered and all conditions precedent to the effectiveness of said agreement, or to the right of the Borrower to make withdrawals under said agreement (other than the effectiveness of this Agreement) have been fulfilled.
Type	Financing source	Description
Effectiveness	Trust Funds, IBRD/IDA	Grant Agreement. Article V. 5.01. This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that the conditions specified below have been satisfied: (a) The execution and delivery of this Agreement

		on behalf of the Recipient have been duly authorized or ratified by all necessary governmental action. (b) the Project Operational Manual has been adopted by the Recipient and AKUM in form and substance acceptable to the Bank; and (c) the Loan Agreement has been executed and delivered and all conditions precedent to the effectiveness of said agreement have been fulfilled.

I. STRATEGIC CONTEXT

A. Country Context

1. **Albania has been hit by two devastating shocks in quick succession—a highly destructive earthquake in late 2019 was followed by the global COVID-19 pandemic in early 2020. Both events underline the need to strengthen Albania's growth model as the basis for a vigorous and sustainable economic recovery.** In November 2019, Albania was struck by a 6.3-magnitude earthquake, killing 51 and displacing 17,000 people. Damages to physical assets and losses were equivalent to an estimated 7.5 percent of gross domestic product (GDP). As Albanians started the reconstruction process, supported by a significant financial assistance package from the international community, a second crisis hit. In March 2020, Albania was forced to take unprecedented public health measures to slow the spread of the global COVID-19 pandemic. The freezing of large parts of the economy due to the pandemic led Albania to a recession of 4 percent in 2020. The World Bank estimates that, even with the current prudent macro fiscal management and policy support measures, Albania's poverty rate is likely to increase by 2 to 5 percentage points. Already, an estimated 36 percent of the population lived on less than US$5.50 per capita per day[1] in 2019. The stress that the 2019 earthquake and COVID-19 crisis placed on public finances has meant reductions in planned government expenditures across several sectors, including water supply and sanitation (WSS).[2]

2. **In response to the earthquake and to support the economy during the COVID-19 crisis, the government rolled out significant new fiscal support measures.** For earthquake reconstruction, Albania allocated 2.2 percent of GDP. In addition, it raised 8.6 percent of GDP in grants and potential loans at a February 2020 donor conference. To respond to the COVID-19 crisis, Albania rapidly put forward a fiscal package worth 2.4 percent of GDP. This included an increased budget for the public health response and immediate humanitarian relief. In the period from April to June 2020, a grant program provided minimum wage payments for workers in small firms forced to close during the pandemic. Credit guarantee windows incentivized banks to make business loans. Various corporate income tax payments were rescheduled. The social safety net was strengthened by doubling unemployment benefits and social assistance payments. In a sign of solidarity, key government institutions temporarily cut salaries for high-level officials.

3. **Albania is mobilizing donor and private sector financing to meet financing needs.** In 2020, gross financing needs were at 25.7 percent of GDP. Key financing resources included a Eurobond issue of €650 million, as well as international development partners' support, including a Rapid Finance Instrument (US$190 million) by the International Monetary Fund (IMF), and budget support by the French Development Agency and the World Bank (€140 million).

4. **Before these disruptive events, Albania had become one of the success stories of growth in the Western Balkans**—although gaps relative to the living standards of the European Union (EU) remained large (i.e., more than threefold), and more inclusive policies were needed to protect the poor and vulnerable. Albania is a small economy in the Western Balkans with a population of 2.9 million and a territory of approximately 28,750 square kilometers. [3] About 53.4 percent of the country's population is living in cities, concentrated in the three largest municipalities (Tirana, Durres, and Fier). With close to a four-fold increase in living standards between 1991 and 2019, Albania was

[1] 2011 purchasing power parity.
[2] WSS sector expenditures in the Mid-Term Budget Plan (MTBP) for 2020–22 were reduced from an initial average amount of US$107 million to US$100 million during budget reviews undertaken in year 2020.
[3] Approximately 1/10 of the size of neighboring Italy.

one of the fastest-developing economies in the region, overcoming setbacks such as the global macro-fiscal crisis in 2008–14. It was also at the cusp of opening formal negotiations for accession to the EU.

5. **Considerable gender gaps remain in Albania, with women participating in the labor force at a much lower rate than men (60 percent in 2018).** Women face significant gaps in access to economic opportunities,[4] and COVID-19 is likely to have widened these, as anecdotal evidence shows that women disproportionally took on childcare roles during lockdown measures, further limiting their participation in the labor force. Regarding access to basic WSS services, and vis-à-vis the EU water-related *acquis* and Sustainable Development Goals (SDGs),[5] coverage of services in peri-urban and rural parts of the country still lags far behind, and Roma and other vulnerable and minority populations are at a particular disadvantage.[6] Albania requires a more inclusive growth strategy to achieve and sustain its long-term development objectives.

6. **Albania is exposed to various types of natural hazards, including earthquakes, floods, storms, droughts, rising sea levels, and landslides.[7] The 2019 earthquake highlighted the need for the country to become more resilient to potential shocks and improve disaster prevention and preparedness.** Recent climate data confirms that temperatures are increasing in Albania; average warming over the next 40 years is projected at about 1.5°C. Observed and anticipated climate change impacts, such as more intense precipitation and rising sea levels, are expected to increase the risks of exposure to natural disasters, including more frequent and intense flooding in low-lying areas of river deltas and coastal cities and other extreme weather events. Climate variability resulting in low rainfall in 2019 significantly hurt the hydropower sector, and the winding down of large foreign direct investment projects further contributed to the deceleration of growth—highlighting the need to put Albania's growth model on a stronger footing. The potential economic impacts of climate change on agriculture (roughly 20 percent of the country's GDP) and the industry and services sectors illustrates the importance of water resource management.[8]

7. **The proposed operation is part of a broader World Bank Group support package to manage the impacts of the earthquake and COVID-19 crises in Albania. It aims to accompany an ongoing government sector reform process[9] and is well aligned with the World Bank Group COVID-19 crisis response approach.** Since 2016–17, the Ministry of Energy and Infrastructure (MoIE) has been leading a program focused on reforming and investing in the WSS sector, under the National Water Supply and Sewerage Services Sector Strategy 2019–2030.[10] The Government of Albania (GoA) expects that

[4] The employment gender gap in 2018 was at 14 percentage points in favor of men ages 15–64; *Albania Systematic Country Diagnostic*, 2019 Update, World Bank.
[5] SDG targets 6.1 and 6.2 on access to safe and reliable water and sanitation services.
[6] National figures for piped water supply and sewerage coverage show a big disparity in urban and rural coverage rates (92 percent vs 59 percent for water supply and 76 percent vs 13 percent for sewerage).
[7] The proposed Program will strengthen the country's ability to adapt and mitigate the effects of climate change.
[8] Albania has developed a National Adaptation Plan to prepare for the impacts of climate change and has laid out several key sectors for adaptation action via the First and Second National Communications to the United Nations Framework Convention on Climate Change. These sectors include water, coastal zones, agriculture/forestry, tourism, and health. Furthermore, Albania is included in EU legislation, including on climate change, and is a signatory to the Energy Community Treaty.
[9] The Water Sector Reform was initiated in 2016 by Council of Ministers Decision no. 63, dated January 27, 2016, "On the reorganization of operators that provide drinking water supply, collection, removal and treatment of wastewater services." It defined all the necessary legal steps that the new municipalities must follow to reorganize the WSS operators, transfer the decentralized WSS systems in municipal administrative areas, conduct their inventory and accounting, as well as requirements for new operators' licensing and tariff reviews under the Water Regulatory Agency.
[10] The strategy document has been approved by the line ministry and is currently being used to guide the ministry's actions. Its adoption at higher levels of government is being discussed. However, the proposed Program is not conditioned on formal adoption of the strategy.

the proposed operation will help consolidate the improvements brought about by recent reforms,[11] while addressing some of the structural challenges faced by the sector.[12] The proposed operation builds on years of policy dialogue around the operational and financial performance of the WSS sector. Enhancing access to safely managed water services will contribute to a more resilient and inclusive society, and to the country's economic recovery from the COVID-19 crisis. To this end, financing and technical assistance (TA) will be provided to support: (i) the continuity of basic services during times of crisis[13] (relief); (ii) a broad policy and institutional reform, including the restructuring of WSS utilities for improved operational and financial performance (restructuring); and (iii) socially inclusive and environmentally friendly investments to rebuild better and help mitigate and adapt to climate change (resilient recovery).

8. **This document presents a hybrid program for results (PforR) and investment project financing (IPF) operation**, including an International Bank for Reconstruction and Development (IBRD) PforR loan in the amount of US$75 million and an IPF grant of US$6.3 million provided by the Swiss government through trust-funded resources managed by the Bank,[14] which have been leveraged during preparation.

B. Sectoral and Institutional Context

9. **Although Albania's freshwater resources are relatively abundant, they are expected to come under increasing pressure amid climate change.** While drinking water resources exceed total demand on average, there are significant regional differences in water availability.[15] Albania is rolling out an integrated water resources management vision, with the passing of a law on integrated water resource management, and the creation of national bodies for water administration and management, including the National Water Council, the National Agency of Water Resources Management (AMBU), while the management of water resources at the basin level is done, incipiently for now, through the River Basin Councils and River Basin Management Offices. As basin-level planning and water resource management develop further in Albania, increased efficiency in the use of water (and energy) will be a priority. Although the 2019 earthquake did not cause major damage to water supply and wastewater management infrastructure, enhancing their resilience to natural disasters is important, particularly in rural areas at risk of landslides amid increased flooding events. Climate-change-related risks are projected to increase temperature, evapotranspiration, and the variability of precipitation patterns, and to reduce water storage and hydropower generation capacity. Meanwhile, a considerable portion of future energy demand will likely be met with imported fossil fuels (which would have a negative impact on the fragile fiscal balance for economic recovery). Improving energy efficiency while reducing nonrevenue water (NRW) would help maintain a low-emissions electricity matrix and meet the energy-related targets set in the Nationally Determined Contributions and other

[11] Detailed later in this Project Appraisal Document (PAD).
[12] Sector atomization and governance issues, structural weak capacities, low performance and lack of financial sustainability of municipal WSS utilities, and significant urban/rural water supply service access gaps.
[13] In conformity with *Guidelines for Allocating and Using State Subsidies for Water Supply and Sewerage Companies in 2020,* (MoIE, July 2020) and any future guidelines.
[14] The grant agreement is for an initial amount of US$3.0 million. The remaining US$3.3 million will be provided in installments after 2022, if and as such subsequent amounts are made available to the World Bank by the donor.
[15] Water supply for drinking purposes comes mainly from natural springs and underground water sources, except for two cases: the Tirana metropolitan area (where surface water in the mountains has been dammed to create a surface supply reservoir) and the Kavaje tourist area (where surface water from the Maskuri artificial lake is used in the summer season). The total water volume produced was 286.3 million cubic meters (m^3) in 2017, while the total demand for water in all the jurisdictional areas of the public water utilities was at 100 million m^3. This shows the high level of NRW, which reached 64 percent in 2019.

goals set in the National Action Plan on Energy Efficiency and the National Strategy for Development and Integration.

10. **Over the past 15 years, Albania has developed a strong regulatory framework for WSS service delivery and undergone various changes in institutional arrangements aiming to improve service delivery and local oversight.** Following the 2013 Territorial Administrative Reform,[16] WSS services were reorganized under municipally owned water companies[17] serving around 70 percent of the population. Of these, 32 provide services and 5 treat wastewaters. The regulatory framework establishes a clear division of roles: the central government is responsible for sector strategies and policy development, while local governments[18] are responsible for service provision and independent tariff setting. The central government plays different roles in the sector: the Ministry of Finance and Economy (MoFE) channels donor and treasury funds for capital improvements and operational subsidies, as well as sovereign guarantees on loans from international financial institutions (IFIs) to water utilities, in coordination with the MoIE, which is responsible for setting the main policies and priorities of the WSS sector. The MoIE works largely through its National Agency of Water Supply, Sewerage and Waste Infrastructure (AKUM), which undertakes the national investment planning and programming of most investment projects financed by the state budget[19] and IFIs. The Water Regulatory Authority (ERRU) is a public independent nonbudget institution that regulates the WSS sector to ensure protection of the public interest, with the exclusive right to review and set tariffs and license operators in the water sector. At the local government level, 61 local government units (LGUs) are responsible for service delivery through the WSS utilities,[20] which are legally incorporated as joint stock companies with varying de facto operational and financial autonomy from the LGUs. The utilities' management and boards are appointed by local government authorities, who also need to endorse any tariff proposal before it is submitted to the ERRU. In general, particularly in 38 smaller utilities serving less than 10,000 connections, autonomy is low, given the limited number of qualified personnel with appropriate skills in human resources management, system operations and maintenance, and sustainable asset management. High staff turnover exacerbates the problem.

11. **Despite these reform actions, most WSS utilities are trapped in a downward spiral of low revenue and low levels of service to the population and businesses.** As seen in table 1, Albania scores below regional peers on most commercial and operational performance indicators.[21] Low collection rates create liquidity problems, and limit utilities' ability to take on debt to finance further improvement and expansion of services to meet EU and SDG standards and improve operations and levels of service. Liquidity issues often result in tax and energy bills arrears (which deteriorate the financial situation of other public entities). Low metering rates, in turn, limit the possibility of increased billing. At the same time, high energy consumption and costs,[22] derived from excessive pumping (due to high leakage rates), low energy efficiency of operations and obsolete equipment, and high staff numbers by EU and international standards (4.9/1,000 connections on average vs 2–

[16] For historical reasons, Albania inherited a territorial-administrative structure characterized by many small and fragmented local government units. In July 2014, the Parliament of Albania adopted a law on "Administrative and Territorial Division," which reduced the number of 374 municipalities and communes, each with their own administrative bodies of governance, to the current 61 municipalities that include the entire territory of the Republic of Albania.
[17] Thus, often referred to as state-owned enterprises (SOEs).
[18] The phrase *local government unit* (LGU) is used interchangeably with *municipality* in this document.
[19] Referred to in this PAD as the domestic funded part of the national budget (i.e., the fiscal budget).
[20] And one municipal division.
[21] Values quoted in this paragraph for the different indicators are based on the latest data reported by the utilities to AKUM for 2019.
[22] Albania has one of highest energy costs per cubic meter in the Western Balkans, accounting for 22.2 percent of aggregate operational costs on average, and some utilities have much higher proportions. The unit energy cost per cubic meter of water sold is US$0.6/$m^3$ vs US$0.25/$m^3$ in Kosovo, US$0.20/$m^3$ in Serbia, and US$0.15/$m^3$ in North Macedonia.

4/1,000) drive up the costs. These commercial and operational inefficiencies jeopardize the financial viability of the utilities, making it very difficult for them to break a downward spiral in performance, given insufficient maintenance of infrastructure and systems, poor operational and management practices, and weak governance. Ultimately, this situation translates into levels of service below the regional average (table 1). Only a few utilities can provide water service for more than 20 hours a day throughout the year, even in urban areas.

Table 1. Regional Comparison of Key Performance Indicators

Indicator	Albania	Western Balkan Average	Danube Region Best Practice
Collection efficiency (%)	75.5	81.2	100
Metering (%)	77	87	100
Nonrevenue water (%)	64.4	55	19
Continuity (average hrs./day)	15.6	22	24

12. **As a result, the financial viability of most WSS utilities is very low, in part due to politically driven low tariff levels, which limits the overall availability of sector funding sources to improve and expand WSS service delivery.** The great majority of utilities do not cover operating costs through revenues from tariffs,[23] in part because of the reluctance of local governments to apply tariff increases,[24] but also because tariffs are not optimized. The current tariff setting methodology allows the WSS utilities to propose both fixed and volumetric block tariffs (whereby higher tariffs may be applied for consumption—e.g., of industrial operators—beyond a certain threshold). However, most utilities applying only a fixed monthly charge and/or a single volumetric tariff. The result is a rather low average tariff (below other Western Balkan countries like Bosnia and Herzegovina [Baha] or Montenegro, and well below the average of EU members in the Danube region of US$2.4/m^3).[25] For many utilities, the average tariff is much lower, at around US$0.4/m^3 (even below the average cost of energy per cubic meter of water produced). At the same time, most utilities do not have a pro-poor policy, and many are neither using the mechanisms established by the MoIE to connect poor and vulnerable households, nor an efficient tariff policy to promote the efficient use of water. ERRU has finalized the new tariff-setting methodology,[26] and highlighted the need for capacity building among utilities, in particular in efforts to ensure that services are affordable for the most vulnerable.

13. **High-quality WSS services are essential to the global (and local) response to the COVID-19 pandemic, even as the pandemic has further hampered utility companies' ability to collect needed revenues and thus worsened their financial situation.** WSS services are critical in protecting human

[23] In 2019, only 11 out of 58 utilities had a direct cost recovery ratio greater than 1, based on information from ERRU (which considers billing/operational costs), and only 4 had an operating ratio above 1 based on information from AKUM (which considers annual collections/operational costs). See annex 10 for a heat map of direct cost coverage in the national territory.

[24] Using an internationally accepted benchmark, the Water Regulatory Authority considers a WSS tariff to be affordable if the poorest decile household pays a maximum of 5 percent of household income for water supply and sewerage. A calculation of a threshold of an average "affordable" tariff, applying this benchmark for affordability in 2016, arrived at a value of US$1.2/m^3 as affordable for the poorest 10 percent based on household income levels from Living Standards Measurement Study 2014 (*Sector Financing Policy* report, COWI and Valu Ad, 2016). The current 2019 average tariff (US$0.71/m^3 based on Bank team calculations) is still far below the estimated affordable level for the poorest decile of Albania's population of US$1.2/m^3 at that time, so generally speaking, an increase of the average tariff level should not cause affordability issues. Many households in Albania are under social protection mechanisms, particularly given the impact of the COVID-19 crisis on household incomes. These households should be eligible for a lifeline tariff or additional financial assistance from the government.

[25] State of the Sector Report 2018 Update, World Bank, 2019.

[26] Under the leadership of the ERRU, the World Bank, with support from the Danube Water Program, provided TA for the preparation of the new methodology, which aims for the setting of tariffs that cover the total costs of the services while being affordable to the poor.

health during infectious disease outbreaks. Public WSS utilities play a significant dual role in Albania's economy,[27] as the sole providers of WSS services (serving 2.5 million people) and also the employers of a significant share of public sector staff (4.17 percent). However, the pandemic has limited utility companies' ability to deliver essential services. Based on available estimates, collection rates significantly decreased amid lockdown measures on account of the COVID-19 crisis (as arrears have increased among households that suffered income or job losses). The estimated impact is a reduction in revenues of 10 percent up to 60 percent.[28] Many utilities face additional difficulties in paying for electricity, salaries, and daily suppliers. In addition, the need for water utilities to ensure protective measures for their staff such as social distancing and hygiene practices, is driving up costs (aside from operational challenges created by increased staff absences due to COVID-19). The GoA, through MOIE and AKUM, has stepped in to provide liquidity support, but the current level of subsidy (US$1.3 million in total) is far from the financial needs of the utilities, whereas the overall financial impact has been estimated at US$10 million.[29]

14. **Furthermore, despite recent progress, access to WSS services is still far from the EU standards: in particular, rural areas and Roma and other minority populations[30] have significantly lower access rates, and wastewater treatment is only incipient.** Based on the SDG definition, access to safely managed water supply and sanitation services is 69 percent and 55 percent of the population.[31] These overall national figures, however, mask huge differences in urban and rural rates (92 percent vs 59 percent for water supply, and 76 percent vs 13 percent for sewerage, for urban and rural areas, respectively).[32] The equivalent of only around 10 percent of the total urban population benefits from wastewater treatment. Roma minorities on average have only 46 percent access to piped water on their premises, while 89 percent of their non-Roma neighbors do.[33] Roma generally live in informal dwellings, where it is very difficult to follow appropriate measures to limit the spread of COVID-19.[34] In this context, new strategies and instruments are needed at the national and local level to enable the progressive delivery of WSS services, aligned with the EU acquis and SDGs, to municipal peri-urban and dispersed rural populations. These include the provision of financial resources and administrative support to municipalities that this operation will support.

[27] Their aggregated financial portfolio accounts for total assets of around 5.24 percent of GDP (*Monitoring Memo on Water Utilities SOE* from the Albania SAFE PFM Technical Assistance, World Bank, May 2020).
[28] Based on a survey conducted by SHUKALB in May 2020.
[29] Preliminary estimates by the World Bank team. A more in-depth assessment of the COVID-19 impact, including detailed analysis of six medium-sized WSS utilities was undertaken by AKUM with support from the Bank under a grant from the Global Risk Financing Facility.
[30] The results of the Albanian census of 2011 include figures of 8,301 Roma and 3,368 Egyptians, accounting for 0.3 percent and 0.1 percent of the total population, respectively. However, unofficial estimates of the number of Roma in Albania range from 80,000 to 150,000 (i.e., between 2.5 percent and 4.7 percent of the total population). The situation of the Roma in Albania tends to be quite similar to that in neighboring countries: extreme poverty, low education attainment, scarce participation in the formal labor market, lack of economic resources, housing conditions far below the norm of dignity, and marginalization in the society. With some differences, the Egyptians share these poor living conditions, too.
[31] National figures for piped water supply and sewerage, as used in the National Strategy, are at 78.0 percent and 50.2 percent respectively.
[32] Data from the *National Water Supply and Sewerage Services Sector Strategy 2019–2030*. JMP WASH data, used in the State of the Sector Report 2018 Update, also show higher levels of piped water coverage for rural and urban areas (which includes self-supply), as well as higher levels of basic and safely managed sanitation (due to a large share of on-site flush toilets).
[33] This figure includes piped water from both centralized networks and self-supply and is based on the 2017 Regional Roma Survey, conducted in areas where Roma compose 10–40 percent of the population (*Breaking the Silence of Roma Exclusion in the Western Balkans,* World Bank, 2019).
[34] A qualitative assessment of Roma exclusion from WSS access was undertaken with utilities in Tirana, Elbasan, and Gjirokaster, given their high Roma concentration. Its recommendations inform the design of this operation.

15. **Customer satisfaction is low by regional standards, though citizens' perceptions of the quality of WSS service delivery are not monitored routinely, and WSS utilities in general have weak grievance redress mechanisms (GRMs).**[35] The most recent consumer survey was undertaken by the ERRU in 2012.[36] According to Gallup, 58 percent of Albanians were satisfied with the quality of water service provided in 2013, but this dropped to 55 percent in 2018.[37] This rate is low compared with the average of 68 percent for other EU-candidate countries in the region. The Albanian WSS utilities and the sector in general lacked, until recently, proper procedures to collect, analyze, and monitor customer feedback. The recent rollout of a customer service portal[38] through a project supported by the German Development Agency (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, GiZ) should help improve utilities' transparency and accountability. Functional systems of grievance redress and citizen feedback are critical in improving the management of utilities, their customer responsiveness, and ultimately their service delivery. Greater customer confidence, in turn, can often facilitate other reforms. The proposed operation will support the strengthening of these systems at the utility level, as well as follow-up and monitoring at the central level.

16. **Most WSS utilities in Albania are chronically dependent on central government funding of both capital investments and operational expenditures, via an annual budget allocation to the MoIE and AKUM for the WSS sector.** Over the past five years, the WSS sector has received a stable average of 2.5 percent of total public expenditure (similar to agriculture but far from the 8.5 percent allocated to transport). Sector expenditure outturn has been volatile, largely reflecting weak capacity in planning and budgeting. The largest share of both the water sector's budget and actual spending is directed to investment projects (94 percent on average). About 6 percent goes to utilities in the form of performance grants to cover operating expenses, and a negligible share goes to salaries and wages and other operational expenditures of central government institutions (MoIE and AKUM). On average, between 2015 and 2019, 60 percent of the sector investment budget was funded through foreign sources. Additional details on the government's overall WSS sector expenditure/financing and on the PforR Program expenditures can be found in annex 3 and in the Technical Assessment.

17. **The disconnect between a strong national framework and underperforming local utility companies is largely explained by a need to improve and align incentives and enforcement mechanisms between the central level, the local governments, and the WSS utilities, which this operation seeks to address.** Although the GoA introduced performance-based financing for operational subsidies in 2018, as seen in German-supported operations,[39] central government funds for capital investments are allocated on an annual ad hoc basis and often without a business planning effort on the WSS utilities' side. Planning, and the policy and regulatory framework underpinning public investment flows, can and should be improved by introducing more explicit incentives for compliance and improved performance. An improved performance monitoring system and overall data reliability will be key in this effort. It is also important to strengthen the regulatory authority's capacity to enforce penalties.

[35] National WSS Sector Modernization Program, *Draft Environmental and Social Systems Assessment* (ESSA).
[36] Albania Country Note, State of the Sector Report, 2015. It appears that no documented follow-up was carried out based on the survey.
[37] State of the Sector Report, World Bank, 2018.
[38] *https://www.shuk.al/*.
[39] An external evaluation (2006–15) of EU's Instrument for Pre-Accession Assistance (IPA) interventions in the water sector was carried out at the end of 2015. A key conclusion was that the operation and sustainability of several wastewater investments financed were not at a satisfactory level. However, projects delegated to the German Financial Cooperation through the German Development and Investment Bank (Kreditanstalt für Wiederaufbau, KfW) showed a more robust strategic underpinning of project programming and development and the use of a "utilities performance-based approach" led to better results, *Albania, EU for a Cleaner Environment, IPA II 2014–2020.*

18. **Albania's water companies also need to attract and maintain a well-trained and qualified management and technical workforce.**[40] In the past, staff training has been mainly driven by donor-financed institutional strengthening programs, on an ad hoc basis. A lack of consistent personnel in the water utilities has led to inefficiency in technical operations, financial management, as well as corporate governance. This problem has been further compounded, with a few exceptions, by the frequent rotation of utility directors. In addition, a national study undertaken in 2016[41] showed an aging utility workforce, with over 35 percent of employees who are over 55 years old, as well as gender imbalances (discussed in paragraph 19). In addition, the WSS utilities do not routinely have a budget for staff training. In the past few years, the MoIE and AKUM, in partnership with the Water Supply and Sewerage Association of Albania (SHUKALB), have been moving toward test-based skilled certification for key utility positions, which is an important step. Utility aggregation—as shown by analytical work[42]—is also important in enhancing technical capacity and professionalization and is supported by this operation.

19. **With regard to gender gaps in employment, Albania follows the global trend: the WSS sector has historically been male dominated.** The MoIE's workforce analysis study revealed that the gender gap is especially wide at the upper management level, with only 5 percent of managing directors and 35 percent of department directors being female. The study noted regional differences in gender composition between northern and southern Albania. A detailed gender analysis undertaken at the utility level found gender gaps at all levels, especially in field positions (where 15 percent of employees were women) and in higher management (17 percent of top managers were women), and no female representation on boards of directors. Among several reasons for women's lower access to employment opportunities in utilities, particularly in managerial roles, are human resource policies and practices that do not adequately consider inclusion or address gender-specific barriers to employment and career progression. Steps forward include fostering women's leadership development, and access to training and mentoring. The Tirana utility offers a model for other utilities to follow, as it sets targets for female staffing in its strategic business plan, formalizes leadership training and internship programs, and participates in global platforms.[43] The Durres and Korce utilities have also significantly increased their share of female talent in management positions in recent years.

20. **Several donors and IFIs support innovative approaches to the development of the WSS sector in Albania through loan and grant resources.** These include the German Development and Investment Bank (Kreditanstalt für Wiederaufbau, KfW), European Investment Bank, European Bank for Reconstruction and Development, and other donors such as the United States, Germany, France, Italy, Japan, Austria, Sweden, Switzerland, and the United Nations (UN). The EU Delegation provided grant funding under its Instrument for Pre-Accession Assistance (IPA) 2014–20, implemented by a few bilateral donors, including GIZ, the Austrian Development Agency (ADA), and the Swedish International Development Cooperation Agency (SIDA). Resulting performance-based agreements and the professionalization of utility companies are being adopted and mainstreamed in a recent government program described in section II of this Project Appraisal Document (PAD).

[40] Albania Country Note, State of the Sector Report, World Bank, 2015.
[41] "Workforce Analysis of Water and Sewage Companies in the Light of the Territorial and Administrative Reform," Cooperation and Development Institute, 2015.
[42] According to the World Bank report "Joining Forces for Better Services," August 2017, small utilities (in terms of volume or density) are also found to improve their performance through aggregations, especially those that bring about greater technical and professional capacity.
[43] For instance, Equal Aqua advocates for and supports water organizations worldwide to address gender gaps in employment through knowledge and capacity building.

Table 2. Capital Investment Projects in WSS Sector Financed by Other IFIs and Donors (2020–25)[44]

Project	Financier	Total US$ million 2020-2025	Contribution to Government Program/NSS Strategic Objectives
Support for Tirana Hydraulic Network	Italian Cooperation	5	SO # 2: Access & quality of services - Water Supply
Greater Tirana sewerage project	Japanese Government	13	SO # 2: Access & quality of services - Wastewater collection and treament
Municipal Infrastructure Program III and IV	KFW, SECO	36	SO # 2: Access & quality of services - Water Supply, Wastewater collection and treament
Municipal Infrastructure Program V	KfW, EU, SECO	161	SO # 2: Access & quality of services - Water Supply, Wastewater collection and treament SO # 1: Water sector data quality, accuracy and consistency SO # 5: Capacity Building and sector workforce SO # 6: Sector Governance and regulation
Urban waste management of Tirana (second phase) wastewater treatment plant.	Italian Cooperation	1	SO # 2: Access & quality of services - Wastewater collection and treament
Support in water sector planning for negotiations with European Union	EU	2	SO # 1: Water sector data quality, accuracy and consistency
Construction of sewerage system for four cities, Vlora, Ksamil, Kavaje Shengjin, IPA 2009	EU	1	SO # 2: Access & quality of services - Wastewater collection and treament
Completion of the sewerage system and extension of WWTP in Vlora, IPA 2012	EU	0	SO # 2: Access & quality of services - Wastewater collection and treament
Urban suburbs of Tirana, infrastructure component (contract extension)	Italian Cooperation	0	SO # 2: Access & quality of services - Water Supply, Wastewater collection and treament
Total		**221**	

C. Relationship to the Country Partnership Framework (CPF)

21. **The proposed operation is aligned with the current World Bank Group Country Partnership Framework (CPF) (FY15–20)[45] and the new CPF under preparation.** The last CPF was extended by one year through a Performance and Learning Review and a new CPF is under preparation and expected to be approved within calendar year 2022. The operation is aligned with the third pillar of the current CPF (strengthening public sector management and service delivery) and with the proposed objective under the new CPF of achieving better and more sustainable services to improve human capital, reduce inequality, and foster inclusion. The GoA has confirmed that improving services for citizens, including water, is a national priority. Finally, the proposed program is also well aligned with the first pillar of the Fiscal Sustainability and Growth Development Policy Financing (P169524) approved in December 2020, which focuses on strengthening the transparency and sustainability of public finances, since it is to improve the efficiency of public sector spending in the WSS sector.

Relationship to the World Bank Group's COVID-19 response

22. **The Bank's response to the COVID-19 pandemic supports the GoA's response.** The current CPF proposed an IBRD lending program of up to US$1.2 billion (of which approximately US$1 billion was committed through February 2022). Going forward, the World Bank Group will build on its productive partnership with Albania through an ambitious program supporting rapid and robust recovery and a transformation toward a more robust, equitable, resilient, and greener economy.

D. Rationale for Bank Engagement and Choice of Financing Instrument

23. **The proposed operation builds on the GoA's ongoing efforts to reform the WSS sector and its long-standing partnership with the Bank and other development partners.** World Bank operations to date have focused on infrastructure financing at the municipal level with limited TA at the national level. This operation represents a step up of the Bank's engagement by supporting a broad government-led sector reform program at the national level. The operation is designed to support the introduction of a programmatic and results-based approach in the WSS sector in Albania, to be

[44] AKUM midterm budget plan 2020–22 and projections.
[45] Report No. 98254; discussed with the Board on May 21, 2015.

supported by the Bank (and potentially by other financiers in the future). It is expected to contribute to a resilient and inclusive recovery by further developing the sector's policy, institutional, and regulatory framework. This improved enabling environment is expected to accompany a modernization of the WSS sector toward the country's long-term development goals (ensuring the human right to water; universal access to basic services; health, environmental, and climate change adaptation; and mitigation objectives). The government expects to strengthen and reinforce its own systems for planning, overseeing, and delivering WSS services to incorporate sound technical, fiduciary, and environmental and social practices.

24. **The operation will promote both the financial and economic sustainability of the sector and a higher return on public investments made from the fiscal budget, improved overall accountability for service delivery, and a more resilient and inclusive WSS sector.** This operation is well placed to support the GoA's long-stated policy aspiration to aggregate WSS utilities,[46] with a view to create stronger and financially viable utilities with a thriving workforce, and equal opportunities for men and women. The program will also increase sectoral resilience to climate change and related natural disasters such as flooding, drought, and landslides, through the reduction of water losses, the upgrading of water supply systems, the improvement of energy efficiency, the upgrading of construction standards for small water supply schemes, and the introduction of a requirement that utilities prepare water safety and risk management plans. The focus on vulnerable households offers a unique opportunity for a real sectoral transformation, impacting the lives of many in Albania, including the rural poor and marginalized Roma, Egyptian, and other minority populations. Finally, the operation will support the adoption of robust GRMs by WSS utilities to improve accountability and eventually levels of customer service.

25. **The choice of and design of the PforR reflect lessons learned and good practices in Albania, the region, and globally.** First, the use of the PforR instrument will enable a focus on intended results, rather than on the traditional financing of infrastructure, where there are no clear incentives for performance improvements. Second, it will accelerate the achievement of specific results by providing incentives for the implementation of sound policies by national-level institutions while steering public investment toward supporting improvements in financial and operational performance at the local level. The GoA has previous positive experience with results-based, programmatic lending in other sectors,[47] though this will be the first PforR in Albania. In the lead-up to appraisal, extensive capacity building and exchanges on the instrument took place. Third, given that the PforR lends support to a well-defined long-term government program that enjoys broad ownership and a focus on results, the PforR instrument provides a strong platform to leverage resources and to harmonize results from other development partners, which in Albania have often acted as "incubators" for innovative approaches such as those adopted under the proposed Program. Fourth, it builds on successful water sector PforRs in other countries that dealt with similar national/local government incentives, such as Vietnam[48] and Egypt,[49] and, thus, helps to better support the GoA's goal of increased transparency and accountability in local governments' administration of the sector going forward, through

[46] Addressing the excessive atomization of WSS service providers for such a relatively small population (58 municipal SOEs serving 2.9 million people) through the creation of stronger and financially viable regional utilities has been identified in GoA's sector strategies for over a decade, and earlier attempts at reform received buy-in at the local government level (but were halted as the GoA implemented the 2013 TAR). A 2008 Feasibility Study on Regionalization of Water Supply and Sewerage Services in Albania, supported by the World Bank, helped guide the earlier National Water Supply and Sewerage Strategy 2011–2017. MoIE counterparts have recently conveyed the GoA's decision to proceed with the utility aggregation process as further described in this PAD.

[47] Results-based Road Maintenance and Safety Project (P132982).

[48] Results-based Scaling-up Rural Sanitation and Water Supply Program (P152693) and previous water sector PforR programs.

[49] Sustainable Rural Sanitation Services PforR (P154112).

enhanced monitoring of public sector spending directed to WSS, interinstitutional coordination, and citizen engagement, supporting the sustainability of results.

26. **Considering the need to build and strengthen capacities and country systems and enhance development impact, the PforR will be complemented by an IPF component for TA, program management, and results verification (to be financed by a State Secretariat for Economic Affairs [SECO] grant).** A key lesson that has emerged from the global PforR experience is that the results-based approach is more effective and can be implemented more efficiently when complemented by substantial TA to support the client governments through the change process and to strengthen systems, capabilities, and procedures. Under similar programs in other countries analyzed by the team, government procurement of TA was often underfinanced, delayed, and the scope curtailed and diluted. Relying solely on implementing agencies to procure TA under the Program to provide enough capacity for the required quality and timeliness would constitute a risk to the achievement of the Program Development Objective (PDO) and results delivery. The Program will, therefore, address capacity constraints through a proposed IPF instrument whereby funds will be used to pay for a set of selected, discrete assistance and capacity-building activities. The IPF instrument allows the GoA the flexibility and predictable financing needed to address existing capacity gaps and risks that may otherwise undermine the achievement of Program results.

27. **The opportunity to crowd in private financing and other private sector solutions has been considered during preparation, and preliminary scoping of specific opportunities has been advanced, in line with the World Bank Group's approach to mobilizing finance for development.** The new proposed sector law[50] in Albania envisions private sector participation as one of the solutions for water companies to improve their financial and operational performance. Based on international experience, increased private sector participation has often contributed to the sector's improved professionalism and development of technical expertise and know-how. In addition, the fact that the GoA is committed to supporting the sector investments with resources from the state budget, and has a transparent financial policy in place, offers interesting opportunities for blended financing schemes. However, further work on the enabling environment (including approval of a new regulatory framework, a new tariff setting methodology,[51] and other policy decisions supported by the operation) is required to improve marketability to the private sector, and sustainability prospects. Since key enablers are expected to be in place during the first year of Program implementation, private sector and blended finance options are expected to be viable thereafter. During preparation, two opportunities will be available: (i) blended finance schemes for NRW reduction contracts, starting with improvements in commercial efficiency, to generate the cash flow needed to leverage private financing for capital-intensive activities related to physical water losses (rehabilitation of pipes, etc.); and (ii) the setup of a revolving fund to finance energy efficiency investments, which could initially be capitalized with Program funds to test the model and facilitate pipeline preparation. Given preliminary estimates,[52] the projected returns could attract domestic private financing, possibly blended with public financing or guarantees. MoIE and AKUM are open to exploring these alternatives. It is recognized, however, that the COVID-19 pandemic could affect the timing and reality of this proposition. The Bank team will continue to work with the GoA toward these objectives, in parallel

[50] See paragraph 36 for additional details on the new sector law.
[51] Although the approval of a new tariff setting methodology is not directly included in this operation, the Bank is providing TA support for the ERRU under the Danube Water Program (DWP) to finalize the methodology. The operation will provide an overall policy framework as well as ample space for dialogue among all sector central-level institutions, including the ERRU. In addition, the IPF will provide TA to develop joint business plan guidelines, which should assist in public funding allocation, as well as be compliant with the tariff setting methodology for purposes of economic regulation by ERRU.
[52] Based on preliminary energy audits undertaken during preparation in three utilities within the top five energy consumers in the country (Durres, Vlore, Elbasan), with support from the Energy Sector Management Assistance Program.

with the achievement of results and reforms expected during the first year of Program implementation.

II. PROGRAM DESCRIPTION

A. Government Program

28. **The government program comprises a public investment program (reflected in the MoIE/AKUM Mid-Term Budget Plan) and a set of policy and regulatory instruments framed by a broader, decade-long water sector reform process, which the MoIE and AKUM have been steering with strong leadership since 2016–17, gaining commitment from all sector stakeholders in the country.**[53] To address the sector's challenges and build on successful donor-supported approaches, the government program since 2016 relies on a more transparent and predictable sector financing policy framework, a more rigorous performance-based incentive and enforcement framework between national and local governments, and increased professionalization of service provision. With support from various development partners, including the World Bank,[54] the MoIE has developed, among others, a national master plan, a new financing policy and strategic financial planning tool, and a National Strategy 2019–2030. The national strategy sets out seven objectives, lays out the course of action to achieve them, and defines clear annual targets (refer to annex 3 for further details). The strategy builds on a Master Plan (developed with KfW assistance), which details the investment needs and priorities, as well as on a sector financing policy (developed with World Bank assistance), which ensures alignment between the strategy's targets and the sector financing framework.

29. **Sector financing policy principles have been adopted by the government to drive its overall expenditure framework and align national target setting and budgeting of resources (i.e., a feasible WSS sector financial policy).** This policy is grounded in three types of measures geared at increasing the overall availability of funding for the sector, to address the large investment needed to improve and expand WSS services for all Albanian citizens: (i) reshaping public investment flows to the sector in a manner in which flows can be transparent and predictable and utilized as an incentive for improved performance at the local level; (ii) improving the operational efficiency and financial situation of utilities, to gradually reduce overall dependence on the fiscal budget and to improve service levels; and (iii) enhancing ERRU's tariff review system, while putting in place social protection mechanisms for adequate cost recovery, ensuring that policies and tariffs are publicly acceptable, affordable, and in line with good international practice.[55] The quantitative impact of these combined measures on funding availability is illustrated in Figure 1, which compares total volume of financing under "Business as Usual" and applying the GoA's financing strategy principles over a 25 year period (2015-2040)**Error! Reference source not found.**. The proposed operation aims to further develop and

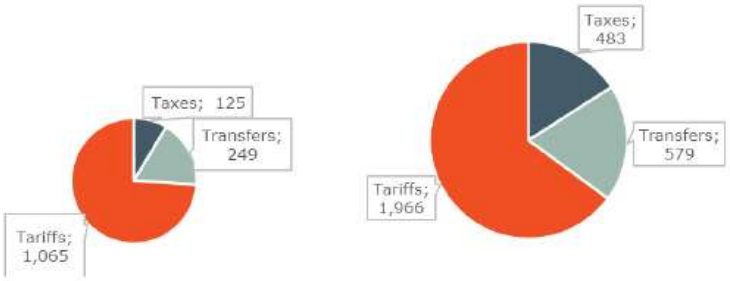
[53] As a result, Albania has been improving its overall sector performance much faster than its neighbors in the past few years. The World Bank's State of the Sector Report Update 2018 performed a data collection and analysis exercise across 16 countries in the Danube region around a WSS Sector Sustainability Score (Water Sector Sustainability Assessment and Rating/Scoring index [WASCO]—an index based on twelve variables across four broad service dimensions of access, quality of service, efficiency, and sector financing, calculated for every country in the Danube region. Although Albania has historically ranked below the average of the six Western Balkan countries (55 vs 60 in 2018), it was only surpassed by Kosovo in the progress made since 2015 in the WASCO index (going up 6 points vs average increase for six Western Balkan countries of 2.5).

[54] Water Supply and Sanitation Sector Policy Support TA (P152351). Through this TA, the GoA developed, with advisory from the Bank and consultants from COWI and Valu Ad, a "Water for People" Sector Financing Policy, 2016. The work was financially supported by the European Union and other donors (the former Water Partnership Program, now merged with the Global Water Security & Sanitation Partnership) and updated in 2018 with support from the DWP.

[55] This implies that tariff increases must be gradual and in line with improvements in service, and that special schemes must be in place for low-income and vulnerable households.

roll out these measures as part of a broader sector reform effort by the GoA, which is even more relevant now under the fiscal limitations caused by the socioeconomic implications of COVID-19. In parallel, ERRU has prepared a revision of the tariff setting methodology. These new policy and regulatory instruments are guiding the GoA's steps in addressing the sector's challenges and paving the way for the country's compliance with water-related EU directives and the achievement of SDG 6 on water and sanitation.

Figure 1. Volume of Funds in 25 years under Business as Usual and the GoA's Financing Policy Scenario



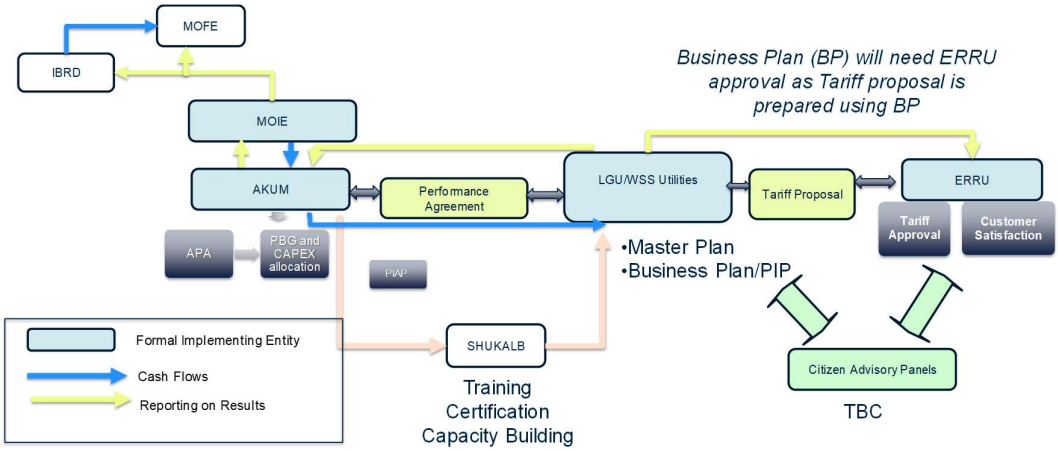
30. **The total cost of the government program for the sector across five years is estimated at US$560 million.** The government cost and expenditures (including financing from IFIs and this operation), have been estimated based on current allocations in the Mid-Term Budget Plan (MTBP)[56] of AKUM for 2023–25.[57] GoA's program for the WSS sector is included in the MoIE's National Water Supply and Sewerage Sector Strategy 2019–2030 (the National Sector Strategy, NSS), which has been costed at US$1.65 billion,[58] to be financed by a mix of tariffs, taxes, and transfers. Based on historic and currently committed allocations, and already committed foreign financing, the government's total sector expenditure by 2030 will be about US$998 million. A funding gap between this and the strategy's US$652 million will need to be secured by the government in order to meet sector development objectives beyond 2025. The projected sector expenditures do not include investments directly financed by local government budgets or by the WSS utilities, though in general, local governments have limited ability to finance sector investments as most utilities are hardly covering direct operating costs.[59]

31. **The government program (reflected in the 2020–22 Mid-Term Budget Plan as well as in the National Strategy) includes investments in priority areas and a series of institutional and governance reforms addressing the current disconnects between national and local government incentives and professionalizing service provision.** As highlighted in the Strategic Context section of this PAD, the absence of appropriate incentives and enforcement mechanisms between national and local governments, the limited technical capacity of water utility companies, and the absence of a solid sector financing framework account for much of the sector's poor performance. The current governance framework is displayed in **Error! Reference source not found.**. A proposed draft Law for

[56] The current draft 2021–2023 Mid-Term Budget Plan of AKUM includes an annual allocation to the WSS sector of around US$100 million, so the projection assumes a similar allocation plus additional expenditures related to the activities under the proposed PforR for years 2024–25.
[57] Includes operational expenditures and staff costs of MoIE and AKUM.
[58] This cost includes both capital expenditure (CAPEX) and TA but excludes operating expenditure (OPEX).
[59] Some of the utilities (Tirana, Korce) can finance their investment program from their revenues, borrowing directly from IFIs.

the Drinking Water Supply and Urban Wastewater (the new "sector law")[60] is under consideration by the GoA, which further clarifies the institutional framework, reflects several of the EU acquis, and introduces new models for the organization and provision of WSS services, especially for low-performing and financially nonviable utilities, including utility aggregation and partnerships with the private sector. The measures included under the proposed operation are consistent with both the existing legal and regulatory framework and the proposed new sector law, and their implementation is not dependent or conditioned on the new law's approval.

Figure 2. Sector Governance Framework



32. **The government program—including performance-based support for capital investments and the focus on aggregation of service providers—builds on earlier, innovative donor-supported programs,** such as those financed by KfW and SECO. Those programs[61] showed positive results in several mid-sized cities of Albania. The program design also draws strongly on a recent TA by SECO with the GoA on options to improve the performance of public water utilities through corporate development and utility aggregation. Activities supported by other partners' projects and programs are complementary. The Bank team has coordinated with key partners during preparation (particularly with the EU Delegation, KfW, SECO, and GIZ) and agreed that together, and under the leadership of AKUM and MoIE, all development partners will work to identify synergies and complementarity of activities and avoid overlaps. (Additional details on other development partners' programs can be found in annex 3.)

33. **While the ongoing government program is focused on immediate priorities, given the limited availability of financing, the National Strategy revolves around seven strategic objectives with time-bound targets.** The government program for 2020–22 focuses on three areas: (i) improving water supply continuity in urban areas and specifically in all coastal areas; (ii) improving the performance of water utilities, including the reduction of NRW; and (iii) expanding the sewerage network/service in urban areas. The proposed National Water Supply and Sanitation Sector Modernization Program for Results (NWSSMP), in addition to supporting the mentioned priority areas (i) and (ii), provides support and financing for additional priorities identified by the government for inclusion in its 2021–25 program: (i) improved energy efficiency; (ii) increased access to water supply in rural and peri-urban areas; and (iii) the provision of liquidity support to the WSS utilities linked to the COVID-19 crisis, as well as support for the overall water sector reform/utility aggregation process

[60] A regulatory impact assessment has been prepared, and the proposed new law has been publicly consulted. The government program for the sector and the proposed operation are not conditioned on its approval.
[61] KfW's Municipal Investment Projects I–IV.

for improved performance. This will be done by establishing incentive schemes using state budget funding to encourage specific utility behaviors and performance improvements. Other measures under the National Strategy that will be supported by this operation include: (i) the improvement of water sector data quality, accuracy, and consistency; (ii) the strengthening of the sector's workforce; and (iii) the improvement of sector governance and regulation.

34. **The proposed NWSSMP will help put in place the relevant processes and mechanisms to further develop and roll out existing tools and the development of new policy guidelines, working simultaneously at the national and local (and/or regional) levels,** while the IPF component and other donors will provide TA for specific outputs required, and institutional strengthening.[62] The geographic scope of the Program is national, demand driven, and based on compliance with Program requirements. The Program boundary will change from year to year to reflect the fact that in principle any LGU/utility can participate in the Program, subject to meeting the Program requirements, though in practice the list of participating LGUs/utilities will vary from year to year and across the Program activities.[63] **Error! Reference source not found.**3 summarizes the government program (considering longer-term plans under the National Strategy) and the proposed NWSSMP to be supported by the Bank's PforR.

Table 3. The Government Program and the National WSS Sector Modernization Program

	The Government Program	National WSS Sector Modernization Program
Objective	The National Sector Strategy 2019–2030 aims to: • Provide safe, reliable, sufficient, and proper quality of water supply services for the entire population of Albania, in full compliance with the legal and regulatory framework. • Ensure quality collection, treatment, and disposal to safeguard public health and in compliance with national environmental regulations. The GoA's objective is to attain the aspirations of the National Sector Strategy 2019–2030 toward an organized water and wastewater sector that provides quality services, boosting health and economic development.	The PDO is to improve operational and financial performance of WSS utilities and to increase access to safely managed water supply services in the Republic of Albania.
Activities	Priority measures, activities, and	Focused on three results areas

[62] Due diligence, specific actions, and/or terms of reference (TORs) for additional TA for many of the Program activities have been ongoing during preparation and will continue to be delivered through to effectiveness, so the Program can start achieving results without delay once it is effective. Subsidy guidelines for 2020 have been reviewed by the Bank and adopted by the GoA, a proposal for operational subsidy guidelines for 2021 is being reviewed/discussed by the government, ToRs for an annual performance assessment (APA) methodology and energy efficiency audits are prepared, preliminary design of performance-based grants is well advanced, as well as the concepts for two blended finance opportunities (described in paragraph 33). Preliminary design of incentives for regionalization have been prepared under TA from SECO. Preparation of the Program Operational Manual (POM) has started and is expected to be completed in the first half of 2022. In addition, the preparation of a robust communications strategy on the Program's objectives will be supported without waiting for the IPF to be effective.

[63] The POM will further clarify the process to assess compliance with Program requirements by WSS utilities and LGUs, and the Program will not cover activities excluded by World Bank PforR policies.

	The Government Program	National WSS Sector Modernization Program
	investments grouped under seven strategic objectives: 1. Water sector data quality, accuracy, and consistency 2. Access and quality of water supply and wastewater management services 3. Efficiency and performance of WSS utilities 4. Financial sustainability and affordability 5. Capacity-building sector workforce 6. Sector governance and regulation 7. Utility aggregation program	supporting all seven strategic objectives for specific results: **Results Area 1: Strengthening the National Sector Framework.** This RA is linked with strategic objectives 1, 5, and 6 of the government programs. **Results Area 2: Improving Operational and Financial Performance of WSS Utilities.** This RA is linked to strategic objectives 3, 4, and 7 of GoA's program. **Results Area 3: Closing the Gap toward Universal Access to Water Supply Services**. This RA supports objective 2 of the government program with regard to access to water supply services with a focus on rural areas and vulnerable households.
Geographic scope	National	National
Implementation period	Medium Term: 2022–27	2022–2027
Cost (US$)	Medium term (2022–27): US$560 million Long term (2027–30): US$1.08 billion Total (2022–30): US$1.65 billion	US$135 million

35. **The IBRD-supported NWSSMP operation will be co-financed by the national government and SECO.** The government has agreed to allocate US$60 million from its national budget (around 20–30 percent of its total commitment to the WSS sector from the fiscal budget) to support the NWSSMP over the next five years. Within this context, the GoA seeks a PforR loan of US$75 million for a total Program cost of US$135 million. The proposed hybrid PforR operation includes an IPF component for an amount of US$6.3 million to be financed through a single-donor trust fund (TF)[64] contributed by SECO. The IPF component will support the required TA, the strengthening of capacities for the Program's implementation, and capacity building in support of all three results areas of the PforR, as well as Disbursement Linked Indicator (DLI) verification. Annex 8 provides further details on the IPF component, including a description of activities, implementation arrangements, fiduciary management, and Environmental and Social Framework requirements. Table 4 shows the financing sources of the operation.

[64] The TF will finance a Recipient Executed Grant (RETF) under the IPF component which will be implemented by the MoIE (and AKUM as relevant). The TF will also manage a smaller Bank Executed TF (BETF) for overall management and implementation support to the RETF. Subject to a successful implementation of a first phase (reflected by the agreement at national and local level on a regionalization strategy, to be prepared during the first year of the Program's implementation), SECO has expressed interest in providing a second phase of cofinancing (for an estimated amount of around US$3 million).

Table 4. Operation and NWSSMP Program Financing (US$ millions)

Source	Amount	% of Total
Government	60	44%
IBRD PforR	75	56%
Total Financing NWSSP	135	100%
IPF (SECO)	6.3	100%
Total Financing Operation	141.3	

B. Theory of Change

36. The proposed Program will support the government's objective to provide safe, reliable, sufficient, and proper quality of water supply services for the entire population of Albania through improved utility performance and hence the levels of service to the customers. The Program will support activities leading to improved operational and financial performance of WSS utilities, and increased access to safely managed water services. The theory of change is presented in figure 3. The Program aims to help address some of the key sector challenges identified in the Technical Assessment and in the earlier Bank analytical work,[65] as follows:

(a) **The Program will improve incentive and enforcement regimes for improving corporate governance, operational and financial performance, and increasing access to services (with a focus on the vulnerable) through the mainstreaming of performance and results-based agreements between national and local governments.** The Program will address this by introducing performance, compliance, and results-based financing for capital investments to set incentives that can drive utilities to invest in operational efficiency, in increased access in rural areas, and for vulnerable households, and eventually to restructure/aggregate depending on a final model to be decided by the GoA. The former decentralization process did not fully consider the state of the assets and the size of the resulting LGUs, which led to LGUs having to take on dilapidated assets and/or having to operate a system that would have difficulties being economically efficient, given the size of operations and existing capacities.

(b) **The Program will improve the operational efficiency and financial performance of WSS utilities by supporting business planning and targeted investments.** The support to develop a business planning guideline to ERRU, support to the WSS utilities to prepare a business plan, and parallel support to AKUM to improve performance monitoring and annual performance assessment (APA) will help the WSS utilities to apply the tariff setting methodology and overall regulatory framework.

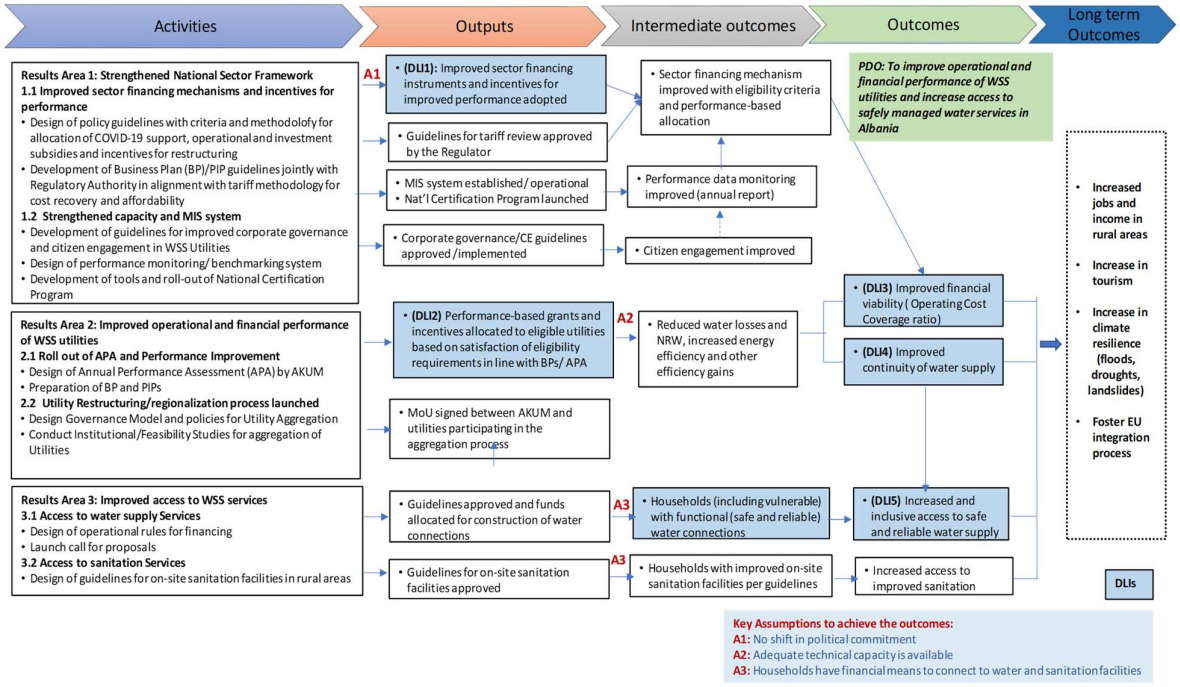
(c) **The Program will address the weak managerial and technical capacities that are at the heart of poor performance in some of the WSS utilities by supporting a national certification system and utility aggregation pilots.** The sector's workforce at national and at municipal levels needs to be inclusive of both women and men and ensure that they have the necessary knowledge and skills, are properly remunerated, and are able to fulfill their assigned functions and responsibilities. The program will support the roll-out of a national certification system and providing funding for the WSS utilities' staff and other stakeholders to make use of existing local and regional learning and

[65] Albania Country Note, State of the Sector Report, World Bank 2015, and State of the Sector Report 2018 Update.

development programs. The Program will also support pilot utility aggregation processes, which have been shown to contribute to more professional management of WSS services.

(d) **The Program will support enhanced interinstitutional coordination to address sector wide governance and monitoring challenges.** Although the WSS sector already benefits from a few strong dedicated institutions, which reflects a more solid institutional framework than in neighboring countries, there are still some functional overlaps and information gaps. Coordination mechanisms between MoIE, AKUM, ERRU, municipalities, and WSS utilities will be strengthened to match the process for assessing the performance of utilities for the purposes of allocation of public funding for capital expenditure (CAPEX) by AKUM with tariff review applications by the WSS utilities to ERRU (see figure 2). In addition, the Program will contribute to the roll-out of a new national WSS utilities' performance information system to provide reliable data for evidence-based policy making at the national level and tailored development support at the local level.

Figure 3. Program's Theory of Change



C. PforR Program Scope

37. The NWSSMP[66] will support the government's program of expenditures for the WSS sector during 2022–27 and is structured around three results areas.

[66] The Program builds on GoA's Sector Financing Policy and covers priority measures by government for each strategic objective under the National WSS Sector Strategy 2019–2030. See Technical Assessment Document for complete list of Priority Measures defined by GoA.

Results Area 1 (RA1)—Strengthening the National Sector Framework

38. **This RA supports expenditures, activities, and results related to the enhancement of existing policy and regulatory instruments to direct public investment flows to the WSS sector.** This RA involves operational expenditures by MoIE and AKUM, consultant and non-consultant services, and training activities, and rewards relevant policy decisions. The objective is to improve overall WSS sector funding availability and establish incentives for improved sector performance,[67] as well as information systems and institutional capacities to monitor and implement public investments. Expected results can be grouped in two broad areas:

39. **RA1.1: Improved sector financing mechanisms and incentives for performance.** The main results include the adoption of key policy guidelines[68] for allocating national budget resources to LGUs and WSS utilities for WSS service delivery (through ministerial guidelines and other appropriate instruments). The areas that will be covered in the new policy guidelines include two main activities and results:

(a) **Adoption of policy guidelines with criteria and methodology for allocation of fiscal budget funds to LGUs and WSS utilities relating to WSS service delivery and the monitoring of funds implementation by AKUM.** The guidelines will include the conditions, requirements, and terms for the central government to fund specific expenditure or investments, upon the LGUs and WSS utilities meeting certain requirements. The guidelines will also include the methodology for: (i) establishing operational targets to be achieved by the WSS utilities linked with the use of such public funding, which will be reflected in performance agreements by LGUs and WSS utilities with MoIE/AKUM; and (ii) a process for annual monitoring of compliance with eligibility requirements and targets included in the performance agreements through an APA process.[69] The adoption of these guidelines will be linked to disbursements under the PforR under DLI1. The guidelines will cover at least the four areas below:

(i) *Liquidity support to WSS utilities* to offset COVID-19 impacts and cover operational expenditures while incentivizing improved performance (COVID-19 grants and performance-based-grants). The eligibility criteria will consider, at minimum: (a) impacts of COVID-19 on the financial situation of WSS utilities, and their commitment to prepare a water safety/risk management plan; (b) improved billing and collection and reduction of costs; (c) compliance with key performance indicator (KPI) reporting requirements; (d) compliance with corporate governance and citizen engagement requirements (i.e., composition of boards, financial monitoring and oversight, financial accounting and reporting, disclosure of KPIs, robust GRMs, and others) and any requirements related to the National Certification Program; and (e) the type of water production system (gravity or pumping).

(ii) *Investment grants to WSS utilities,* to enhance water conservation (NRW reduction), energy efficiency (and, thus, reduce costs), levels of service, and overall operations and financial performance. The eligibility criteria will include at least: (a)

[68] The GoA may opt during the implementation to develop a single package for all four areas of public investment, or one separate guideline for each.
[69] This process will also be described in the POM, including any further details required internally within MoIE and AKUM and for the purposes of DLI verification and supervision/implementation support by the Bank.

the preparation of a business plan to be approved by ERRU,[70] in line with relevant guidelines on the subject, which will include the identification of priority investments needed to improve operational efficiency, levels of service, and financial viability (such as NRW reduction, energy efficiency, and improved continuity interventions); (b) KPI reporting to the national performance monitoring and benchmarking system; and (c) a performance agreement with AKUM/MoIE.

(iii) *Incentives for aggregation and restructuring processes to LGUs and WSS utilities* (for operational expenditures and/or investments). Their use will need to be compliant with eligible activities under the PforR as defined in the loan agreement.[71]

(iv) *Grants for investments in new connections in unserved peri-urban and rural areas* (including guidelines for on-site sanitation facilities).

(b) A dialogue between AKUM with ERRU will seek to align policies with tariff methodology setting and AKUM's adoption of business plan guidelines in line with regulatory requirements. These would include guidelines for the preparation of water safety and risk management plans in the face of events like the COVID-19 pandemic.

40. **RA1.2. Strengthened capacities and management information systems.** The PforR will support related expenditures and monitor results on the following:

(a) Roll-out of a new national WSS services and utility performance information and benchmarking system/platform[72] focused on improving the reliability of data and enabling the monitoring of KPIs.

(b) Adoption of the National Certification Program for water sector professionals and staff of WSS utilities, implemented in collaboration with the SHUKALB.

(c) Strengthening of existing corporate governance and grievance redress mechanism requirements, asset management, and management information systems at local and central levels.

Results Area 2 (RA2)—Improving Operational and Financial Performance of WSS Utilities

41. This RA will reward results linked to the improved allocation of public funds by AKUM based on compliance with enhanced corporate governance and other policy requirements (DLI 2), as well as to the planning and successful implementation of investment interventions by WSS utilities to improve their commercial and operational efficiency and financial performance, as well as the achievement of other business plan targets (DLI2, DLI3, and DLI4). The eligible measures and physical interventions to be financed from AKUM's public funding allocations include increased metering of water volumes (at the production and household level), improved water conservation (i.e., reduction of NRW and physical losses), better network operational management, and improved maintenance of water supply

[70] The IPF component will support the preparation of guidelines for WSS utilities to prepare business plans focused on financial sustainability while covering affordability concerns, aligned with the tariff setting methodology in place as approved by ERRU. This guideline will be jointly developed and adopted by both AKUM and ERRU and will be subject to ERRU's approval. This work may require a Memorandum of Understanding to be signed between AKUM and ERRU with regard to its development, in the context of the Grant Agreement for the IPF component. Please see annex 8 for an outline of topics to be covered by the business plans.

[71] In other words, it may not be used for activities excluded from PforR.

[72] AKUM is about to launch a new data management and online communication system developed by the Albanian company Horizon that will include a KPI monitoring/benchmarking module for WSS utilities.

infrastructure. All of these will increase the volume and quality of available water. These interventions, as well as investments in energy efficiency, are expected to also strengthen the water supply sector's resilience to possible future shortages brought about by climate change. In addition, supported interventions are expected to improve both the financial situation of utilities (DLI3) and levels of service (DLI4). The choice of subprojects to be supported will be linked to the identification of the specific interventions in business plans to be prepared by the utilities (as per guidelines adopted under RA1). The business plans are also expected to include workforce profile assessments and priorities, including gender diversity, as well as the identification of low-income households requiring subsidy support, and measures to be supported by the IPF. Targets will be included in performance agreements between LGUs or WSS utilities and MoIE/AKUM, and their achievement will be monitored on an annual basis through the APA process. This RA will support three types of activities:

(a) **COVID-19 grants to cover revenue shortfalls and performance-based grants for operational expenditures for utilities that meet requirements and commit to specific KPIs and proper O&M of assets.** The Program will include as prior results grants made by the GoA to cover subsidies for operational expenditures to be allocated by AKUM to the WSS utilities, including financial support for responses to the COVID-19 situation, as well as subsidies for operational expenditures that the central government had historically facilitated. Relevant ministerial guidelines developed under RA1 established new rules for WSS utilities to access financial support, implying upgrades of their practices, systems, and performance.[73]

(b) **Investment grants in efficiency and performance,** including TA and capital expenditures. These include: (i) water supply infrastructure to improve continuity of service (24/7),[74] the set-up of district metered areas (DMAs), NRW and leakage reduction, metering and other improvements in urban areas and rural areas with dense populations or prioritized by the GoA for tourism[75]; (ii) energy efficiency investments[76] (specific energy efficiency interventions have been already identified and detailed energy audits will be conducted through the IPF component to identify other priority interventions); and (iii) other turnaround measures[77] identified in business plans (including water safety and risk management plans) in compliance with the guidelines to be established under RA1. The allocation of the capital investment grant on this basis will be rewarded from the PforR under DLI2 (as it represents a shift from current and more ad hoc allocation practices), whereas the expected service improvements in these municipalities will be further rewarded under other RA2 DLIs (DLI3 and DLI4).

[73] Following relevant guidelines for allocations made in 2020 and 2021.
[74] It is not expected that the improvement of continuity will affect the water balance, as 24/7 water supply in Albania is being achieved not through additional water abstraction but through improved management (dramatically reducing commercial and technical losses [NRW]), even reducing water production as a result.
[75] Including those under the GoA's program "100 Villages."
[76] Based on a preliminary assessment at Durres, Vlore, Elbasan, and Belsh (that jointly represent 40 percent of connected load and annual consumption in the country), preliminary savings from US$2.1–US$3.6 million a year (within these four utilities) were identified, with a payback period for investments of less than six years. Savings could improve with investments in solar power to generate the required energy by the utilities' processes.
[77] Including, but not limited to, the following: MIS, commercial and billing systems, modern business tools (such as customer services portal, supervisory control and data acquisition, geographic information system, and other information technology systems, bulk and household metering, NRW reduction, energy efficiency, interventions to increase hours of service and quality of services, improved governance and capacity building of the utilities workforce, increased citizen engagement, community awareness and engagement in the sector, including citizen surveys leading to an optimized use of existing social support mechanisms by MoIE for poor and/or vulnerable households).

(c) **Incentives for WSS utilities' aggregation or restructuring,**[78] in compliance with guidelines adopted under RA1. Progress would be on a voluntary and incentivized basis (informed by existing analytical work on the topic, at the global level and in Albania, including the recent TA by SECO). Utility aggregation would be incentivized through financial packages offered to local governments and WSS utilities to enable the "champions" to come forward and commit to allocating all efforts to a successful process. Feasibility studies would be funded from the IPF component. The financial incentives will be financed from the PforR under DLI2, and their use will be directed to similar type of investments as described in paragraph 41(b), while expected service improvements in these municipalities will be further rewarded under other RA2 DLIs (DLI3 and DLI4).

Results Area 3 (RA3): Closing the Gap toward Universal Access to Water Supply Services

42. This RA will support the establishment of a new financing window within AKUM[79] for investments by WSS utilities to increase and improve access to water supply services in unserved areas (focusing on municipal peri-urban and rural areas) through the provision of connection investment grants to selected WSS Utilities. It is expected that the Program can provide financing for around 10,000–12,000 new household connections (benefiting around 40,000–50,000 people), which would close the rural coverage gap by around 3 percent. This RA draws on the experience of the Rural Water Supply Program[80] and previous successful World Bank–supported results-based financing operations.[81] Under this RA, the Program will support GoA's commitment to the universal access agenda by introducing results-based financing to provide financial incentives (i.e., through a matching grant system) to municipalities that invest in well-managed water distribution systems.[82] Funding will be based on providing clean water service to communities, with less than 10 percent service interruption. The program will incentivize optimized engineering designs, community engagement activities, and good financial planning. Results-based financing will ensure that funding is linked to pre-agreed and verified results. Through a range of mechanisms, results-based financing helps deliver development outcomes, improves accountability, and drives both innovation and efficiency.

43. The interventions are typically expected to include the rehabilitation of small-scale autonomous WSS systems and include the reduction of leakages close to the water withdrawal point through infrastructure rehabilitation and replacement, which will help conserve ground and surface water resources.[83] The Program will also promote water conservation through improved demand-side

[78] The structure of the incentives will depend on the government's final decision on the utility aggregation model.
[79] This is a new area of investment for AKUM as historically the central government and development partners' investments in the WSS sector in rural areas were channeled through a separate institution, the Albanian Development Fund (ADF).
[80] The GoA has been working with the German government since 1988 to support the WSS sector in rural areas. The Rural Water Supply Program is cofunded by the Albanian government, KfW, the German Development Bank, and the European Union. To date, the German federal government has provided financial support worth over €102.6 million.
[81] Specifically, Vietnam has two ongoing PforR operations in the water sector and is among the most experienced countries in the use of the PforR instrument. Vietnam has made significant progress in providing reliable water supply, increasing access to water supply in rural areas from 10 percent of the population in 2000 to 70 percent in 2016. Its success highlights community participation, sustainability, and cost recovery.
[82] The detailed criteria, procedures, and rules of operation will be developed by AKUM under DLI1, following principles described in the technical assessment. Local private sector participation, as successfully mobilized in Vietnam, will also be explored during implementation.
[83] Based on the level of coverage of WSS services by the utility, the population living in the service area of any utility, especially peri-urban and rural areas, might have: (1) a proper distribution network run by the water utility providing services in that specific area; (ii) a community-built and -run distribution network or; (iii) private wells or connections to

management measures (including metering, awareness raising, and others), and the application of existing tariff methodology setting methodologies and subsidy mechanisms to cover the cost of operating the systems. Increased access to safe and reliable water will make the targeted communities less vulnerable to poor-quality water. In addition, improved access to safely managed sanitation is expected thanks to the elaboration and dissemination of guidelines for on-site sanitation facilities. This will help decrease uncontrolled discharge into water bodies, including groundwater resources, and reduce the volume of contaminated floodwaters in case of flooding. The targeted communities will be thus more resilient to floods. The policy guidelines will also consider the risk of landslides. Although the guidelines will be developed under RA1, their application will take place under RA3. This RA will involve consultant and non-consultant services, goods and/or equipment, and civil works.

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

Program Development Objective(s)

44. The objectives of the Program are to improve operational and financial performance of water supply and sanitation (WSS) utilities and increase access to safely managed[84] water supply services in the Republic of Albania. The geographic scope of the Program is national since in principle any LGU/WSS utility can participate if it abides by the Program's requirements. However, the Program will include only those LGUs/WSS utilities that are in compliance with the Program requirements.

PDO-Level Results Indicators

45. The PDO indicators (and/or DLIs), categorized by RA, are as follows:

- **Results Area 1: Strengthening the National Sector Framework**
  - Improved sector financing instruments and incentives for improved performance adopted (DLI1).
  - New business plan guidelines for tariff reviews approved by ERRU (aligned with new tariff setting methodology).
- **Results Area 2: Improving Operational and Financial Performance of WSS Utilities**
  - Percentage of WSS utilities achieving at least 75 percent of the targets in their performance agreements.
  - National aggregated score for direct operating cost coverage ratio (DLI3).
  - Number of new urban areas with minimum 18 hours of water supply (DLI4).
- **Results Area 3: Closing the Gap toward Universal Access to Water Supply Services**
  - Number of people provided with access to improved water sources (40,000; of which 20,000 are women and 32,000 rural residents).
  - Minimum number of new functional connections providing safe and reliable water services in vulnerable households (DLI5).

water sources going from as little as a few meters to hundreds of meters to the nearest household (see technical assessment).

[84] As per SDG indicator No. 6.1.1, a safely managed drinking water service is defined as one located on premises, available when needed, and free from contamination.

E. Disbursement-Linked Indicators and Verification Protocols

46. Table 5 illustrates the main DLIs under each of the proposed RAs and tentative amounts allocated to each, based on indicative annual milestones.[85]

Table 5. PforR Proceeds' Allocation to DLIs and Annual Milestones

	PDO Ind.	Disbursement Formula and Scalability	Total DLI Alloc. (US$ mill)	As % of Loan	Base-line	Indicative timeline for DLI achievement, disbursements (US$) and cumulative DLR target values [86]					
						2022	2023	2024	2025	2026	2027
DLI 1: Improved sector financing instruments and incentives for improved performance adopted	**Yes**		**10**	**13%**		**5**	**5**	**0**	**0**	**0**	**0**
DLR 1: Approval by Borrower of new guidelines with eligibility criteria and performance-based methodology for allocation of state budget subsidies for: (i) COVID-19 grants and PBGs; (ii) investment grants; (iii) incentives for WSS utilities restructuring/regionalization; (iv) new connections investments for improved access to water supply in unserved areas		US$2 million for each of 4 policy guidelines and US$2 million once all of them are completed			No	Yes	Yes	Yes	Yes	Yes	Yes
DLI2: Improved allocation of public expenditure to the WSS sector	**No**		**25**	**34%**		**5**	**5**	**5**	**5**	**5**	
DLR 2: COVID-19 grants, performance-based grants for operational expenditures, investment grants,[87]		US$1 for each US$1 equivalent			No	Yes	Yes	Yes	Yes	Yes	

[86] The timeline for DLI achievement, values, and expected disbursement is indicative and all DLIs are scalable to enable flexibility vis-à-vis ongoing final design for the reform of municipal water SOEs (under discussion with high-level government).

[87] Focused on activities for NRW reduction, energy efficiency, and improvements to water supply distribution systems to enable improvement of service levels.

	PDO Ind.	Disbursement Formula and Scalability	Total DLI Alloc. (US$ mill)	As % of Loan	Base-line	Indicative timeline for DLI achievement, disbursements (US$) and cumulative DLR target values [86]					
						2022	2023	2024	2025	2026	2027
and incentives have been allocated by AKUM to eligible WSS utilities/LGUs.											
DLI3: Improved financial viability of the WSS sector	**Yes**		**10**	**13%**		**0**	**0**	**2**	**4**	**4**	
DLR 3: Improvement of National Aggregated Direct Operating Cost Coverage (DOCC) (over baseline)		US$1 million for every 1% improvement	1		81.2 %[88]	81.2 %	81.2 %	84.2 %	88.2 %	91.2 %	
DLI4: Improved continuity of water supply	**Yes**		**10**	**13%**		**2**	**3**	**2**	**1.5**	**1.5**	
DLR4: No. of urban areas with minimum 18 hours of water supply (over baseline)		US$0.5 million for every new urban area			15	19	25	29	32	35	
DLI5: New functional household connections providing safe and reliable water services	**Yes**		**20**	**27%**		**0**	**0**	**5.5**	**7**	**7.6**	
DLR 5.1: No. of new functional water supply connections (in non-vulnerable households)		Yes. Unit cost US$1,600 per connection	8.9	12%	0	0	0	*2,200*	*1,800*	*1,000*	
DLR 5.2: No. of functional water supply connections in vulnerable households[89]		Yes. Unit cost US$2,000 per connection	11.1	15%	0	0	0	*1,000*	2,000	*3,000*	
Total financing			**75**	**100%**		**12**	**13**	**14.5**	**17.5**	**18**	

[88] The criteria for such independent verification and adjustment shall be specified in the POM. The impact of COVID-19 on DOCC scores of WSS utilities is currently being assessed by AKUM.

[89] While this table presents an indicative breakdown of 50/50 for the new connections in vulnerable and nonvulnerable households, the financing agreement includes a maximum monetary allocation for new connections in nonvulnerable households to secure a minimum level of achievement of this specific result under DLR 5.2 (i.e., 3,000 connections).

	PDO Ind.	Disbursement Formula and Scalability	Total DLI Alloc. (US$ mill)	As % of Loan	Base-line	Indicative timeline for DLI achievement, disbursements (US$) and cumulative DLR target values [86]					
						2022	2023	2024	2025	2026	2027
allocated											

Note: The allocations per DLI are rounded figures. Given that a front-end fee of US$187,500 is applicable, the total financing available for allocation among DLIs amounts to US$74,812,500. See annex 2 for exact allocations to each DLI in US dollars.

47. **DLI verification:** A private firm of international reputation and with a strong local presence will be competitively selected by the GoA (through the MoIE) based on TORs acceptable to the Bank. The verification agency might choose to work in consortium with other firms but will be ultimately held accountable for the verification reports. A track record of results verification in the water sector is important. The draft verification reports will be submitted for review by the verification agency simultaneously to the MoIE and the Bank, and neither party can modify such reports except to correct factual errors.[90] The Program's results will be consolidated and submitted by the MoIE based on the results reported by the municipalities and WSS utilities through the strengthened monitoring and evaluation (M&E) system. The Bank will also monitor achievement of the indicative DLI targets during implementation support missions, and for disbursement purposes. The Bank will make the final decision on whether DLIs have been achieved, as provided for in the Bank's PforR policy. A summarized verification protocol for each DLI is presented in annex 2.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

48. **Program implementation agencies.** There are two key implementing agencies under the Program:

- **The Ministry of Infrastructure and Energy, through its Directorate for Water Supply, Sewerage and Solid Waste,** whose key mission is to analyze, identify, and develop sectoral policies and strategies for improving the WSS sector (as well as solid waste management). A small dedicated **Program Monitoring Unit (PMU)** is to be set up by MoIE to support it in performing its key functions as well as the overall monitoring of the proposed Program, including, but not limited to: (i) reviewing and endorsing the MTBP for investments in WSS and requirements for following time frames, a risk management plan, and performance monitoring reports; (ii) developing and improving the legal and sublegal framework for the sector; (iii) developing the necessary regulatory and institutional reforms related to the sector's utility regionalization/aggregation policies; (iv) liaising with development partners and financers, with MoFE, and other relevant GoA institutions to raise the interest around financing of the National Strategy; (v) leading the Board of Certification and implementation of the National Training and Certification System; and (vi) undertaking the overall Program monitoring, including, among others, the results verification through a credible verification entity and providing information on any fraud and corruption cases to the Ministry of Justice.

[90] For which additional verification might be required as has been the case in other PforR operations.

- **The National Water and Sanitation Agency, AKUM,** which coordinates and monitors all sector activities of water supply and sewerage and wastewater treatment in cooperation with all institutions of the country at central and local levels. AKUM is a state budget agency independent of MoIE that technically supports the implementation of policies and strategies in the WSS sector. AKUM will have a key role in the operationalization of the Program, through a dedicated **Program Coordinating Unit (PCU)** to support AKUM's institutional functions and the overall management of the Program and the IPF. AKUM will be in charge, among other tasks, of: (i) preparing the MTBP for investments in WSS and follow-up requirements; (ii) managing the signing of performance agreements with local governments/utilities; (iii) undertaking regular performance assessments, based on continuous performance monitoring/benchmarking and allocating budgets at the local level accordingly; (iv) undertaking the technical review and screening of investments proposed by local governments and utilities to receive state budget support; (v) administering the National Certification Program; (vi) providing TA and capacity building to WSS utilities and local governments; and (vii) implementing the regionalization plan in collaboration with MoIE, the local governments and utilities, and other stakeholders.

49. **Participating entities.** Other key entities participating in the Program in collaboration with the implementing entities are:

- **Local governments and WSS utilities** will be empowered and supported by MOIE and AKUM (through the PMU and PCU) and to improve performance and investment planning and execute investments under the Program, especially under RA2 and RA3.[91]
- **The Water Regulatory Authority (ERRU).** The ERRU is a public independent (non-budget) institution that regulates the water supply and sewerage sector to ensure protection of the public interest and to create a transparent regulatory framework. It will have a key role in: (i) the design and roll-out of the revised tariff setting methodology (which is expected to be approved in the first year of Program implementation); (ii) the preparation of business plan guidelines, and the provision of capacity building to utilities and local governments to apply the new tariff methodology and the preparation of business plans linked to the tariff review processes, in coordination with AKUM; (iii) the oversight of compliance with license and other regulatory requirements and protection of customer interests.
- **The Water Supply and Sewerage Association of Albania (SHUKALB)** was established in 2000 and is a professional, not-for-profit association of water supply and sewerage professionals, working on improving WSS sector management. SHUKALB had and is expected to continue to play a key role in the final design and implementation of the National Training and Test-Based Certification Program, as a key partner of MoIE and AKUM, as well as a key provider of capacity building in the country.
- **Local government associations.** Albania's two associations of local government units will be important stakeholders, involved in consultation and capacity-building activities to facilitate their members' participation in Program-supported activities.

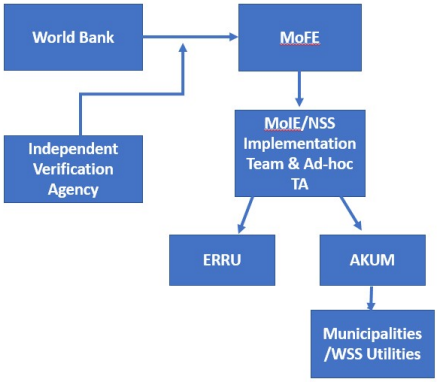
50. **Interinstitutional coordination.** The Program will support an interinstitutional coordination and communication mechanism, including among central-level institutions and at the local

[91] These will have some fiduciary responsibilities under the Program for the implementation of procurement and management of funds. Capacities to do this have been assessed under the Fiduciary System Assessment (FSA), see summary provided in annex 4.

government and utility level. Support for a broad communications strategy and outreach and stakeholder engagement activities has been included under the IPF.[92] The following aspects will be closely coordinated between AKUM and ERRU: (i) **agreement on data variables to be requested from utilities** for performance monitoring/benchmarking and for tariff setting, so that the same data can be utilized by various institutional users for their legal competences (i.e., by AKUM for subsidy and CAPEX allocations, and by ERRU for tariff setting purposes); and (ii) **the preparation of five-year business plans by WSS utilities** based on a model to be prepared jointly by AKUM and ERRU with a standard content, templates, and so on, for all utilities. Its preparation is and will continue to be a requirement for tariff reviews. The development of new guidelines for the preparation of business plans will be supported under the IPF.[93]

51. **Program implementation workflow.** Under the general coordination of the MoIE, AKUM will receive annual budget allocations for Program implementation. AKUM will be responsible to further allocate and transfer the budget for the PBGs and CAPEX funds on to the WSS utilities (or municipalities in some cases), according to their compliance with the eligibility criteria and the level of target achievement. The MoIE will authorize the release of funds to the municipalities/WSS utilities in conformity with Albanian financial management systems and based on annual performance assessment (APA) results. Upon the satisfactory achievement of the DLIs, the loan funds will be deposited from the World Bank in a single treasury account, managed by the Treasury/MoFE. The PBG should be released to the municipalities in two installments, one at the start of the calendar year in January (following the APA for the preceding year) and the second in July based on interim results to be verified by the verification agency. The interinstitutional workflow and flow of funds are shown in figures 1 and 4.

Figure 4. PforR Interinstitutional Workflow and Flow of Funds



52. **A Program Operational Manual (POM)** is under preparation and will be a condition of Program effectiveness. The POM will include (i) the activities and timetable of actions to be carried out under the Program and excluded activities; (ii) the respective roles and responsibilities of entities participating in the Program; (iii) the composition and responsibilities of the program implementation

[92] This is expected to be a robust effort requiring a lot of proactive engagement with stakeholders and sophisticated communications with the public at large, to raise awareness of stakeholders about the unsustainability of the status quo and the need for far-reaching measures to address this, including suitable capacity building in communications at the MoIE, AKUM, ERRU, and WSS utilities. The World Bank team expects to provide advice and closely support these efforts with the collaboration of international and local World Bank experts in these areas.

[93] The five-year business plan by the utilities requires an approval by ERRU as the main reference element for the tariff analysis and approval. This workflow will be reflected in the Program Operational Manual.

team; (iv) the fiduciary, technical, and operational aspects and procedures for implementation of the Program, including the financial management procedures; (v) the performance indicators for the Program; (vi) minimum eligibility and selection criteria and procedures for the grants, including minimum requirements for annual performance assessments of WSS utilities and ceilings for such grants; (vii) the procedures for the timely allocation of grants from AKUM to LGUs/WSS utilities and verification of compliance with eligibility requirements as per policy guidelines; (viii) verification protocols for the DLIs and DLRs; (ix) anti-corruption guidelines; and (x) a Program Action Plan, as an annex.

53. **The Program will foster improved corporate governance and accountability and increased stakeholder and citizen engagement for WSS sector modernization.** Regarding improved citizen engagement, the operation will support the following activities and results: (i) the preparation of guidelines at the national level for improved corporate governance (including topics like board composition, financial monitoring and oversight, financial accounting and reporting) as well as citizen engagement (with support from the Bank and the IPF component), including the introduction of a specific requirement for utilities to adopt a robust GRM/complaints management system[94] at the utility level under the guidelines for PBGs, as expected in year 1 of the Program (reflected in DLI1); (ii) as an eligibility criteria to receive PBGs, utilities will be required to commit to complying with these guidelines from year 3 onward of the Program, and in subsequent years to demonstrate they are sustaining a functional system of grievance redress[95] (reflected in DLI2); (iii) financing will be provided from the IPF component in the initial years to help utilities to put in place robust systems, using among other participatory baseline diagnostics to identify and help to resolve areas where there is a gap in the capacity to address the complaint, create more support for improving internal complaint management systems, and design key features of the system (including automatic updates provided to consumers). These mechanisms will be designed so that hard-to-reach groups can be included, such as remote rural populations, as well as Roma and other minority populations; and (iv) a baseline and a final year assessment of citizen satisfaction with the grievance system through customer satisfaction surveys will be carried by ERRU[96] and made publicly available. As an additional incentive, those utilities with the largest percentage increase in citizen satisfaction (i.e., between baseline/year 1 and program end/year 5) will receive an industry-level prize to be awarded by ERRU. Regarding corporate governance requirements, the specific measures will be further developed in the coming months,[97] and then rolled out under the PforR systems (DLI1 and DLR2) from year 1 of implementation.

54. **Gender equality.** The Tirana utility's experience with gender assessments and actions will inform the PforR. Tirana utilized *Equal Aqua*, a collaborative platform for water institutions.[98] The platform offers gender diagnostics, capacity building, and peer-to-peer exchange opportunities, and all utilities under the proposed Program will be required to use it to conduct a gender diversity and

[94] "Robust" refers to a system that is effective, accessible, responsive, and transparent. Please see: (i) annex 1 (description of intermediate indicator on requirements on corporate governance and citizen engagement mechanisms under RA1) for overall principles and activities which will be included under the requirements/guidelines for robust and functional GRM/complaints management system; (ii) annex 2 (description and verification of DLI1 and DLI2) and annex 3 for further details on how the eligibility criteria and requirements are expected to be rolled out under the DLIs (linking the allocation of PBGs to the WSS utilities to their compliance with the requirements in year 3+); and (iii) annex 6, which includes the development of the requirements as a PAP measure.

[95] Utilities can use digital one-stop software such as the GIZ-supported customer service portal (https://www.shuk.al/) to facilitate the functionality of the system, among other measures. The Program may also finance customer satisfaction surveys to establish a baseline that can be monitored over time.

[96] A baseline survey may also be undertaken by the relevant WSS utility or municipality.

[97] The Bank will support this development in collaboration with the Governance Global Practice and the Social Sustainability and Inclusion Global Practice of the World Bank (using the SECO-financed BETF).

[98] *https://www.worldbank.org/en/topic/water/brief/inclusive-water-institutions-platform*.

inclusion assessment.[99] They will then develop a proposal for human resources management and development according to assessment results. Use of a National Professional Certification program is expected to foster further career opportunities and increase women's participation in the sector, particularly in middle, upper, and top management positions. Utilities will be required to report on the implementation of gender actions (as part of DLI2) and changes in gender composition at management level. A dedicated indicator will monitor to what extent women are filling newly created or existing management positions (that become vacant), aiming for 40 percent.

B. Results Monitoring and Evaluation

55. The operation will finance specific activities to utilize and build on the existing M&E system to capture timely, relevant, and reliable information on implementation progress and results. All WSS utilities will be required to share indicators on utility performance across different dimensions in a new information platform.[100] The M&E system will also capture service delivery indicators, including on grievance redressal by the WSS utilities and citizen feedback. AKUM will be responsible for designing and implementing the APA process to check that the WSS utilities receiving the PBGs are abiding by the guidelines and to monitor achievement of targets agreed on in the performance agreements. An independent verification agent will also verify that the APA system is fulfilling its purpose (see verification protocol for DLI2 achievement under annex 2 and eligibility criteria for the grants under annex 3). The MoIE, through the PMU, will be responsible for the overall M&E of the national strategy and report to the Bank on the Program results framework, coordinating as appropriate with AKUM. The verification agency will review the status of DLI achievement under all the three RAs, as well as financial management, WSS utility performance, and other key activities. Training and capacity building in M&E will be provided to the PMU within MoIE.

C. Disbursement Arrangements

56. **Disbursement arrangements.** Disbursements will be made based on verified results, as measured by DLIs. For each DLI, allocated amounts, baselines, yearly targets, requirements of achievement, advance payments, prior results financing, deadlines for achievement, and determination of the amount to be disbursed have been defined (see annex 2). The GoA will be asked to demonstrate, through regularly prepared financial statements, that the Program's net expenditure is equal to or more than the amount of the Bank's Program financing. The Program's financial statements will be audited annually by the national Supreme Audit Institution (SAI). Prior results financing amounting to a maximum of US$3 million is envisaged for this operation.[101] It is also expected that there will be advances[102] of up to US$14 million (22 percent of loan amount for advance payment based on cash flow needs assessment and prior results in total) to ensure that activities are implemented in a timely manner. The amount of the advance and the specific DLIs to which it relates

[99] The *Equal Aqua* survey supports utilities to assess barriers to employment along four dimensions: attraction, recruitment, retention, and advancement. The *Equal Aqua* platform offers solutions to addressing barriers along each of the dimensions through several concrete actions.
[100] Without jeopardizing any additional information requirements by ERRU for tariff regulation purposes.
[101] Prior results will be connected to the grants provided by the GoA to the utilities for operational expenditures for COVID-19 impacts against the eligibility criteria set in the 2020 and 2021 guidelines (undertaken by the GoA in budget year 2020 and 2021).
[102] Following loan effectiveness, the Borrower may, in accordance with provisions of the loan agreement, request advances of amounts of the loan allocated to DLIs that have not yet been achieved. The World Bank records an amount of the advance as disbursed for an achieved DLR ("recovered") after it has notified the Borrower of its acceptance of the evidence of achievement of the DLR for which the advance was provided. The amount so reclassified becomes available for further advances.

will be indicated in each withdrawal application. The disbursement deadline date will be six months after the closing date stated in the loan agreement.

D. Capacity Building and Technical Assistance

57. **Investment Project Financing (IPF) component.** The proposed IPF component will provide financing for the following activities: (i) TA and capacity building in support of the three RAs of the PforR Program, including energy audits; (ii) strengthening of capacities within central-level sector institutions for Program management, implementation, and monitoring; and (iii) verification of DLIs, program audits as relevant, and M&E of results. The TA and capacity-building activities to be funded by the IPF are additional and complementary to the activities and results to be undertaken and achieved by the implementing agencies under the PforR, and they will support and strengthen the achievement of the Program's objectives and their sustainability.

58. **The TA needs for implementation of the government program and the national strategy have been estimated at around US$10 million during the period 2020–25.** The trust-funded IPF will allow the GoA access to predictable financing to develop and implement priority measures identified to attain the strategic objectives of the National Strategy, addressing financing and capacity constraints as donor grant funding will be used to finance TA and capacity-building activities. These are additional and complementary to the activities and results to be undertaken and achieved by the implementing agencies under the PforR. The list of activities and TA for which the IPF would provide financing, and implementing agencies responsible for the implementation, are detailed in annex 8.

59. **A national training and test-based certification program** is already underway.[103] A National Board of Certification was established under the leadership of the MoIE in 2019. AKUM administers the certification program and acts as a secretariat to the Board of Certification.[104]

60. **Capacity-building approach.** The Program expects to build on standardized approaches developed at the regional level through donor-funded programs and by other stakeholders, including national local government associations and SHUKALB. Partners include the International Association of Water Service Companies in the Danube River Catchment Area (IAWD),[105] Water and Wastewater Works Association of Kosovo (SHUKOS),[106] and others under the DWP and the Danube Learning Partnership[107] (D-LeaP, financed by the Austrian government), as well as the Regional Capacity Development Network (financed by SECO). Further details are provided in annex 8.

IV. ASSESSMENT SUMMARY

61. **The PforR lending instrument uses three assessments undertaken by the Bank as the basis for appraising the Program's** technical, fiduciary, and environmental and social aspects.

62. **One major requirement of the assessment process is to measure the government's program against the requirements of a PforR that are laid out in the applicable Bank's operational policies.** Where the assessments reveal areas requiring strengthening of the government's program, the PAP includes measures to address the issues concerned. This section reports highlights from the three

[103] Based on MoIE's Instruction no. 660, dated September 28, 2018.
[104] Based on the Instruction no. 660.
[105] International Association of Water Service Companies in the Danube River Catchment Area.
[106] Water and Wastewater Works Association of Kosovo.
[107] D-LeaP, https://www.d-leap.org, https://www.iawd.at.

assessments (more detailed summaries are included in annexes 3, 4, and 5). The PAP is included in annex 6.

A. Technical (including program economic evaluation)

63. **Strategic relevance and technical soundness.** The Program promises strong economic and social benefits. To increase the cost-effectiveness and sustainability of investments, findings from the technical assessment under the three RAs are highlighted below.

64. **The proposed operation focuses on improving access to safely managed water services** and not on on-site sanitation facilities, given two considerations: (i) the already existing high coverage levels of flush toilets and on-site sanitation facilities in rural areas, as per recent analytical work; (ii) the fact that the MoIE is working with SIDA (with EU support) on a Directive Specific Implementation Plan to comply with the EU Urban Wastewater Treatment Directive (UWWTD). The UWWTD has very specific requirements for decentralized individual systems on which there is a need to build consensus and capacity established at the national level before undertaking a significant investment Program for on-site sanitation infrastructure (which is the responsibility of households under the current regulatory framework). The focus of the proposed operation is hence on the overall policy and financing framework, in a stepwise approach to tackling the sanitation challenge. The Program supports the development of guidelines for households' on-site sanitation, which will be consistent with the work to be done by MoIE with SIDA's support and which could be the basis for a national plan for on-site sanitation. Investments in wastewater management infrastructure are also not included, given the financing programs of EU, KfW, and SECO.

65. **WSS tariffs and targeted subsidy mechanisms.** The ERRU's review of the existing tariff-setting methodology is aligned with the government's sector financing policy and specifically with the following principles: (i) tariffs must reflect the costs of operations and aim to cover them (in a situation of efficiency); and (ii) respect affordability thresholds.[108] The government's policies aim to increase the number of utilities that cover at least the direct operating costs and gradually also depreciation and interest. The GoA program of priority measures is expected to gradually improve cost recovery to secure long-term viability of WSS utilities. These includes a combination of enhanced operational efficiency, investment support, and increases in revenues from tariffs. The financial policy adopted by the government in 2016 foresees an increase of 75 percent of the water tariff from 2019 to 2030 to improve the financial sustainability of water utilities. The preliminary analysis undertaken at the time showed that the average tariff evolution to meet this overall increase remained below the affordability threshold during the entire period, even for the poorest 10 percent of the population. However, additional analysis on affordability thresholds to consider resulting social risks is being undertaken by ERRU to explore additional tools to protect vulnerable households given the widespread impact of the COVID-19 crisis on household incomes. Tariffs could become a more important funding source for the sector in the future to sustain the implementation of the National Strategy for WSS, but additional targeted subsidies may need to be considered to ensure that connection barriers of the poor are addressed, to support the costs of connecting to the services, paying monthly bills, or to overcome behavioral barriers.[109] In addition, any tariff increases should be accompanied by improvements by the WSS utilities in the levels of service and adequate information, education, and communication

[108] In line with international practice, the reference for affordability is the water bill constituting no more than 5 percent of household income for the poorest decile of households.

[109] World Bank (2018), *Beyond Utility Reach? How to Close the Urban-Rural Access Gap*, a review of rural water and sanitation services in seven countries of the Danube Region. For Albania, the study reveals that barriers to connect are mostly physical proximity to the main systems, as well as high satisfaction with existing self-supply solution and perceived low quality of services offered by the utility. Affordability of tariff and connection costs were hardly mentioned.

(IEC) activities and behavior change communication (BCC) to ensure social acceptance. The IPF component will support these activities. Their undertaking has been included under DLI5 definition of "functional" connection.

66. **Energy efficiency interventions.** Under RA2, walk-through energy audits at four utilities (Vlore, Durres, Elbasan, and Belsh) highlighted their water pump inventory, operational features, energy optimization practices (such as power factor correction), and renewable energy generation potential through solar (photovoltaic, PV) systems. Based on the preliminary assessment at the four sites (which represent 40 percent of connected load and annual consumption), preliminary savings of around US$3.6 million a year have been identified, with payback period of less than six years. Under the IPF component, energy and water audits will focus on energy efficiency, as agreed with MoIE/AKUM. Resulting activities could be supported by utilities' participation in the D-Leap Energy Program,[110] which builds on local and regional capacity-building mechanisms, developed over years of Bank engagement in the region. Further steps include the positioning of WSS utilities as "prosumers," and the development of a revolving fund facility for demand- and supply-side interventions. The assessment of potential for solar PV installations in water utilities has been included in the generic TOR for energy audits.

67. **GHG reduction.** The energy efficiency interventions prioritized in policy guidelines for capital investments under RA1 (linked with DLI1) and undertaken under RA 2 (linked with DLI2 and DLI3) are expected to yield energy efficiency savings of up to 25 percent compared to a conservative baseline, reducing energy consumption by the relevant utilities by an estimated 20 gigawatt-hours (GWh)/year for total savings of 400 GWh over a 20-year period. This translates to GHG reductions of -17,200 tons of carbon dioxide equivalent (tCO_2eq). This is based on a grid emission factor of 43 grams per kilowatt-hour (g/kWh) due to Albania's energy mix for electricity production being almost entirely composed of hydroelectricity and solar PV, which accounts for one of the cleanest energy mixes for electricity production in the world.[111] Please see annex 3 and paragraphs 41–43 for additional information on energy generation by source.

68. **Climate change mitigation, adaptation, co-benefits, and GHG reduction.** The expected climate mitigation and adaptation benefits are based on specific activities supported under each of the RAs and rewarded by the different DLIs as follows: (i) the compulsory preparation of water safety plans by WSS utilities (introduced under DLI1 and rolled out under DLI2) will contribute to building resilience against climate change–related risks, such as droughts and floods; (ii) as stated in para 41(b), the foreseen investments under RA2 using PBG and capital investment grants (and rewarded by DLI2, DLI3, and DLI 4) focus on: rehabilitation and construction of water supply infrastructure to improve continuity of service (24/7), setting-up of DMAs, reduction of NRW and leakage, increased metering, increased energy efficiency at system level,[112] and other measures (expected to improve overall commercial and operational performance as well as levels of service, water and energy conservation, and overall resilience). In particular, given the high operating costs of existing diesel pumping systems, the investments are expected to adopt lower-cost energy efficiency pumps, which will have climate mitigation co-benefits through a reduction in fossil fuel usage,[113] (iii) improved operation and

[110] Developed in partnership under IAWD and SHUKALB under DWP.
[111] International Energy Agency profile for Albania, https://www.iea.org/countries/albania.
[112] Investments will generally include improvements in the pumping equipment, motors, and installments of capacitor banks and replacement of obsolete distribution transformers to correct the power factor.
[113] As described in para. 60, subject to more detailed due diligence to be undertaken under foreseen energy audits and any required additional environmental analysis, RA2 could also finance solar PV pumping technology (mostly linked with disbursements under DLI2 and DLI3).

maintenance (activities incentivized through the Program will further reduce water losses),[114] increased efficiency in the use of the water resource (and proper management of wastewater discharges by WSS utilities, with regard to water quality), as well as increased efficiency and reduced use of energy[115] (and, therefore, energy costs). The investments in NRW reduction, the introduction of metering, the application of modern business tools, and better financial and operational management (including better maintenance of water supply infrastructure) will hence increase the volume and quality of available water, building resilience to climate change–related droughts (including investments under RA3); and (iv) improved resistance to flooding is expected to be gained through improved construction standards for water supply systems considering the risk of landslides for water supply systems in rural areas under RA3 and improved standards for on-site sanitation facilities (which will help decrease the number of uncontrolled discharges to receiving bodies including groundwater resources and reduce the volume of contaminated floodwaters in case of flooding). The new standards will be included in the guidelines to be developed under RA1 (DLI1) and their application will take place under RA3 (DLI5).[116] The feasibility studies and engineering designs (financed under the IPF) for the program's investments are expected to include building resilience to drought, flooding, and sea level rise.

69. **Regarding the level of actual investments under the Program that will generate climate change–related benefits,** it is worth noting that while DLI3, DLI4, and DLI5 reward outcome-level results (output-level in the case of DLI5), their achievement will require investments (included in the program of expenditures) through financial instruments developed by the central government under DLI1 and the subsequent annual allocation of resources based on the APA process and compliance with eligibility criteria (reflected in DLI2). However, although the process of criteria and performance-based public resources allocation is reflected in DLI2 with an allotment of loan proceeds of US$25 million, the expected actual capital investment expenditures under the Program's RA2 far exceed this amount.[117] So, although DLI3 and DLI4 reward outcome-level results, driving the disbursements of the central government from the Bank loan, the proceeds allocated to these two DLIs will be utilized by AKUM to fund projects at the local level in NRW reduction and energy efficiency among others (prioritizing measures and investments that enhance both cost recovery and levels of service). This results-based approach will build the foundation for driving the WSS utilities to seek further efficiencies, improved resilience (financial, operational and climate change risks/impacts), and reduce life-cycle costs. Please see annex 3, para. 43, for a summary table highlighting the activities within each DLI associated with climate change adaptation and mitigation activities.

70. **New access to water supply services.** The Program will support the expansion of services in peri-urban and rural areas through piped networked water systems, which can be decentralized in nature or through additional connections to existing systems. Existing "informal" systems will be upgraded (e.g., with water treatment,[118] rehabilitated, and connections expanded, and the system will be brought under utility management). This process needs to be accompanied with intensive social mobilization to ensure rural communities will connect and local support and contributions are leveraged.[119] Moreover, during preparation of eligibility criteria for investments under RA3,

[114] Estimated savings of 35 million m^3 per year.
[115] Estimated savings of 20 GWh/year.
[116] See para. 42 of this PAD.
[117] These are expected to be of US$101 million (with US$45 million of Bank financing including disbursements under DLI2, DLI3, and DLI4, and US$56 million of GoA financing).
[118] Around 60 percent of 15 local water systems surveyed did not have any treatment (World Bank 2018).
[119] Specifically, in the north, local systems may still not be transferred to the balance sheet of utilities.

decentralized service delivery options will be considered for dispersed and remote rural areas where networked systems are nonviable.

71. **Social inclusion.** Increasing tariffs to accommodate investments may have social implications. Tariff structures and levels will need to be evaluated by ERRU to avoid an overly high burden for low-income users and other vulnerable groups and should be easy to understand for all users, accompanied with outreach. Around 20 percent of the rural population has no piped access at home, requiring fetching water from local springs and wells. Specific barriers may exist for households to connect to centralized systems (requiring costs for indoor plumbing and connection to the main lines) or improved self-supply arrangements. Measures for such rural households will be designed. At the same time, barriers for disadvantaged and vulnerable groups to gain access to a piped household connection will be reduced by promoting an existing financial support scheme that is currently underused by utilities. As per Council of Minister Decision no. 18, dated January 12, 2018, water utilities are reimbursed by the central government for the cost corresponding to connecting and installing the meter for households which fall under the vulnerable category, based on prior categorization made by the LGU. DLI5 includes incentives for new connections for vulnerable households eligible under this scheme. Regarding affordability of monthly bills, the Program will explore subsidy mechanisms for the first 40 liters per capita per day for these households (which is a proposal in the proposed new sector law). Some challenges noted were (i) social workers and certain ethnic groups, including some Roma communities, are sometimes not aware of the water support program by MoIE for new connections/meters; and (ii) there is a need to effectively disseminate information and encourage local governments and utilities to apply to the scheme.

72. **Non-infrastructure measures targeting Roma minorities with awareness campaigns and community mobilization, will be delivered using IPF funds.** The gap in piped access is large between Roma and non-Roma neighbors, and Albania hosts an estimated 80,000 to 150,000 Roma (around 2–4 percent of the population).[120] However, investments in poor or rural communities may not automatically benefit Roma. A qualitative assessment to understand factors of Roma exclusion in access to WSS services was undertaken during preparation with three utilities (Tirana, Elbasan, and Gjirokaster) given high Roma concentration in these municipalities, both from a utility perspective and from the Roma population. Infrastructure interventions in informal settlements are not envisaged under the PforR, given legal and other complexities. However, under the IPF it is planned to support: (i) inclusive business planning and community outreach and engagement by utilities as part of the requirements of business plan development, where the location and conditions of informal settlements are required to be documented and a solution to provide essential services proposed; (ii) communications support to disseminate social support/subsidy scheme for WSS among municipalities, to increase their uptake to finance connections to Roma and other vulnerable households; and (iii) targeted support for community outreach (involving community facilitators/informants as recommended by the assessment) and behavior change for a subset of utilities with high concentration of Roma minorities, to ensure Roma benefits from the same level of information as others especially for their rights and obligation on access to basic sanitation and clean water. The overcrowded living conditions in these informal dwellings makes it very difficult to apply crucial hygiene measures, such as regular handwashing, as well as social distancing and isolation measures in the face of COVID-19. The idea is to support local governments to establish an appropriate communication channel with the communities whereby a solution to provide access to safe water to these areas can be worked out, with potential support from the central government under other investment or social support programs.

[120] World Bank (2019), *Breaking the Cycle of Roma Exclusion.*

73. **Program of expenditures.** Most of the expenditures under the Program will be executed using existing budget codes within AKUM's current MTBP (2021–23), and expenditures can be captured by financial reporting and auditing. The planned expenditures under RA3 might require the creation of new budget codes in future MTBPs of AKUM, however the existing budget code for capital investments could be utilized as well. Given that activities under RA2 and RA3 will be demand based (and budget allocation subject to compliance with eligibility criteria, and/or performance will be results based), the planned expenditures will be reflected on an annual basis in the annual workplan to be submitted by AKUM to the Bank (this is an action under the proposed PAP, see annex 6). Table 6 shows the PforR Program of Expenditures by Results Area and Financing Plan.

Table 6. PforR Program of Expenditure and Financing Plan

	NWSSMP	
Program of Expenditures by Results Area	**US$**	**%**
Results Area No. 1: Strengthening the National Sector Framework	14.20	10.52
Results Area No. 2: Improving Operational and Financial Performance of WSS Utilities	100.80	74.67
Results Area No. 3: Closing the Gap toward Universal Access to Water Supply Services	20.00	14.81
Total	**135.00**	100.00
PforR Financing Plan (US$135 million)		
GoA	60.00	44.44
IBRD	75.00	55.56
Total	**135.00**	**100.00**

74. **Financial sustainability.** Albania's macroeconomic and policy framework is assessed as adequate for this operation, even though the current MTBP 2021–23 estimates do not totally align with the proposed NWSSMP. Based on the MTBP, Program expenditures of US$135 million[121] will require increased fiscal budget allocations to the sector in an amount of around US$56 million over the next five years (based on MTBP 2021–23) to achieve the planned Program results. In principle and based on government commitments made under the sector financing policy and trends regarding the state budget allocation to the sector in the last few years, this amount is assessed as realistic over a five-year horizon. However, the recent global crisis has increased budgetary pressures, so there could be a risk that costs required to implement activities in support of the achievement of the DLIs may not be fully funded by the state budget allocation to MoIE/AKUM regardless of World Bank financing availability. The government has confirmed this is a priority program, and growth is projected to rebound over the medium term, with low inflation and improving fiscal and external balances underpinned by prudent macroeconomic management and structural reforms (some of which are supported by a recently approved Development Policy Financing and other World Bank operations). Nonetheless, the outlook is highly vulnerable to external and domestic risks. Most notably, a key risk for projections is the evolution of the pandemic, necessary changes in public health restrictions, and behavioral responses by the public. As a small, open economy, Albania is highly exposed to external shocks, such as slower growth in the European Union or further tightening of financing conditions in international capital markets beyond the current year. Economic growth is also dependent on the progress of Albania's EU accession process, which is a key anchor for the country's structural reform agenda and macroeconomic framework. On the domestic front, improving the efficiency and equity

[121] The additional budget required for the first two years of program implementation is at US$6 million, scaling up to around US$15 million annually for the remaining years.

of public spending and revenue mobilization will remain priorities to reduce high debt levels, create fiscal buffers to address shocks, and improve the delivery of public services. Sustaining inclusive growth will require addressing structural challenges related to the rule of law, the business environment, energy security, and human capital.[122] The proposed operation supports, directly and indirectly, most of these agendas.

75. In terms of the overall WSS sector financing and its financial sustainability, tariffs will be the main source of financing for O&M expenditures in the short term, complemented by subsidies for operational expenditures from the state budget. Gradually, over the course of the Program's implementation, it is expected that the level of O&M coverage from tariff revenues will exceed 100 percent, so tariff revenues could increasingly be used as an additional financing source for required sector investments. The overall government expenditure framework allows the alignment of the policy objectives and intended results from government strategies (national targets set by MoIE), and a defined resource allocation through the main implementing entity (AKUM).

Economic (and Financial) Evaluation

76. **Economic impact of the Program.** An economic evaluation was conducted to test if the Program's investment is justified, that is, if expected benefits surpass the costs. This covered all areas under RA2 and RA 3, which represent 87 percent of the total cost of interventions to be financed under the Program. These are (i) the efficiency and performance of utilities, (ii) their financial sustainability and affordability (RA1), and (iii) the access and quality of WSS services in rural zones (RA3).

77. **The economic evaluation was carried out using cost-benefit analysis.** The net benefit was measured as the difference between incremental benefits and incremental costs of two scenarios: *without* and *with* the Program. The economic benefits were measured using a variety of approaches. Benefits from service expansion in rural areas were measured through the avoided cost approach, comparing coping costs under both scenarios. Benefits from the improvement in efficiency and performance of the utilities were measured as increased revenues plus expected cost savings. Benefits from financial viability were measured as the increase of revenues that will allow WSS utilities to self-finance their activities and reduce the government's fiscal burden.

78. **The Program is designed as a PforR instrument, in which the disbursements will flow when the results specified under a set of DLIs are achieved.** This instrument has associated risks, which were measured in the economic evaluation through sensitivity analysis. A discount rate of 6 percent was applied to translate the future benefits and costs of the program into present-day terms. Sensitivity analysis also incorporated variation in the discount rate to account for the country's long-term growth prospects. The evaluation was conducted using a lifetime period of 30 years for the rural interventions, and 10 years for the efficiency and the financial viability of the WSS utilities.

79. **Results of the economic evaluation showed that the Program will yield positive returns.** Expected benefits will be about twice as much as costs. The expected return will be 20 percent and expected benefit from the program is estimated at US$78 million. All the areas included in RA2 show positive returns in a range of 9 percent for the rural interventions to 28 percent for the NRW. Even if the evaluation includes 72 percent revenue collection rate in the NRW activities, the expected return would be 16 percent.

[122] From *Fiscal Sustainability and Growth Development Policy Financing*, Program Document.

80. **WSS sector financial sustainability is achievable if tariff reform is implemented together with an increase in tariffs and efficiency.** If tariffs were increased overall by 5 percent, the investment would be justifiable and operating cost coverage would be 113 percent. The higher the increase, the better the benefits and expected returns. With a 10 percent increase of tariffs, expected returns would be 22 percent, and operating cost coverage 118 percent. If the revenue collection rate increases to 82 percent, expected returns would be 32 percent.

Table 7. Results of Economic and Financial Evaluation

Economic Evaluation	***Present Value of Flows (000 US$)***			
	Costs	**Benefits**	**Net Benefit**	**IRR (%)**
Access to and quality of WSS in rural areas (RA3)	21,376	29,419	8,043	9
Efficiency and performance of water utilities (RA2-DLI2)				
Energy efficiency	9,791	13,562	3,771	13
Nonrevenue water	38,252	104,563	66,311	28
Total	69,420	147,545	78,125	20
Financial Evaluation				
Financial sustainability and affordability (RA2-DLI3)				
10% increase tariff and 76% current collection rate	24,416	48,549	24,133	22
10% increase tariff and 82% revenue collection rate	24,416	71,067	46,651	32

81. **Additional benefits of the Program, which were not quantified, include a decrease in waterborne diseases, and increased resilience to climate-change-exacerbated floods.** Sensitivity analysis confirms the robustness of the Program.

82. **The economic evaluation was complemented by an analysis to measure the impact of the Program on GHG emissions.** Results show that expected savings of 25 percent from energy efficiency under DLI3 will translate into GHG reduction of 860 tCO_2eq per year, or 17,200 tCO_2 during the economic lifetime. The shadow price of carbon (US$80 per tCO_2 and US$40 per tCO_2) was used to value the net reduction of GHG emissions. Net present value shows benefits between US$0.5 and US$1 million.

83. **Rationale for public provision and/or financial support.** Currently, water utilities receive considerable direct budget subsidies, guaranteed debt, and budget support in the form of loans with sovereign guarantee for financing of investment projects and coverage of negative operating cash flows. Despite the financial help that utilities receive, the service is poorly provided and the gap between urban and rural areas is wide.

84. **The GoA seeks to improve WSS service delivery to improve the well-being of the population, while lightening its fiscal burden.** The Program targets the use of public funds efficiently to improve water management and financial autonomy of utilities. The scheme of PforR will warrant that public funds are only channeled to those utilities that achieved the expected targets. Additionally, under the efficiency activities, it is expected that utilities improve their efficiency relying less on public funds. The efficient use of public funds will not only benefit individual households but also will boost the economy when reliable service delivery is available. Private funds will have incentive to invest and create job opportunities, which in turn will alleviate poverty.

B. Fiduciary

85. **The Program's fiduciary systems are considered adequate to meet the requirements under the Bank's policy and directives.** The assessment provides reasonable assurance that the financing proceeds will be used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability, subject to implementation of the recommended fiduciary actions as outlined in the PAP (that will be monitored throughout the Program's implementation). The assessment scope covered the Program's institutional framework and anti-corruption aspects, systems, and fiduciary capacity of the key institutions directly responsible for the Program implementation: MoIE, AKUM, as well as local government institutions (sample selection of municipalities and utilities). The Fiduciary Systems Assessment (FSA) includes a summary of identified key risks and respective mitigation measures, together with institutional strengthening actions reflected in the PAP, of which details can be found in annex 6.

86. **All procurement of TA under the IPF will be conducted through the procedures specified in the World Bank's Procurement Regulations for IPF Borrowers dated July 2016, revised November 2017, August 2018, and November 2020.** A draft Project Procurement Strategy for Development and Procurement Plan have been prepared and will be finalized by negotiations. The IPF will be implemented by AKUM supported by a PCU that will the fiduciary aspects of IPF implementation. The procurement processes will be tracked through the Systematic Tracking of Exchange in Procurement system.

Financial Management

87. **The Program budgetary process will require strengthening and appropriate oversight.** While the process is adequately regulated for all levels of public budget, including the budget calendar which integrates all the stages of budget planning, budget preparation, scrutiny, and approval, the working mechanisms in place, do not assure the link between the existing/planned sector strategies and MTBP submissions. In practice, the budget development process is largely driven by demands for spending, as opposed to resource availability and prioritization. In addition to setting up appropriate budgetary output codes that reflect Program boundaries, for proper Program monitoring, it is critical to implement measures that strengthen the budgetary processes within the sector and Program in particular. This includes strengthening the data collation and validation and analysis underpinning program budget formulation within AKUM/MoIE, improving forecasts and monitoring reports, and ensuring the Program budget aligns with the approved annual work plan. The establishment of a unit at the MoIE level (refer to PMU) will complement these efforts.

88. **The Program will rely on the existing treasury management and funds flow arrangements applicable to Government WSS program.** The loan will be disbursed upon achievement of the DLIs. Evidence of achievement will be based on the MoIE's, AKUM's, and/or the other implementing agencies' respective technical documentation and will be verified by the IVA following the Verification Protocol. The Bank will review the documentation submitted and will reserve the right for further due diligence on the robustness of data as needed. After the Bank formally considers the DLI(s) met, it will then issue an official letter to the GoA confirming the achievement of the DLI targets and the value of disbursement. For the disbursement of the respective amount, the Borrower will submit a Withdrawal Application, accompanied by the Bank confirmation letter on achievement of the DLIs. The funds will be disbursed in the Treasury Single Account. The Program funds will be distributed to AKUM, and participating municipalities and WSS utilities, through the standard government budget planning and execution process. The modalities that will determine whether municipalities or utilities will procure, implement, and in tandem, release the payments to contractors, will be defined in the relevant

guidelines (performance based, COVID-19 subsidy, CAPEX, regionalization incentive) that will be developed and included as part of the POM. For the subsidies received from central government, the WSS utilities release payments through the treasury system, similarly as with budgetary institutions, whereby they will receive the annual allocations granted under their specific institutional code (in the system). The payment is enabled by the regional Treasury District Offices, upon deposit of authorized signatories and submission of relevant evidence.

89. **The government's accounting and financial reporting systems are overall adequate with adequate records to be maintained for the Program.** The current financial reporting arrangements will require improvements in terms of content and processes. To monitor separately Program budget formulation and execution, as well as for financial reporting purposes, new specific budget output(s) will be created based on the Program of Expenditures boundary. In addition, it has been discussed that for the capital expenditure, separately identified project codes will be maintained. The Program financial statements will include all budget lines, associated with the Program, and respective spending (annual and cumulative), as well as program liabilities. The template reports and financial statements will be agreed and included in the POM.

90. **The High State Control, the Albania State Audit Institution (SAI), will be responsible for an annual financial audit of the Program financial statements.** The audit of Program financial statements will be carried out according to the TOR that would be discussed and agreed between the MoIE and High State Control, Albania State Audit Institution, guided by the World Bank to ensure adequacy and acceptability. The audit reports will be submitted to the Bank within nine months from the end of the fiscal year.

91. **Generally, there is a sound legal base for public sector financial management and control. However, weaknesses are noted in their implementation at all levels.** The gaps identified relate to lack of written procedures, lack of adequate systems, and limited staff capacities and skills. There is also a need for increased clarity of responsibilities and seamless coordination between parties for Program implementation and financial management and control. Recently, AKUM has been working on the development of job descriptions, manual of processes, and implementation of a performance monitoring system for WSS utilities. However, once endorsed, the implementation of the given requirements would require proper staff training, and proper monitoring and oversight at the management and MoIE level. On the other hand, the Program will introduce enhanced performance-based and CAPEX grants mechanism for the WSS utilities. In this regard, detailed guidelines and procedures will be prepared and endorsed for the APA and grant administration, and related capacity building will be supported by the IPF component. Furthermore, the POM will address other gaps identified in the control environment.

92. **Generally, weak corporate governance, accountability, control framework, and financial reporting are observed across water utilities.** Existing monitoring and disclosure requirements for WSS utilities are insufficiently developed and poorly integrated into the government's overall budgeting and reporting. Furthermore, corporate governance of WSS utilities is hindered by shortcomings in the legal and institutional framework for the appointment of management/board members. There is generally weak financial management capacity across utilities; adequacy and effectiveness of internal controls procedures is questionable; external auditors do not seem to be properly assessing the quality of financial information produced by water utilities; and transparency requirements are not being complied with. Continuous capacity building and institutional strengthening of the utilities' key managers and staff are required to address the above shortcomings and will be supported by the IPF.

93. **Investment project financing component.** Responsibility for the project's financial management and disbursement will remain with AKUM/PCU under general supervision of the MoIE. The funds will be disbursed following standard IPF disbursement procedures, including advances, reimbursements, and direct payments and special commitments. A segregated designated account denominated in grant currency will be opened at the Bank of Albania. The advanced funds, earmarked for the proposed grant activities, will be transferred to project bank accounts for project use. Project eligible expenditures will be documented through statements of expenditures and records, with financial management requirements included in the Disbursement and Financial Information Letter: (i) quarterly project interim unaudited financial reports, in the agreed form and substance, will be submitted to the Bank no later than 45 days after the end of each quarter; and (ii) annual project financial statements will be audited by independent auditors acceptable to the Bank and based on international auditing standards, and the audited financial statements will be presented to the Bank no later than six months after the end of the fiscal year and made publicly available in a manner acceptable to the Bank.

Procurement

94. **The legal framework for procurement (Public Procurement Law, PPL) and secondary legislation is clearly established and provides the elements needed for a functional decentralized procurement system.** The newly adopted legal framework on public procurement entered into force on March 30, 2021, and is largely in line with 2014 EU directives procurement, and relevant administrative and budget provisions. The new PPL: (i) provides further assurance of alignment with EU procurement directives; (ii) introduces most economically advantageous tender award criteria in addition to lowest price; and (iii) formalizes contract amendment procedure up to 20 percent of the original contract amount by reducing the number of negotiated procedures without publication (direct contracting) used frequently for contract amendments that have not been foreseen under the previous legal framework.

95. **Performance and effectiveness of public procurement in the water sector could be significantly improved.** There is no methodical approach or consistency in the way procurement planning is carried out by the WSS utilities/municipalities or how the procurement needs are defined. Generally, procurement is conducted within the timeline indicated by the law and regulations. However, it is noted that the time to process the complaints generates delays in the procurement process. The average number of competitive bids received per tender varies depending on the type of procedure. For open competitive bidding (applicable for large investment projects) the number is almost three bids per tender. For a long time, the contract management phase was not regulated by the previous PPL, therefore monitoring contract implementation and maintaining records on contract administration were inadequate. Frequent contract addendums have been resulting in a significant increase on contract prices, which was an issue commonly reported by the Supreme Audit Institution. The new PPL is expected to address the shortcomings identified at the contract implementation stage which can be verified only after PPL provisions are implemented in upcoming procurement procedures.

96. **Procurement capacity differs among central-level and local-level contracting authorities.** Central-level institutions have more dedicated staff to deal with procurement processes such as line ministries or their subordinated institutions, where usually a procurement unit of at least three people is typically found. Municipalities and utilities have a limited number of staff assigned to procurement, with minimal experience in large investment projects. At the central level the PPA has adequate human and financial resources to satisfactorily discharge its duties with 15 percent of vacancies, while

the Public Procurement Commission (PPC) has 20 percent vacancies, making it difficult to cope with the growing number of complaints within the legal deadline.

97. **The complaint review mechanism carried out through PPC has become independent** following legal amendments enacted by the Parliament in April 2017. However, staff constraints are among the factors behind a growing workload, generating delays in the decision-making process of the PPC. Almost 23 percent of complaints in the water sector during 2018–21 were related to procurement procedures conducted by contracting authorities operating in the sector (AKUM and WSS utilities) and 45 percent of these complaints have been accepted by PPC with an average of 45.2 days to process and rule a claim.

98. **Large contracts valued at or above the Operational Procurement Review Committee (OPRC) thresholds are not envisaged under the Program.** Procurement activities are envisaged to be carried out only under RA2 and RA3 of the PforR that will disburse capital investments to improve or build water supply infrastructure for 24/7, DMA set-up, NRW reduction, metering, energy efficiency investments in the utilities with the greatest energy consumption, and investments to increase and improve access to water supply services in underserved areas (including rural areas). Therefore, the procurement procedures to be conducted under the Program are relatively standard works contracts, supply of equipment, and consultancy services as needed to support the investment projects. None of the planned procurement activities, based on their estimated values at the time, will require review and approval of the OPRC.

Fraud and Corruption

99. **To address the possibility of fraud and corruption during implementation, the Program will rely on relevant country systems.** The Ministry of Justice through its General Directorate of Anti-Corruption will be responsible to promptly inform the World Bank and report periodically on all credible and material allegations or other indications together with investigative and other actions that the Borrower has proposed. The World Bank will retain a right to investigate allegations, and the Borrower will provide the World Bank the necessary access to needed persons and information. The implementing institutions of the PforR Program and Ministry of Justice through its Anti-Corruption General Directorate will provide full support to the World Bank when carrying out investigations related to fraud and corruption allegations made during Program implementation.

C. Environmental and Social

100. **The anticipated negative environmental and social effects of the Program are not expected to be significant.** While the Program focuses on functionality and rehabilitation of existing facilities and services, it also aims to finance limited civil works to expand services of water supply for underserved urban and rural areas. The Program will have indirect positive environmental impacts, 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 wastewater management, and a decline in waterborne diseases.

101. **Adverse environmental impacts are possible during the construction and implementation phase under RA2.** These include construction works impacts on ground water, surface water, and soil at the contractor's yard. Impact can also result from excavation and generation of surplus soil, erosion due to excavation/refilling, impacts due to construction at source, impacts on ambient air quality due to dust generation, and impacts on air quality due to emission from vehicles. Removal of vegetation/trees for construction and impacts due to presence of open trenches, possible

contamination of surrounding environment with asbestos from asbestos water supply pipes when pipes are removed or altered in the process of expanding water connections. This specific risk will be addressed by the development (by AKUM) of a protocol for WSS utilities to cover the detection, removal, and disposal of asbestos pipes, and provision of training by qualified entities in this area. This protocol will be included in the Environmental and Social Standard Operating Procedures (SOPs) laying out the review and acceptance criteria and indicators to monitor performance during implementation. The SOP will also cover the mitigation of construction risks through appropriate arrangements in the relevant contract documents and supervision from technical and environmental experts (at local level and by AKUM).

102. **Some social negative effects related to some parts of the Program such as RA2 and RA3 include risks related to temporary or permanent land acquisition during the expansion of water connections and construction of new water supply facilities.** Part of the TA will be oriented to capacity building to implement land acquisition process according to the World Bank standard. Other risks are related to aggregation, the process by which two or more WSS service providers consolidate some or all 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 because 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. Part of the TA will look at the working and outreach of the WSS utilities and supporting the process.

103. **The social benefits of Program interventions are expected to start with improving the capacity of implementing entities and this will have substantial ripple effects.** 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 the 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—will also leverage investments from social institutions in improving their water, sanitation, and hygiene facilities in schools and health centers. This will directly contribute to human capital improvements.

104. **The Environmental and Social System Assessment (ESSA) was undertaken by the World Bank to ensure consistency with the six core principles outlined in the World Bank's Operational policy 5.04—PforR Financing.** The ESSA found that overall, the national regulatory framework and technical guidelines for environmental and social due diligence with respect to the Program are adequate from a legal point of view but there is a need for further institutional strengthening of the implementing agency MoIE and AKUM as well as WSS utilities. The previous Water Sector Improvement Project has helped in capacity building, but further support is needed. The Program will support hiring experienced personnel and training for the management of environmental and social risks and impacts both for AKUM and WSS utilities. The assessment focused on functional areas applicable to the Program such as: oversight of preparation of environmental instruments—environmental and social impact assessments, environmental and social management plans in water sector as well as resettlement/land acquisition; procedures for resettlement planning; scope of social assessment and/or social analysis; eligibility for compensation under resettlement and land acquisition programs; supervision; consultation requirement; stakeholder involvement in planning and implementation; communications and information disclosure strategies; GRMs; oversight and

monitoring, including indicators and funding of resettlement; rights, procedures, and requirements; vulnerable people such as landless or informal settlements; and social conflict. The results of the assessment have informed relevant actions of the PAP. The implementing agency will hire experienced staff knowledgeable on the above environmental and social issues. The draft ESSA was disseminated in-country for consultation with sector stakeholders on November 3, 2020 (to SHUKALB and the WSS utilities), and on November 6, 2020, with other relevant institutions at the central level. The ESSA was disclosed on the Bank's external website on November 10, 2020. Three rounds of virtual discussions to present the main ESSA findings and undertake questions and answers and of comments by the Bank team have taken place from November 23–25, 2020. In total, 18 WSS utilities participated (30 percent of the total target universe), with questions mainly on how they will be able to benefit from the Program, highlighting the relevance of carrying out communication and dissemination of Program-supported policies and activities during implementation, as agreed with MoIE and AKUM. Comments and feedback received will be incorporated and highlighted in a revised final version of the ESSA.

105. **The Program will not finance subprojects in the sensitive areas that pose significant environmental risk, or any physical or economic displacement.** However, there are certain inadequacies and gaps identified through the ESSA. The assessed weaknesses related to weak enforcement and compliance with existing laws, regulations, and guidelines governing environmental and social management. Additional weaknesses include: (i) inadequate attention to environmental, health, and safety concerns; (ii) land acquisition management and resettlement practices; (iii) inadequate screening of projects for environmental and social risks; (iv) quality assurance of environmental studies that have been conducted; (v) monitoring of the implementation of impact management recommendations; (vi) weak system for environmental and social management, systematic collection, and reporting of data; and (vii) weak coordination among agencies are other factors affecting the system.

106. **The ESSA analysis identifies strengths, gaps, and opportunities in the Albania environmental and social management system with respect to addressing the environmental and social risks associated with the Program.** The analysis identified the following main areas for action to ensure that the Program interventions are aligned with Core Principles 1, 2, 3, 4, and 5 of OP/BP 9.00 applicable to the Program: (i) defining a system for environmental and social management; (ii) technical guidance and institutional capacity; (iii) addressing capacity constraints; and (iv) improved systems for information disclosure and stakeholder consultation. The gaps identified through the ESSA and subsequent actions to fill those gaps are expected to directly contribute to the Program's anticipated results for enhancing improved access to water and strengthened institutional capacities for water delivery.

107. **The following key measures will mitigate some of the abovementioned gaps.** (i) A capacity-building plan, including provision for strengthening safeguards, screening, and monitoring arrangements, will be developed early in year 1 of Program implementation, as part of the IPF TA project and will be included in the POM. Central to this will be the mainstreaming of environmental and social capacity strengthening under the IPF technical support. (ii) Through the IPF-funded consultancy and the environmental and social staff of the PIU, the Program will support capacity building at the local and national levels. At the local level, capacity building will be provided to local governments and the WSS utilities whereby at the national level, training will be provided to AKUM and MoIE-relevant middle management and leadership. (iii) The Program's capacity-building plan will include measures for good practices on inclusion of vulnerable and disadvantaged communities in culturally appropriate consultations.

108. **Grievance redress mechanisms.** Communities and individuals who believe that they are adversely affected as a result of a Bank-supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program GRM or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank noncompliance 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 GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit http://www.inspectionpanel.org.

109. **The Environmental and Social Framework (ESF)** of the World Bank launched on October 1, 2018, will apply to the trust-funded activities under the IPF. The implementing agencies have prepared an Environmental and Social Commitment Plan, a Labor Management Plan, and a Stakeholder Consultation Plan to match the requirements under the ESF regarding Environmental and Social Standards which apply to the activities supported. These instruments were disclosed by the Bank on October 3, 2020; and disclosed and disseminated for feedback from stakeholders by MoIE on October 22, 2020.[123]

110. **OP 7.50 on "Projects on International Waterways."** The policy is applicable to this Program because the activities may involve the use of several international waterways that Albania shares with neighboring countries. The Bank team has determined that the Program qualifies for an exception to riparian notification requirement according to paragraphs 7(a) and (b) of the policy. The investments envisioned under the program focus on rehabilitation of existing infrastructure and minor additions in the form of small-scale new household water connections to existing schemes, and (i) the nature and scope of the planned interventions will not adversely change the quantity and quality of water flows to other riparian countries; and (ii) the Program investments will not be adversely affected by the other riparian systems' possible water use. New schemes are not eligible for financing under the Program. Feasibility studies financed under the IPF component of the Program will be required to consider potential project-related transboundary impacts. The request for approval of the exception to the notification requirement was approved by Bank management on November 22, 2020.

V. RISKS

111. **The overall implementation risk of the Program is assessed to be Moderate**. The risks related to the macroeconomic context and fiduciary, environmental, and social aspects have been rated as Substantial. The other risks have been rated as Moderate. However, although several individual risk categories have been assessed as Substantial, these are not expected to endanger the achievement of key program results. Mitigation measures, including those in the PAP, provide for a robust framework to adequately manage risks at this stage. There is strong leadership and support for the Program in the GoA, which has recently highlighted the modernization of the WSS sector as a priority. Thus, the overall risk of not achieving the Program's key results and development objectives is rated as Moderate.

[123] https://www.infrastruktura.gov.al/konsultime-publike/.

112. **Political and governance risk is rated as Moderate.** The Socialist Party won an unprecedented third consecutive mandate at the parliamentary elections in April 2021. After a two-year interruption, the opposition parties have returned to the parliament, contributing to the political debate. The government appears to be in a solid position, having won local elections in 60 out of 61 municipalities in 2019. The measures proposed in the Program are broadly supported by stakeholder institutions and professionals (within MoFE, MoIE, AKUM, ERRU, SHUKALB, LGU associations, and WSS utilities). A high level of consensus regarding sector needs and priorities mitigates this risk.

113. **Macroeconomic risk is rated as Substantial.** The November 2019 earthquake and the 2020 COVID-19 pandemic triggered a sharp decline in economic activity. Despite the impressively rapid recovery during 2021 (estimated at 8.5 percent), public finances are likely to remain under stress with high debt-to-GDP ratios (based on government projections and World Bank estimates). Assuming no additional pandemic waves and activity restrictions, Albania's annual GDP is expected to increase by 3.7–4.0 percent over the medium term, with most of the contribution coming from domestic demand. While the government is committed to maintaining fiscal sustainability, public spending will be needed to support recovery. Despite encouraging growth projections, Albania is exposed to external shocks (such as slower growth in the European Union or the tightening of international capital markets), and a deterioration of the macroeconomic framework could result in less fiscal space for investments in the sector. Expected prudent macroeconomic management and planned structural reforms (some supported by the Growth Development Policy Financing [P169524] approved in December 2020) are mitigation measures as they will strengthen the transparency and sustainability of public finances. A forthcoming DPL (2023) is expected to support government efforts with increasing revenue mobilization, also planned under the forthcoming medium term Revenue Strategy. The GoA is also planning to strengthen the process of investment planning and management, thus prioritizing on starting those who are more strongly embedded into existing sector strategies.

114. **Institutional capacity risk is rated Moderate.** Overall, the technical assessment highlighted that the sector suffers from weak institutional capacities, particularly among the many smaller utilities at the local level (including low levels of managerial autonomy, customer focus, and strategic leadership). This poses a risk for Program implementation and achievement of results at the local level. This is a common challenge in the WSS sector, which tends to be highly decentralized. The nature of the reform process supported through this operation requires local government decisions, which adds to the institutional risk. Capacity constraints were also identified at the central level. As mitigation measures, the central government has demonstrated high-level political leadership and committed additional state budget allocations for investments and TA resources (through the IPF). This will serve as an incentive for the LGUs and water utilities to engage in the reform and improve performance. Through the APAs, the Program will enhance the accountability of local- and central-level implementing entities.

115. **Fiduciary risk is rated as Substantial.** Several fiduciary risks were identified during the assessment, and adequate mitigation measures have been agreed upon as part of the PAP (annex 6). These include capacity building on fiduciary aspects and financial reporting, appropriate tagging for the Program expenditures to monitor budget planning and execution, and a procurement monitoring mechanism. The key financial management weaknesses include the following: (i) WSS budget estimates are poorly linked with strategic planning documents; (ii) investment prioritization, planning, and project management within the sector are inadequate, as indicated by the existence of recurrent sector arrears, and frequent in-year reallocations between projects; (iii) the internal control framework of AKUM/municipalities/utilities is limited; (iv) the capacity of financial management and accounting staff, in particular at the subnational/utility level, is inadequate; and (v) SAI auditors are not accustomed to financial audits and related requirements. The findings on procurement risks

indicate the following key weaknesses: (i) inconsistent procurement planning; (ii) a high rate of procurement complaints associated with an extended timeline to deal with the claims; (iii) a lack of transparency regarding contract administration and monitoring process due to inadequate regulation of contract management by the previous PPL; (iv) frequent contract addendums resulting in a significant increase in contract prices; and (v) weak procurement capacity at local-level institutions.

116. **Environmental and social risk is rated as Substantial.** The environmental risks of the proposed operation are not expected to be significant. This is also the case for social risks, however, the social risk has been assessed as substantial on account of existing gaps between the land acquisition practices in Albania and World Bank policies. Adequate mitigation measures have been agreed upon as part of the PAP (including but not limited to the strengthening of E&S management aspects through hiring of additional capacities, the provision of TA and capacity building for WSS Utilities, the preparation of E&S Standard Operating Procedure on asbestos handling, and the establishment of GRM at AKUM with disclosure of results). Nevertheless, the fact that this is the first PforR operation in Albania (and, hence, the first time the Bank and the GoA are working with country systems under a World Bank–financed operation) adds to the risk, as there is no previous experience on which to base the assessment. In addition, the ESSA has identified a need for further institutional strengthening of the implementing agencies, MoIE and AKUM, and WSS utilities and municipalities in the overall management of environmental and social issues. This risk is expected to be mitigated by the hiring of additional environmental and social specialists, and training and capacity-building activities in both AKUM and WSS utilities and strengthening of GRM systems at AKUM and in the WSS Utilities.

ANNEX 1. RESULTS FRAMEWORK MATRIX

Results Framework
COUNTRY: Albania
Albania National Water Supply and Sanitation Sector Modernization Program

Program Development Objective(s)

The Program Development Objectives are to improve operational and financial performance of water supply and sanitation (WSS) utilities and increase access to safely managed water supply services in the Republic of Albania.

Program Development Objective Indicators by Objectives/Outcomes

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Results Area 1: Strengthening the National Sector Framework								
New Business Plan guideline for tariff reviews approved by ERRU (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
Improved sector financing instruments and incentives for improved performance adopted (Yes/No)	DLI 1	No	Yes	Yes	Yes	Yes	Yes	Yes
Results Area 2: Improving Operational and Financial Performance of WSS Utilities								
Improved financial viability of the WSS sector (as reflected in National Aggregated Score for Direct	DLI 3	81.20	81.20	81.20	83.20	87.20	91.20	91.20

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Operating Cost Coverage) (Percentage)								
Improved continuity of water supply services (number of urban areas with minimum 18 hours of water supply) (Number)	DLI 4	15.00	19.00	25.00	29.00	32.00	35.00	35.00
Percentage of Utilities meeting at least 75 percent of their targets in Performance Agreements (Percentage)		0.00	50.00	60.00	70.00	80.00	90.00	90.00
Results Area 3: Closing the Gap towards Universal Access to Water Supply Services								
Minimum number of new functional connections providing safe and reliable water services in vulnerable households (Number)	DLI 5	0.00	0.00	0.00	1,000.00	2,000.00	3,000.00	3,000.00
People provided with access to improved water sources (CRI, Number)		0.00	0.00	0.00	11,000.00	14,000.00	15,000.00	40,000.00
People provided with access to improved water sources - Female (RMS requirement) (CRI, Number)		0.00	0.00	0.00	5,500.00	7,000.00	7,500.00	20,000.00
People provided with access to improved		0.00	0.00	0.00	8,800.00	11,200.00	12,000.00	32,000.00

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
water sources - rural (CRI, Number)								
People provided with access to improved water sources - urban (CRI, Number)		0.00	0.00	0.00	2,200.00	2,800.00	3,000.00	8,000.00

Intermediate Results Indicator by Results Areas

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Results Area 1: Strengthened National and Local WSS Sector Delivery Framework								
National Certification Program launched (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
Utility Corporate Governance and Citizen Engagement requirements approved (PAP measure) (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
New Performance Monitoring/Benchmarking system established and operationalized (and annual report with key KPIs in public domain) (Yes/No)		No	Yes	Yes	Yes	Yes	Yes	Yes
Results Area 2: Improved Performance and Financial Sustainability of WSS Utilities								
Percentage of WSS Utilities submitting Business Plans to ERRU for approval (Percentage)		0.00	0.00	15.00	30.00	45.00	60.00	60.00
Percentage of WSS Utilities receiving investment allocation based on eligibility and performance (Percentage)		0.00	0.00	15.00	30.00	45.00	60.00	60.00
Percentage of WSS utilities with agreed operational		0.00	0.00	10.00	20.00	30.00	50.00	70.00

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
staff certified as per regulations on certification (Percentage)								
Number of energy efficiency audits undertaken in WSS Utilities (Number)		0.00	2.00	8.00	10.00	10.00	12.00	12.00
Number of WSS utilities/municipalities from within the 10 largest energy consumers with at least 20% energy savings in their operation of the services (Number)		0.00	0.00	0.00	3.00	3.00	5.00	5.00
Share of newly created and existing management positions filled by women through internal promotion or external recruitment among utilities participating in the Program (Percentage)		35.00	35.00	37.00	38.00	39.00	40.00	40.00
At least 1 WSS Utility aggregation process supported under the Program (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
Results Area 3: Improved Access to Water Supply Services in Rural Areas								
Guidelines for on-site sanitation issued by AKUM (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
Number of WSS		0.00	0.00	0.00	1.00	3.00	5.00	5.00

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Utilities/Municipalities undertaking community outreach and WASH IEC and behavior change communication (BCC) campaigns with households of Roma minorities and other vulnerable groups (Number)								

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Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
New Business Plan guideline for tariff reviews approved by ERRU	The first year the new tariff setting methodology for WU system is expected to be designed and approved by ERRU. The following years, the new tariff setting methodology will be applied by WU and local governments who submit tariff proposals for approval and ERRU in its review. This will require outreach and communication and possibly capacity building to the local WU and municipalities level done so that WU and Local Government Units are prepared for its implementation.	Annual	ERRU's files	Compilation of regulations issued by ERRU twice a year	ERRU and AKUM
Improved sector financing instruments and incentives for improved performance adopted	Approval by Borrower of new guidelines with eligibility criteria and performance-based methodology (including description of APA process and BP guideline) for	Annual	MoIE and AKUM	Annual Report / AKUM files	MoIE and AKUM

	allocation of state budget subsidies for: i) COVID19 impacts and operational expenditures; ii) capital investments; iii) WSS regionalization/ restructuring; iv) new access to WS in unserved areas				
Improved financial viability of the WSS sector (as reflected in National Aggregated Score for Direct Operating Cost Coverage)	"National Aggregated Score for Direct Operating Cost Coverage" means the weighted score (based on number of water connections per WSS Utility) of the Direct Operating Cost Coverage for all WSS Utilities in Albania. The "Direct Operating Cost Coverage" means the ratio between annual water fees collected and annual cost of operation and maintenance for each WSS Utility, as calculated by AKUM based on information submitted by such WSS Utility. The DOCC measures the extent to which revenues	Annual	AKUM's benchmarking /performance information system	AKUM will produce a baseline for this indicator by Program effectiveness and will collect data on annual basis submitted by WSS utilities to the benchmarking/information system to calculate annual score and monitor improvements	AKUM

	cover basic operation and maintenance costs. The indicator is computed as: WFC/COM Where: WFC = annual water fees collected COM = annual cost of operation and maintenance Given the likely impact of COVID-19 on Direct Operating Cost Coverage, and that final figures for 2022 will not be available until mid-year in 2023, the baseline for this indicator will be verified and, if needed, adjusted, by 8 months after Program effectiveness. The criteria for such independent verification and adjustment shall be specified in the POM.				
Improved continuity of water supply services (number of urban areas with minimum 18 hours of water supply)	This indicators measures the number of urban areas supplied with a minimum of 18 hours of water supply. Please see Annex 2 for notes on verification	Annual	AKUM files	AKUM will collect data on an annual basis submitted by WSS utilities	AKUM

	protocol as this indicator will also be a DLI under the Program. Urban areas are defined as cities according to Law 115, 2014 "On the Administrative-Territorial division of Local Government Units in the Republic of Albania".				
Percentage of Utilities meeting at least 75 percent of their targets in Performance Agreements	Each WSS Utility receiving support under the Program will enter a Performance Agreement with AKUM reflecting the agreed targets which are expected to be consistent with the Utility's Business Plan. This indicator will measure achievement of agreed targets as assessed during the Annual Performance Assessment process, to be further defined in the Program Operational Manual	Annual	Data reported by the WSS utilities to AKUM on annual basis	The data will be collected through the national performance monitoring and benchmarking system managed by AKUM as further detailed in the POM	AKUM and WSS Utilities
Minimum number of new functional connections providing safe and reliable water services in vulnerable households	New household connections providing safe and reliable access to water supply (as per Albanian Law/standards/	Annual	MoIE; reports from AKUM; physical survey and inspection of	IVA to ensure that: Year 1: Review of technical proposal packages and allocation of funds processed to be	AKUM and IVA

	and fulfilling the SDG 6.1 definition of access). *See Description of DLI 5 for further information on this indicator and how a "functional" connection will be defined **Disadvantaged or vulnerable households ("families in need") are defined by a prior categorization made by the local government unit based on central guideline, as per Council of Minister's Decision nr.18, dated 12.01.2018. The decree allows water utilities to be reimbursed by the central government for the cost of connecting and installing the meter for households which fall under this vulnerable category. Connections from new water supply schemes commissioned during the Program period and after the baseline is verified, providing water 18 hours/day on average, allowing for a 10% failure		sample connection by DLI Verification Agent	in line with approved guidelines. Review of final design packages required for at least 15% of the total number of connections to verify they are completed per quality control procedures. Year 2: Final design packages required for at least 40% of the total number of connections are completed per quality control procedures and 1,000 new connections have been installed Year 2 to 5: IVA to assess the number of new/improved water supply service connections ((i.e. a proper service contract is signed between WSS utilities and the household reflecting the new/improved service) and current status of connections installed in previous years	

	rate on a monthly average.			including water quality and service levels and a random sampling of no less than 5% of new HH connections to test for water and service quality.	
People provided with access to improved water sources	This indicator measures the cumulative number of people who benefited from improved water supply services that have been constructed through operations supported by the World Bank.	Annual	AKUM progress reports	The data to be utilized is the data coming from verification exercises and reports prepared by the IVA regarding DLI 5 which are expected to include physical survey and inspection of sample connections.	AKUM
People provided with access to improved water sources - Female (RMS requirement)	This indicator measures the cumulative number of people who benefited from improved water supply services that have been constructed through operations supported by the World Bank.	Annual	AKUM progress reports	The data to be utilized will come from the verification exercises and reports prepared by the IVA on accomplishment of DLI 5 as well as information provided the WSS Utilities.	AKUM
People provided with access to improved water sources - rural		Annual	AKUM progress report	The data to be utilized is the data coming from verification exercises and reports prepared by the IVA regarding DLI 5	AKUM

				which are expected to include physical survey and inspection of sample connections.	
People provided with access to improved water sources - urban		Annual	AKUM progress reports	The data to be utilized is the data coming from verification exercises and reports prepared by the IVA regarding DLI 5 which are expected to include physical survey and inspection of sample connections.	AKUM

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
National Certification Program launched	Finalize design and launch of the National Certification Program for WSS professionals. Based on the preliminary design, the Water Supply and Sewerage Association of Albania (SHUKALB) will conduct the training and facilitate the certification program. Monitoring of compliance with targets by WSS Utilities will be done under RA. No. 2	Annual	MoIE, AKUM and Shukalb	Compilation of information on the relevant guidelines/policies approved, implementation plan, developed tools and implementation of training activities	AKUM
Utility Corporate Governance and Citizen Engagement requirements approved (PAP measure)	This entails the setting of requirements for the WSS utilities regarding improvements in their corporate governance (including on professionalization of Boards, financial monitoring and oversight, and financial accounting reporting practices) citizen engagement mechanisms (specifically with regards to the establishment and	Annual	WSS Utilties, Customer Service Portal, and AKUM (MIS)	Annual Progress Reports	AKUM

	maintenance of robust grievance redress mechanisms (GRMs)/complaints management systems - see below for definition of robust GRMs) . These requirements will be developed with support from the IPF component and the Bank as a Program Action Plan measure (see annex 6), and introduced in the relevant guideline for WSS Utilities to access PBGs (see annex 1 under DLI 1 description and verification process), expected in year 1 of implementation. Monitoring of the incorporation of these requirements by the WSS Utilities will be done by AKUM during the the Annual performance Assessment (APA) process as eligibility criteria to access PBGs from year 3+ (see annex 2 under DLI 2description and				

	verification process), where utilities will need to demonstrate that they have a robust and functional GRM in place. To facilitate functionality of the GRM, the WSS Utilities will be encouraged to use the GIZ supported customer service portal (https://www.shuk.al/), as well as other measures which could be identified through Participatory Baseline Diagnostics. The requirements for robust and functional Grievance Redress Systems will require the WSS utilities GRM/complaints management systems to be: 1. Effective: To be effective, grievance redress systems need have sufficient internal support to be responsive, have clear lines of jurisdiction (who is responsible for responding to which				

	complaints), and have categories of complaints aligned with what consumers care about (including, for example, including the potential to complain about services, public works, billing, or other issues). The systems need to be able to present data in a timely and organized enough way to feed into management decisions. One of the most useful tools for doing this have been participatory baseline diagnostics (for example, involving representatives of various departments involved in responding to complaints, as well as- ideally – some representative of consumers) which also can serve to create more support for improving such systems internally. The diagnostic can identify and help to resolve areas where there is a gap in the capacity to address the complaint, or where there				

	are ambiguities in who is responsible for a given area. The undertaking of participatory baseline diagnostics by WSS Utilities will be encouraged by AKUM and supported under the IPF, during years 1-2 of Program implementation. The output of the participatory diagnostic should at a minimum include: i) Data on volume of complaints (including by category of complaint) and (if available) average time to resolution- Baseline; ii) Confirmation of the jurisdictional map of responsibilities and procedures for resolution of different types of complaints; iii) Diagnostic of weak/strong points in the complaints process and plans to address them; iv) Summary of any existing legislation on standards or mandatory requirements for time allowed to resolve complaints; v) Link of				

	complaints system to MIS to allow for automatic updating of response to consumers (and more efficient complaint system functioning); 2. Accessible: Complaints systems need to be accessible to consumers, preferably via options to submit complaints in multiple (functional) avenues (telephone, online, in-person, preferably also by social media) and in a manner that is accessible (number of locations or points where one can submit a complaint). 3. Responsive: Robust complaints systems are able to triage and resolve complaints within reasonable amounts of time, and within any regulatory standards. 4. Transparent: The complaints system should specify how summary data on complaints received, complaints addressed, will				

	be published and/or provided to ERRU (who in turn will publish this information), and how complainants can receive information on the status of their specific complaint. A baseline and a final year assessment of citizen satisfaction with the grievance system through customer satisfaction surveys will be carried by ERRU (with support from IPF) and made publicly available. It is expected that as an additional incentive, those utilities with the largest percentage increase in citizen satisfaction with grievance system between year 1 (baseline) and year 5 (final year) will receive an industry level prize to be awarded by the ERRU as the regulator in charge of customer protection. The Citizen Engagement guidelines/requirements will provide any further				

	details regarding this prize and the guidelines will be widely disseminated so that WSS Utilities and local governments are well aware of them.				
New Performance Monitoring/Benchmarking system established and operationalized (and annual report with key KPIs in public domain)	At the time of Program preparation, AKUM is about to launch a new data management and online communication system developed by the Albanian company, Horizon. This information system will be focused on improving reliability of utility performance/benchmarking data and enabling monitoring of utility KPIs (and data variables required for the APA process), building on and further strengthening existing management and information systems. The objective is that this system can serve the purposes of public funding allocation by AKUM and tariff setting by ERRU. An annual report highlighting relevant KPIs will be prepared and	Annual	AKUM annual report	The information on annual progress reports will be corroborated with further samples of data reported directly by the WSS Utilities into the new system and in the process of verification of DLI No. 2 (see verification process for this DLI in annex 2)	AKUM

	disclosed to the public.				
Percentage of WSS Utilities submitting Business Plans to ERRU for approval	Cumulative number of WSS Utilities preparing business plans and submitting tariff application as per new Business Plan guideline in compliance with tariff setting methodology. This indicator reflects the level of compliance by WSS Utilities with the new policy and incentive framework introduced. Given ongoing government plans for sector restructuring by which a utility aggregation process is envisioned, the unit of measure for this indicator is proposed as a percentage of existing utilities.	Annual	ERRU	Annual Progress Report	AKUM (in coordination with ERRU)
Percentage of WSS Utilities receiving investment allocation based on eligibility and performance	This indicator reflects the level of compliance by WSS Utilities with the new policy and incentive framework introduced. Given ongoing government plans for sector restructuring in which utility aggregation	Annual	AKUM files	Annual Progress Report	AKUM

	processes are envisioned (which would result in reduction of number of utilities), the unit of measure used for this indicator is the percentage of existing utilities.				
Percentage of WSS utilities with agreed operational staff certified as per regulations on certification	The further development of the National Certification Program for water sector professionals, builds on efforts to secure the offer of capacity building in the country through different initiatives. The draft Water Sector Strategy has specific targets with regards to the Certification Program. In addition, a mechanism to make Certification mandatory is planned to be established, most possibly as part of the licensing requirements by the Water Regulatory Authority (ERRU). Thus requiring the WSS utilities to employ only certified staff for key positions (at the moment ERRU requires the certification only for	Annual	AKUM annual report	From the Utilities, or as reported into MIS	AKUM

	Technical Directors).				
Number of energy efficiency audits undertaken in WSS Utilities	Detailed Energy Efficiency audits to be undertaken in 8-12 priority WSS Utilities (or water supply and sewerage systems) to identify potential for savings of energy costs and outline the required investments for WSS Utilities to prepare sub-projects which can be submitted to AKUM for funding under the Program. Those WSS Utilities/Municipalities that are larger consumers will be prioritized. The audits will be financed under the IPF component based on TOR developed during Program preparation.	Annual	AKUM files	Compilation of information on TOR, expert selection and audit reports available within AKUM and the WSS Utilities.	AKUM
Number of WSS utilities/municipalities from within the 10 largest energy consumers with at least 20% energy savings in their operation of the services	Number of utilities/municipalities from within the 10 largest energy consumers with at least 20% energy savings (directly linked with investments under DLI#2 and achievement of DLI#3)	Annual	AKUM Annual report	Reporting arrangements between AKUM and WSS Utilities/Municipalities through Annual Performance Assessment process.	AKUM collection of information from WSS Utilities/Municipalities

Share of newly created and existing management positions filled by women through internal promotion or external recruitment among utilities participating in the Program	The share will be calculated based on a weighted average of the shares by the participating utilities in the Program calculated between year 5 and Year 1 of the program. The existing management positions cover middle, upper and top management.	Annual	AKUM's files and regular progress reports	Compilation of records available at AKUM and WSS Utilities	MoIE and AKUM
At least 1 WSS Utility aggregation process supported under the Program	At the time of Program Negotiations, AKUM is about to launch a process whereby WSS utilities will be incentivized to create regional companies in alignment with the Government guidelines expected to be issued in 2022. This indicator will track the number of regionalization processes underway and the target value is that at list one process of aggregation/regionalization between two or more local utilities will be implemented during the	Annual	AKUM annual report	The information on regular progress reports will be complemented with further information gathered during implementation support missions	AKUM

	life of the Program.				
Guidelines for on-site sanitation issued by AKUM	Guidelines for improved on-site sanitation facilities in alignment with the EU's Urban wastewater treatment directive. Safely managed sanitation will help decrease the amount of uncontrolled discharges to receiving bodies including groundwater resources and reduce the volume of contaminated floodwaters in case of flooding. These should be made available to the households and the community at the time of approval of new water supply connections sub-projects, together with any other specific requirements around on-sanitation which will be part of the new guidelines for investments in water supply connections (especially in rural areas) financed by the Program to be issued by AKUM under DLI No. 5.	Annual	AKUM's files and progress reports	Compilation of relevant the relevant guidelines and other tools or templates as well as any outreach and communication activities undertaken by MoIE, AKUM and ERRU to disseminate the guidelines	AKUM
Number of WSS Utilities/Municipalities	A number of utilities from	Annual	AKUM's files	Compilation of all	MoIE/AKUM

undertaking community outreach and WASH IEC and behavior change communication (BCC) campaigns with households of Roma minorities and other vulnerable groups	municipalities, with high prevalence of Roma minorities will be undertaking, in coordination with the local government, and as part of the requirements of inclusive business planning; i) information, education and communications (IEC) and Behavior Change Communication (BCC) support for social support scheme for WSS (as per social support/subsidy mechanism for vulnerable households as per Council of Minister's Decision nr.18, dated 12.01.2018.) to increase uptake of services among Roma and other vulnerable households; and ii) targeted support for community outreach for a subset of utilities with high concentration of Roma minorities to identify possible solutions to provide these communities with access to safe water. These activities will be		and WSS Utilities' files	information on activities supported available within AKUM and the WSS Utilities that are selected to participate in this specific activity supported under IPF.	

	undertaken with IPF support.				

ANNEX 2. DISBURSEMENT LINKED INDICATORS, DISBURSEMENT ARRANGEMENTS AND VERIFICATION PROTOCOLS

Disbursement Linked Indicators Matrix

DLI 1	Improved sector financing instruments and incentives for improved performance adopted			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Yes/No	10,029,717.68	7.08
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
Prior Results	No		0.00	
2022	Yes		10,029,717.68	US$2 million for each of 4 policy guidelines and US$2 million once all of them are completed
2023	Yes		0.00	S$2 million for each of 4 policy guidelines and US$2 million once all of them are completed
2024	Yes		0.00	S$2 million for each of 4 policy guidelines and US$2 million once all of them are completed
2025	Yes		0.00	S$2 million for each of 4 policy guidelines and US$2 million once all of them are completed

2026	Yes	0.00	S$2 million for each of 4 policy guidelines and US$2 million once all of them are completed
2027	Yes	0.00	S$2 million for each of 4 policy guidelines and US$2 million once all of them are completed

DLI 2	Improved allocation of public expenditure to the WSS sector			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Process	Yes	Yes/No	24,663,911.59	17.69
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
Prior Results	Yes		3,000,000.00	US$1 for each US$1 equivalent
2022	Yes		2,000,000.00	US$1 for each US$1 equivalent
2023	Yes		8,000,000.00	US$1 for each US$1 equivalent
2024	Yes		5,000,000.00	US$1 for each US$1 equivalent
2025	Yes		3,000,000.00	US$1 for each US$1 equivalent
2026	Yes		2,000,000.00	US$1 for each US$1 equivalent
2027	Yes		1,663,911.59	US$1 for each US$1 equivalent

DLI 3	Improved Financial Viability of the WSS Sector			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Percentage	10,029,717.68	7.08
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	81.20			
Prior Results	81.20		0.00	US$1 million for every 1% improvement over baseline
2022	81.20		0.00	US$1 million for every 1% improvement over baseline
2023	81.20		0.00	US$1 million for every 1% improvement over baseline
2024	83.20		2,000,000.00	US$1 million for every 1% improvement over baseline
2025	85.20		2,000,000.00	US$1 million for every 1% improvement over baseline
2026	87.20		2,000,000.00	US$1 million for every 1% improvement over baseline
2027	91.20		4,029,717.68	US$1 million for every 1% improvement over baseline

DLI 4	Improved continuity of water supply services (number of urban areas with minimum 18 hours of water supply)			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Number	10,029,717.68	7.08
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	15.00			
Prior Results	15.00		0.00	US$0.5 million for every new urban area
2022	19.00		2,000,000.00	US$0.5 million for every new urban area
2023	25.00		3,000,000.00	US$0.5 million for every new urban area
2024	29.00		2,000,000.00	US$0.5 million for every new urban area
2025	32.00		1,529,717.68	US$0.5 million for every new urban area
2026	35.00		1,500,000.00	US$0.5 million for every new urban area
2027	35.00		0.00	US$0.5 million for every new urban area

DLI 5	Number of new functional household connections providing safe and reliable water services			
Type of DLI	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	Yes	Number	20,100,000.00	14.15
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
Prior Results	0.00		0.00	Unit cost of US$1,600 per connection and Unit cost US$2,000 per connection
2022	0.00		0.00	Unit cost of US$1,600 per connection and Unit cost US$2,000 per connection
2023	0.00		0.00	Unit cost of US$1,600 per connection and Unit cost US$2,000 per connection
2024	3,200.00		5,500,000.00	Unit cost of US$1,600 per connection and Unit cost US$2,000 per connection
2025	4,000.00		7,000,000.00	Unit cost of US$1,600 per connection and Unit cost US$2,000 per connection
2026	4,000.00		7,600,000.00	Unit cost of US$1,600 per connection and Unit cost US$2,000 per connection

2027	11,200.00	0.00	Unit cost of US$1,600 per connection and Unit cost US$2,000 per connection

Verification Protocol Table: Disbursement Linked Indicators	
DLI 1	Improved sector financing instruments and incentives for improved performance adopted
Description	This DLI includes approval by the Borrower of new guidelines with eligibility criteria and performance-based methodology (including description of APA process and BP guideline) for allocation of state budget subsidies for: i) COVID19 Liquidity Grants and Performance Based Grants (PBGs) for operational expenditures; ii) capital investment grants; iii) incentives for WSS regionalization/ restructuring; and iv) capital investment grants for new access to water supply in unserved areas. These instruments might require Council of Ministers decision, Municipality Council Decisions, and/or decisions by MoIE or AKUM. The policy guideline regulating PBGs mentioned in i) above will include requirements on corporate governance and for robust grievance redress mechanisms/complaints management systems for WSS Utilities. The elaboration of these requirements/guidelines is also an agreed PAP measure (see annex 6) and will be supported under the IPF. The requirements must be in line with definition included in the relevant intermediate results indicator for robust and functional GRMs (see annex 1, definition of intermediate indicator "development of corporate governance and citizen engagement requirements") and compliance will be verified according to DLI 2 description and verification process. Please see complementary DLI 2 description for other minimum criteria to be included under reach of the policy guidelines to be developed under DLI 1.
Data source/ Agency	MoIE and AKUM
Verification Entity	IVA to be contracted by GoA through AKUM
Procedure	The verification process and report will include at least the following: i) Compilation of reports, relevant tools and instruments (eg. templates for business plans, subsidy allocation guidelines, procedures for financing certain types of investments by the WSS Utilities), policy guidelines, ministerial orders, council of ministers and Parliamentary decisions and approvals, and outreach and communication activities undertaken by AKUM and ERRU; ii) assessment of the comprehensiveness of the policy instruments, their adequacy with regards to achievement of Program objective, the inclusion of requirements on corporate governance and citizen engagement (GRMs) referred to in the DLI 1 Description above, and the level of citizen, stakeholder and institutional awareness of these guidelines (based on interviews with stakeholders); iii) verification of formal approval status; iv) recommendations for improvement

DLI 2	Improved allocation of public expenditure to the WSS sector
Description	COVID19 support, performance-based grants (PBG) for operational expenditures, capital investment grants and aggregation incentives have been allocated by AKUM to eligible WSS utilities /municipalities following Annual Performance Assessment (APA) process to assess performance and compliance with the relevant requirements and methodologies to be set forth in the policy guidelines developed under DLI 1. The allocation will be made based on demand and compliance with a set of eligibility criteria for the different types of grants, as well as performance-based according to the Annual Performance Assessment (APA) process. The eligibility criteria for each type of grant is indicated in Annex 3 of this PAD and will be further elaborated in the Program Operational Manual (POM).
Data source/ Agency	AKUM annual progress reports and files. WSS Utilities/Municipalities files and WSS systems and facilities.
Verification Entity	IVA
Procedure	IVA will ensure: - Allocation has been done in compliance Guidelines' requirements approved under DLI (i.e WSS utilities/Municipalities and interventions fulfill the eligibility requirement laid out there-in) full, based upon the satisfaction of eligibility requirements described in the Program Operations Manual, against interventions identified in the WSS Utilities' Business Plans or energy audit in alignment with the DLI's definition. - The allocation has been made in timely fashion and the budget is available for use by the relevant WSS Utility/Municipality - Physical verification of interventions through field inspection of at least 20% of the ongoing interventions each year - To verify functionality of GRM systems after year 2, the IVA will verify: 1. The GRM can produce timely and comprehensive data on complaints by category and level of resolution, including feedback to the consumer on status/complaint resolution 2. Functionality and number of accessible channels/locations to submit complaints, including practical testing of those channels 3. Verification of reasonable response times to complaints per regulatory requirements 4. Annual publication of complaints by type and level of resolution

DLI 3	Improved Financial Viability of the WSS Sector
Description	The achievement of this DLI will be measured by the improvement of the National Aggregated Score for Direct Operating Cost Coverage (DOCC). “National Aggregated Score for Direct Operating Cost Coverage” means the weighted score (based on number of water connections per WSS Utility) of the Direct Operating Cost Coverage for all WSS Utilities in Albania. The “Direct Operating Cost Coverage” means the ratio between annual water fees collected and annual cost of operation and maintenance for each WSS Utility, as calculated by AKUM based on information submitted by such WSS Utility. The improvements in the DOCC score should be reflective of improved billings, collections and tariff levels as well as cost reduction through energy efficiency, NRW reduction and other efficiency gains. The baseline percentage is based on information available at AKUM as submitted by the WSS Utilities to the performance monitoring /benchmarking system.
Data source/ Agency	MoIE and AKUM and WSS Utilitie's files
Verification Entity	IVA
Procedure	AKUM currently produces an annual score table (the Performance table) to calculate the overall performance of all utilities in which each key indicator is given a specific weight in the formula (like a balance score card), including the DOCC for each utility. Given the likely impact of COVID-19 on Direct Operating Cost Coverage, and that final figures for 2020 will not be available until mid-year in 2021, the baseline for this indicator will be verified and, if needed, adjusted, by 6 months after Program effectiveness. The criteria for such independent verification and adjustment shall be specified in the POM.
DLI 4	Improved continuity of water supply services (number of urban areas with minimum 18 hours of water supply)
Description	This is the number of new urban areas with minimum 18 hours of water supply, starting from a baseline of 15. Urban areas are defined as cities according to Law 115, 2014 “On the Administrative-Territorial division of Local Government Units in the Republic of Albania”: As referred in the Law 139/2015 “ On Self-Governance” the definition for a Municipality is as follow: “The Municipality is the basic unit of local self-government. The municipality represents an administrative-territorial unit and a community of inhabitants. The Municipality consists of several administrative units, according to traditional, historical, economic and social factors. Administrative units consist of cities and / or villages. Cities are be divided into smaller units called neighborhoods. A neighborhood, can be created only in territories with over 20,000 inhabitants. “ Based on the Law 115, 2014 “On the Administrative-Territorial division of Local Government Units in the Republic of Albania” there is no division of urban or rural areas based on the number of inhabitants, and also the term urban and rural doesn’t exist anymore. In the Water Utility Benchmarking system and national water strategies, reports &analyses, the cities are

	considered as urban areas and the villages are considered as rural area within each Municipality.
Data source/ Agency	AKUM
Verification Entity	IVA
Procedure	The IVA will ensure: - Review of desk information submitted by the WSS Utilities to AKUM as part of the annual performance monitoring process - Verification through site visits and field measurements undertaken in 100% of the urban areas submitted for verification each year - Urban areas submitted for verification one year may not be submitted the following one - Verification that pre-existing urban areas included in the baseline (to be further detailed in the POM) have maintained this average levels of service
DLI 5	Number of new functional household connections providing safe and reliable water services
Description	DLR 5.1: Number of new functional water supply connections (in non-vulnerable households) DLR 5.2: Number of new functional water supply connections in vulnerable households. No. of connections from new water supply schemes commissioned during the program period. Functional connections are those providing safe water (as per Albanian Law/standards/ and fulfilling the SDG 6.1 definition of access to safe and reliable water) for a minimum of 18 hours/day on average, allowing for a 10% failure rate on a monthly average, and with adequate management model in place for their continued safe and reliable operation. Payments will be made in proportion to the achievements. Interventions can combine extensions, rehabilitated and new water supply connections. Whilst the indicative annual disbursements include an indicative breakdown of 50/50 for new connections in vulnerable and non-vulnerable households, the Financing Agreement includes a maximum monetary allocation for new connections in non-vulnerable households to secure a minimum level of achievement of this specific result under DLR 5.2 (i.e 3,000 connections)
Data source/ Agency	MoIE; reports from AKUM; water quality tests and operational data submitted by the WSS utilities; physical survey and inspection of sample connections
Verification Entity	IVA to be contracted by GoA through the MoIE and/or AKUM
Procedure	IVA to provide/ensure : - Water quality checks and operational data for 100% of water supply systems; - Sampling through physical inspection of not less than 5% of household connections per scheme in all schemes

	- Water supply connections that are submitted in one year may not be submitted the following year - There is an adequate management system in place, and relevant IEC and BCC activities with the community have taken place for reliability and sustainability of operation

ANNEX 3. SUMMARY TECHNICAL ASSESSMENT

This annex summarizes a full technical assessment produced as a separate document.

1. **A technical assessment was carried out during the preparation phase of the Program for Results (PforR) financing to the Government of Albania (GoA).** Its purpose was to evaluate, with the GoA's support, the adequacy of the Program in four main areas: strategic relevance and technical soundness, the expenditure framework, the results framework and monitoring and evaluation (M&E) capacity, and economic justification.

2. **The technical assessment identified weaknesses and possible improvements, recommending specific actions to be taken by the GoA with the support of the World Bank.** It also identified key risks to the achievement of the Program's objectives and associated mitigation measures, which included close alignment with the technical assistance (TA) and financing operations of the World Bank Group and other international partners.

3. **The technical assessment was prepared by a World Bank team and external consultants, and builds on extensive policy dialogue, conducted over a decade, between the World Bank, other development partners, and the GoA.** It draws extensively on relevant tools developed under the Water Supply and Sanitation Sector Policy Support TA (P152351), available studies (including of the World Bank), and sector research (see bibliography in the full technical assessment). The design of the proposed PforR operation builds on data shared directly by the Ministry of Energy and Infrastructure (MoIE); the National Agency of Water Supply, Sewerage and Waste Infrastructure (AKUM); the Albanian Water Regulatory Authority (ERRU); local governments; and water supply and sanitation (WSS) utilities.

Program Description

4. **This section describes the Albania National Water Supply and Sanitation Sector Modernization PforR (NWSSMP),** and its objectives, scope, and the typology of its activities in the context of the government's overall program for the water and sanitation sector. A detailed description of the macroeconomic and water sector context and the GoA's *National Water Supply and Sewerage Sector Strategy 2019–2030* is provided in the full technical assessment.

Government program for the WSS sector and the National Water Supply and Sewerage Services Sector Strategy 2019–2030

5. **As part of the water sector reform that began in 2011, in 2018 the MoIE detailed priority measures in a National Water Supply and Sewerage Services Sector Strategy 2019–2030 (NSS)** to improve sector performance and achieve national sector goals. The NSS is approved by the ministry and is expected to be endorsed by the Council of Ministers (many of its measures are de facto underway within the existing government program), though the strategy's success is not dependent on its formal adoption. The NSS has seven strategic objectives, further translated into priority measures and measurable actions that are condensed into a well-structured, simple, and clear document. It also includes performance

indicators linked to objectives, estimates of financial needs, and the main institutions responsible for its implementation.

6. **Regarding the level of ambition of the NSS, the baseline is very low, and performance indicators showed little improvement over a decade (2007–17)**. From 2007, overall water coverage remained stable, reaching 78.3 percent in 2017, and overall sewerage coverage increased by only 5 percent. In 2017, only 10.45 percent of the urban population was connected to wastewater treatment, and the continuity of services was estimated at an average of 12 hours per day for the entire water sector. Nonrevenue water (NRW) remained stable (around 65 percent), and revenues from tariffs were approximately 50 percent of the overall financing of the Albanian WSS sector. But the sector needs to reform its governance and organizational models to achieve the 2030 proposed targets. Tariff setting by water utilities must be properly addressed and aligned with overall water policy, economic sustainability, and affordability. The COVID-19 crisis has aggravated the WSS sector's preexisting financial and operational difficulties. In 2020–21, most utilities faced extra challenges while paying for electricity, salaries, and daily suppliers, due to reduced revenues and its impact on cash flows, over and above utilities' weak financial situation and low cost-recovery levels.

The National Water Supply and Sanitation Sector Modernization Program for Results (NWSSMP)

7. **The government WSS program and the NWSSMP.** The government's program of expenditures for the next five-year period costs about US$560 million (including US$135 million for the NWSSMP and US$6.3 million of Investment Project Financing [IPF] by the Swiss State Secretariat for Economic Affairs [SECO]). The NWSSMP's activities, expenditures, and results are structured in three results areas (RAs) which contribute to the NSS's seven strategic objectives while focusing on (i) improved efficiency and quality of services (objective no. 3), (ii) improved financial sustainability and affordability (objective no. 4), and (iii) increased access to water supply (objective no. 2). The PforR boundary is nationwide for all its three RAs.

NWSSMP's Objectives and Results Areas

8. **The Program Development Objectives (PDOs)** seek to improve operational and financial performance of WSS utilities and to increase access to safely managed water services in Albania. To achieve these PDOs, three RAs were delineated to respond simultaneously to the national strategic objectives as well as the sector's challenges:

(a) **Results Area 1: Strengthening the National Sector Framework**. This RA includes activities, expenditures, and results covering policies on public investment in the sector, regulatory instruments, information systems, and capacity-building schemes at the central level. The PforR loan disbursements to this RA are US$10 million.

(b) **Results Area 2: Improving Operational and Financial Performance of WSS Utilities**. This RA rewards infrastructure interventions and other requirements, measures, processes, and systems implemented to improve the performance of municipal water utilities, including modern business tools, commercial systems, bulk and household metering, NRW reduction, energy efficiency, increased hours and quality of services, improved governance and capacity building of the workforce, improved financial performance of utilities, and

increased community awareness and engagement in the sector, including optimized use of the existing social support plan for poor and/or vulnerable households. Loan disbursements to this RA amounted to US$45 million.

(c) **Results Area 3: Closing the Gap toward Universal Water Supply Services**. This RA will support establishment of a new financing window within AKUM for investments by WSS utilities to increase and improve access to water supply services in underserved areas (including rural areas). The allocation of loan disbursements to this RA is US$20 million.

NWSSMP Program of Expenditures

9. **The NWSSMP Program of Expenditures totals US$135 million for specific activities, expenditures, and results identified under the Program's three RAs**, co-financed by the Bank (US$75 million) and GoA (US$60 million) (table A3.1). The overall government WSS program will be financed from the fiscal budget and through foreign financing (international financial institution [IFI] loans mostly, and donor grants).

Table A3.1 PforR Program of Expenditures by Results Area and Financing Plan

	NWSSMP	
Program of Expenditures by Results Area	**US$**	**%**
Results Area No. 1: Strengthening the National Sector Framework	14.20	10.52
Results Area No. 2: Improving Operational and Financial Performance of WSS Utilities	100.80	74.67
Results Area No. 3: Closing the Gap toward Universal Access to Water Supply Services	20.00	14.81
Total	**135.00**	100.00
PforR Financing Plan (US$135 million)		
Government of Albania	60.00	44.44
International Bank for Reconstruction and Development	75.00	55.56
Total	**135.00**	**100.00**

Strategic Relevance

10. **Integration with the European Union (EU) is an overarching national goal for the GoA**—it is outlined in the medium-term objectives of its National Strategy for Development and Integration 2015–2020. In this context, the strategy outlines a vision of inclusive and sustainable economic growth through promoting macroeconomic and fiscal sustainability, enhancing competitiveness, making public services transparent and accountable, and promoting efficient and sustainable use of natural resources, in particular development and management of the water, energy, and land sectors. The NWSSSMP is therefore considered a highly strategic intervention toward achieving the country's development objectives and its integration with the EU.

11. **The proposed Program aims to address the sector's key challenges** by improving the institutional and policy framework, enhancing sector performance and cost recovery, and expanding access to WSS services, with a particular focus on financing mechanisms and sector professionalization. The PforR would achieve this in a holistic manner by strengthening policies and monitoring systems and financing critical infrastructure investments using performance-based financing and eligibility criteria for capital expenditure (CAPEX) support, to incentivize governance reforms and change of behaviors at both national and local levels. The Program would also contribute to Albania's resilient, inclusive, and sustainable recovery, as outlined in the World Bank Group's COVID-19 Response Approach Paper.

12. **The GoA expects the NWSSMP to consolidate the improvements introduced by the ongoing water sector reform,** while deepening sector transformation through addressing some of its structural challenges, such as improvements in sector atomization and governance, performance and financial sustainability of public utilities, and achieving universal water services in the context of the Sustainable Development Goals.

13. **The PforR instrument promotes a shift in focus toward improving service delivery in Albania** (rather than just the financing of infrastructure construction). An IPF for technical assistance and the Program Management Support component is included as part of the PforR operation (to be implemented by the MoIE and AKUM) to guarantee more effective and efficient implementation of a results-based approach.

The Program's Technical Soundness

Results Area 1—Strengthening the National Sector Framework

14. **The MoIE and AKUM will be implementing the government program for the sector.** The NSS, developed by the MoIE, presents Albania's vision, mission, strategic objectives, and action plans in a clear, specific, quantified, and time-bound manner, while stating its institutional responsibilities. However, both these institutions are overwhelmed by their responsibilities and the unavailability of qualified resources. To strengthen these institutions and help them perform efficiently, management and coordination units will be established in the MoIE and AKUM, with M&E of the National Strategic Plan.

15. **There is a strong rationale for strengthening the national sector framework and governance.** A key weakness of the sector is the unreliability of information and poor governance, management capacities, and tools. The RA's activities will promote long-term results and will be key to the development of universal services and financial sustainability. These activities are interlinked and provide the WSS sector with the capacity for robust sector planning. The guidelines under Disbursement Linked Indicator (DLI) 1 allocate public investment and operational subsidies based on the performance of the WSS utilities and their regulatory compliance. The allocation is in alignment with the prioritized actions, using the logic of performance-based financing embedded in the PforR. A clear and transparent framework will make it easier for the WSS utilities to improve their operational efficiency and financial sustainability.

Results Area 2: Improving Operational and Financial Performance of WSS Utilities

16. **This RA will reward the implementation of measures, processes, and systems improving the performance of municipal water utilities**, including modern business tools, commercial systems, bulk and

household metering, NRW reduction, energy efficiency, increased hours and quality of services, improved governance and financial performance, and increased community participation and access to WSS services in rural areas. The results to be supported/rewarded are chosen based on the operational, coverage, and financial targets included in the performance-based grants (PBGs) provided by MoIE/AKUM to local governments and WSS utilities, which are monitored and reviewed on an annual basis. The annual performance assessment (APA), designed and implemented on a transparent and predictable basis, considers key assessment dimensions/agreed targets.

17. **The RA will support the achievement of results through the following interventions/activities**: (i) COVID-19 financial support and operating expenditure (OPEX); (ii) PBGs for investments in energy efficiency, NRW reduction, and 24/7 services; and (iii) incentives for WSS utility regionalization and restructuring processes. The expected outcomes are improved financial viability (DLI3) and improved continuity of services (DLI4).

18. **A well-functioning, continuous water supply distribution network provides direct benefits in the form of optimized pumping.** Reduction in energy costs from the current 22.2 percent is a significant opportunity for WSS utilities to improve cost recovery. This in turn boosts the sector's overall financial sustainability and operational efficiency, allowing it to extend coverage and improve the quality of its services. Reduction in water losses and promotion of energy efficiency will reduce the impact of climate-change-induced droughts and floods, as energy and water conservation efforts are correlated.

Results Area 3: Closing the Gap toward Universal Access to Water Supply Services

19. **The Program will support the expansion and improvement of water supply services to underserved areas.** It will facilitate new access to currently unserved utilities by substituting ongoing schemes for self-supply (either decentralized systems or extensions of existing networks in peri-urban areas) with piped networked water systems. Existing informal systems will be rehabilitated, expanded, and brought under the respective water utility's management. Additionally, intensive efforts are required to connect unserved as well as vulnerable communities and to leverage local support and contributions.

20. **Albania has no shortages of water resources and can provide its entire population with safe and fresh drinking water.** Nevertheless, the problem lies in its old and poorly maintained infrastructure, a complete lack of distribution networks, and its underlying institutional capacity issues. These issues are encountered in peri-urban and rural areas, where water supply coverage can be as low as 8 percent. The Program supports the development of technical, environmental, social, and other guidelines (such as for on-site sanitation solutions) that subprojects will need to comply with. AKUM will approve these for funding, accompanied as necessary with technical assistance from the IPF component (see Technical Appraisal section of this PAD). This RA is thus considered both relevant and sound.

Expenditure Framework Analysis

Overall Expenditure Framework

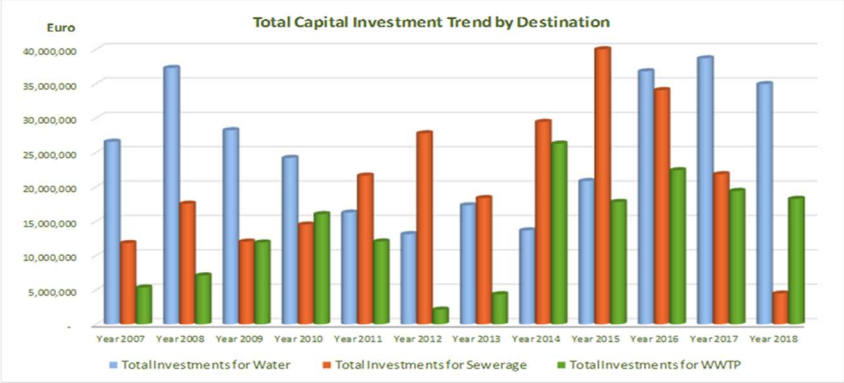
21. **The central government supports the OPEX and CAPEX of locally owned WSS utilities from the state budget**, as well as through foreign-financed capital investment programs with sovereign guarantees. In recent years, 37 of the 58 municipal water companies relied on budget support and operating subsidies

to cover their OPEX (mostly for energy costs, but also for chemicals, etc.). Some municipal companies are borrowing directly from IFIs for their CAPEX using central government guarantees.[124]

22. **Due to the adoption of the WSS sector financing policy, the GoA has established a clear framework for funding WSS sector requirements through tariffs, taxes, and transfers** (grants, mostly from official development assistance). IFI loans are financing part of the CAPEX; however, loans do not constitute an ultimate source of finance as they only relocate cash payments in time and eventually must be paid from taxes or tariffs (they are rather a bridging arrangement to postpone payments from taxes or tariffs). Capital investments needed to achieve the development objectives will be financed from taxes and transfers (including loans), while operation and maintenance (O&M) expenditures in the short term will be financed by tariffs. When tariff revenues exceed the level of O&M coverage, they can be used as an additional financing source for CAPEX. The government's expenditure framework allows the alignment of policy objectives and intended results from government strategies (national targets) with the resource allocation defined in the national budget.

23. **When analyzing the funding source and destination of investments in relative terms, we observe that wastewater investments attract more international funding** whereas water supply investments attract more national funding. This pattern indicates the focus of the European Union and IFIs on wastewater treatment (which requires stronger utilities and commitment by local government units [LGUs]). Throughout the Western Balkan countries, several wastewater treatment plants funded by donor grants are not operating as they are unable to cover O&M costs of the new infrastructure or they lack the technical capacity.

Figure A3.1 Capital Investment Trend



Source: Benchmarking and Monitoring Unit of AKUM.

Budget Allocation

24. **Over the past few years, the water sector has received an average of 2.5 percent of total public expenditure**, but there has been an increasing trend in budget allocation in absolute value. However,

[124] These were sometimes negotiated in an ad hoc manner, and could not achieve greater alignment with national sector targets and objectives.

when compared to total expenditure, the actual share of funding to the water sector decreased from 2.98 percent in 2015 to 1.99 percent in 2019.

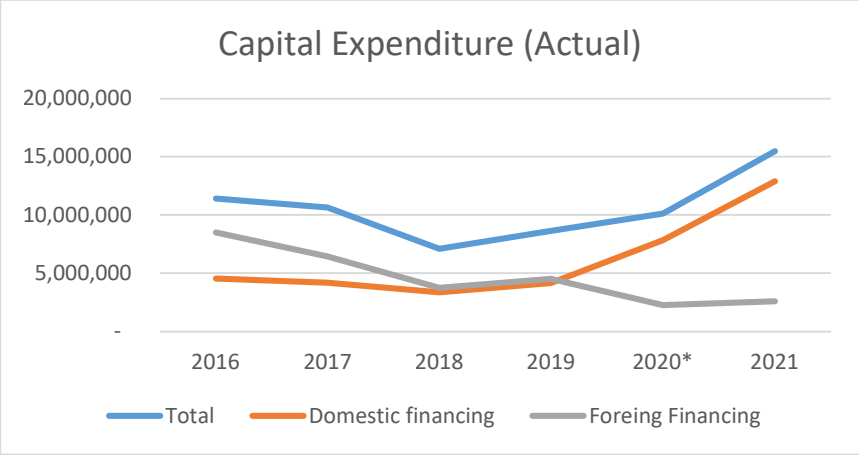
Table A3.2 Sector Spending (% of Total Public Expenditure excluding Debt Service)

Sectors	2015	2016	2017	2018	2019
Transport	9.01	7.34	8.72	7.53	NA
Agriculture	2.08	3.16	2.33	2.35	NA
Environment	0.35	0.69	0.67	0.32	0.66
Water supply	2.98	2.89	2.71	1.84	1.99
Health	9.67	10.52	10.56	11.15	11.21
Education	11.21	11.59	11.16	11.74	12.19
Social protection	33.21	35.03	33.54	34.38	34.80

25. **Composition of the water sector—allocation and expenditures.** On average, the largest share (94 percent) of the total central government water sector budget and expenditures in the past few years under analysis has been directed to capital spending. The other 6 percent has been extended as subsidies to water utilities in the form of performance grants and for covering OPEX. An insignificant share of the sector budget and expenditure goes to the salaries and wages of AKUM employees. Incremental OPEX incurred on the capital investment projects funded by foreign financing are capitalized under the Project accounts.

26. **On average, between 2016 and 2019, 60 percent of the sector's development budget was funded through foreign sources**. The past five-year trends indicate that actual local financing of the sector budget has been growing slightly as compared to total capital expenditure, mostly attributable to the closing of foreign-financed projects. In 2020-2021, the domestic financing overtook the foreign financing as explained below.

Figure A3.2 Capital Expenditure (Domestic vs Foreign Financing)

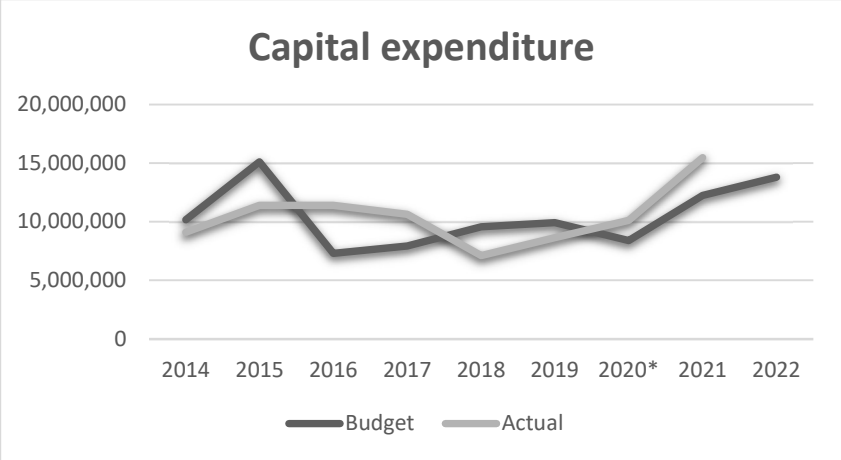


Source: Benchmarking and Monitoring Unit of AKUM.

Capacity to Utilize Budget Allocation

27. **Sector expenditure outturn has been volatile.** For example, in FY2016–17 and FY 2020-21, the sector's actual spending overran original budgets by more than 30 percent, while in FY2018–19 the burning rate was between 75 and 86 percent. This is largely due to poor planning and budgeting, as well as inefficient project and procurement management. In FY 2020-21, the pandemic affected the overall public expenditure predictability. However, the sector was able to absorb unutilized budget from other programs (being originally underfunded), and resources that could not be used on other sectors have been reallocated to the water sector to finance ongoing infrastructure.

Figure A3.3 Capital Expenditure (Budgeted vs Actual)



Other Development Partner Programs

28. Currently, several donors and IFIs are contributing to the development of Albania's WSS sector, providing loans and grants to support projects that were recently approved or are in the pipeline. Among them are the German Development and Investment Bank (KfW), the European Investment Bank, the European Bank for Reconstruction and Development, the French Development Agency (ADF), and the United Nations; and countries such as Germany, Italy, Japan, Austria, Sweden, and Switzerland. The EU delegation is leading the provision of grant funding under its IPA[125] 2014–20, which is being implemented by a few bilateral donors such as the German Development Agency (GIZ), the Austrian Development Agency (ADA), and the Swedish International Development Cooperation Agency (Sida). Meanwhile, the United States Agency for International Development has supported several efforts, such as preparation of a national NRW reduction action plan and a National Certification Program for WSS professionals. Among several other initiatives, GIZ is currently working with the government to implement a proper asset management system in several WSS utilities and for developing the NSS, a water sector law, and an institutional development plan for AKUM. It has also partnered with the Water Supply and Sewerage Association of Albania (SHUKALB) and the International Association of Water Service Companies in the

[125] Instrument for Pre-accession Assistance.

Danube River Catchment Area (IAWD) to develop a Danube Learning Partnership (D-Leap) hub for the asset management program under the Strategic Alliance Integrated Asset Management Project.

29. The EU's Action for a Cleaner Environment in Albania, expected to begin in calendar year 2020, targets construction of affordable municipal wastewater infrastructure in priority areas (based on performance and other criteria), together with efficiency gains of utilities in the management and operation of this infrastructure and improvements in decentralized wastewater infrastructure to comply with EU acquis legislation, in particular the Urban Wastewater Treatment Directive. The action will be co-financed by KfW and SECO for an amount of €80 million in loans and grants, with municipalities and local WSS utilities as direct beneficiaries and the MoIE and AKUM at the central level receiving some support for improvements to their functions. This joint EU-KfW-SECO program envisages the implementation of €130 million in priority WSS infrastructure in up to 10 municipalities, to which the Western Balkans Investment Framework contributes a €1.4 million grant for preparation of technical documentation. These investments will ensure sustainable access to safe drinking water at socially acceptable and cost-covering tariffs, adequate sanitation, and improved performance of utilities. The construction of these infrastructures is planned to be completed by the end of 2023.

30. **The Swiss State Secretariat for Economic Affairs (SECO)** is another key donor, working in partnership with KfW and the European Union and focusing on institutional development and improvements at local and central levels. An ongoing TA activity under the MoIE financed by SECO has examined four options/modalities to improve low-performing water utilities, which has in turn informed the preparation of this PforR: (i) cooperation agreements with the MoIE/AKUM; (ii) the "Joint Competence Subject"[126]; (iii) aggregation of public water utilities; and (iv) public-private partnerships. This technical assessment recommends a specific approach to operationalize option (iii) through a "voluntary with incentives" approach that entails the creation of regional entities with "delegated management agreements" by municipalities.

Institutional Arrangements

Institutional Context

31. **The WSS sector is organized as a two-tier system**, with the national government being responsible for sector strategies and policy development, and local governments for service provision. The central government through the Ministry of Finance and Economy (MoFE) channels donor and treasury funds to local governments for capital investments and needs. The MoIE sets the main policies and priorities of the WSS sector, mostly through the National Agency of Water Supply, Sewerage and Waste Infrastructure (AKUM),[127] a legal and budgetary unit under the MoIE that works as a technical specialized agency. In addition, the National Water Council, the National Water Agency, river basin councils and river basin offices, and the Ministry of Tourism and Environment[128] ensure that all environmental aspects of the EU Water Framework Directive and other relevant directives are transposed,

[126] A modality for joint management of a WSS utility foreseen by the proposed draft sector law.
[127] Decision of Council of Ministers (DCM) no. 431 dated 11.7.2018, "On the establishment, organization and functioning of the National Water Supply, Sewerage and Waste Infrastructure Agency."
[128] Within it, the National Environmental Agency and National Inspectorate on Forestry and Environment play important roles on resolving water issues.

coordinated, and implemented in Albania. The Ministry of Health and Social Protection is responsible for inspecting and monitoring the quality of drinking water through its institutions such as the regional public health structures, the Health State Inspectorate, and the Institute of Public Health. Other key stakeholders include: (i) the Water Regulatory Authority (ERRU), which is responsible for regulating water supply and wastewater disposal and treatment; and (ii) the national Water Supply and Sewerage Association of Albania (SHUKALB), which is a professional, not-for-profit association of water supply and sewerage professionals and utilities.

Program Institutional Arrangements

32. The institutional arrangements for the Program are described below:

33. **The MoIE will coordinate implementation of the Program through a Program Monitoring Unit** (PMU) and an in-house dedicated unit within AKUM (Program Coordinating Unit, PCU). Both entities will coordinate closely with the MoFE and ERRU.

- *Results Area 1*: *Strengthening the National Sector Framework* will be implemented mostly by the MoIE and AKUM.
- *Results Area 2*: *Improving the Operational and Financial Performance of WSS Utilities.* While AKUM will allocate the budget under DLR2, the LGUs and WSS utilities will prepare business plans in accordance with the guidelines; identify and prepare priority investments (with support from AKUM and/or other TA as needed); and procure goods, works, or services to put the subprojects into operation to achieve the expected improvements in operational and financial performance and levels of service. The restructuring/aggregation regionalization process will also be implemented by the participating utilities and municipalities but steered by the MoIE and AKUM.
- *Results Area 3*: *Closing the Gap toward Universal Access to Water Supply Services*. Some of the activities will be implemented by AKUM (guidelines), against which the state budget will be allocated for CAPEX. The planning and contracting of works for installation of household connections will be done by the local level (WSS utilities and LGUs).

Program for Results Framework, Monitoring and Evaluation, and DLIs

34. **The PforR will support the establishment of a Results Framework and verification system** for results under the Program, as well as a M&E system for the government program and the NSS (monitored by the MoIE). The Program M&E system will monitor all levels, including activities, outputs, and intermediate objectives, and be based on the Results Framework.

35. **The DLI verification will be carried out independently by an internationally reputed private firm having** a strong local presence that will be competitively selected by the GoA based on Terms of Reference (TOR) acceptable to the Bank. The Bank will also review compliance with the DLI targets during implementation support missions. Disbursements will be made based on verified results, as measured by the DLIs.

36. **Subsidies/grants under DLI2 will be allocated based on demand and compliance with the eligibility criteria for different grants as well as on performance according to the Annual Performance Assessment (APA) process.** The minimum eligibility criteria for each type of grant (given below) will be elaborated in the Program Operational Manual (POM).

1. *For COVID-19 liquidity support grants and performance-based grants (PBGs) for operational expenditures to WSS utilities:*

(a) Impact of COVID-19 on the financial situation and commitment by WSS utilities to prepare a water safety/risk management plan.

(b) Improvement of billings and collections and reduction of costs by WSS utilities.

(c) Compliance with Key Performance Indicator (KPI) reporting requirements by WSS utilities.

(d) Compliance with corporate governance and citizen engagement requirements (i.e., having in place a robust and functional grievance redress mechanism/complaints management system aligned with the definition included in annex 1) to receive a PBG from year 3+ of the Program. To meet this requirement, WSS utilities will be encouraged to use participatory baseline diagnostics (supported by the IPF component) or the existing customer service portal supported by GIZ to facilitate this functionality.

(e) Compliance with any requirements under the National Certification and Training System.

2. For capital investment grants:

(a) Investments must be related to infrastructure upgrades needed to improve the utility's operations and financial situation (and thus increase their revenues, reduce their costs, and/or improve levels of service), including NRW reduction, energy efficiency, district-metered-area (DMA) setup, improved continuity, and other soft measures to improve service levels and overall (commercial/financial) operations.

(b) Preparation of a business plan in line with ERRU's guidelines and to be approved by it, which will identify priority investments to improve operational efficiency, levels of service, and financial viability (such as NRW reduction, energy efficiency, and improved continuity interventions).

(c) KPI reporting to the national performance monitoring and benchmarking system.

(d) Signature on performance agreement with AKUM/MoIE.

3. For incentive payments:

(a) Compliance with eligibility criteria and process to receive incentive payments based on the GoA's final strategy for utility aggregation.

(b) Use of incentives for eligible expenditures under the PforR (whether operational expenditures or capital investments).

4. For capital investment grants for new connections:

(a) Construction standards must consider landslide risk.

(b) New projects must encourage households to comply with new guidelines for on-site sanitation.

(c) New water supply schemes which could impact on the quality/quantity of international waterways should be excluded.

(d) Any co-financing requirements from the local level to be included in guidelines.

(e) Analysis of cost of service and tariff implications and application of existing tariff-setting methodologies and subsidy mechanisms to cover the cost of operating the systems

Economic (and Financial) Evaluation of the Program

37. **The economic evaluation was carried out using a cost-benefit analysis**. The net benefit was measured as the difference between incremental benefits and incremental costs of two scenarios: with and without the program. The economic benefits were measured using different approaches. Benefits from (i) expansion of WSS services in rural areas were measured through the avoided cost approach, by comparing coping costs under both scenarios; (ii) improvements in the efficiency and performance of utilities were measured as an increase in revenues plus cost savings; and (iii) financial viability were measured as the capacity of a WSS utility to self-finance its activities and reduce the government's fiscal burden.

38. **The results of the economic evaluation indicated that the Program will yield positive returns**, with expected benefits about twice as much as costs. The expected return from the Program will be 20 percent and expected benefit is estimated at US$78 million. All areas included in Component 2 show positive returns, ranging from 9 percent for rural interventions to 28 percent for NRW. Additionally, the Program will have a positive impact on people's health due to a decrease in waterborne diseases and infections and will result in savings from avoided illnesses.

Table A3.3 Results of Economic and Financial Evaluation

Economic Evaluation	**Present Value of Flows (000 US$)**			
	Costs	**Benefits**	**Net Benefits**	**IRR (%)**
Access to and Quality of WSS in Rural Areas (RA3)	21,376	29,419	8,043	9
Efficiency and Performance of Water Utilities (RA2-DLI2)				
Energy Efficiency	9,791	13,562	3,771	13
Nonrevenue Water	38,252	104,563	66,311	28
Total	*69,420*	*147,545*	*78,125*	*20*
Financial Evaluation				
Financial Sustainability and Affordability (RA2-DLI3)				
10% increase tariff & current collection rate	24,416	48,549	24,133	22
10% increase tariff & 82% revenue collection rate	24,416	71,067	46,651	32

Valuation of Greenhouse Gas (GHG) Emissions Generated/Reduced by the Program

39. **GHG emissions are global externalities, which can be positive or negative, depending on the net impact of the Program.** If the net balance is a generation of GHG emissions, the Program is generating a negative externality; if it is a reduction of GHG emissions, the Program is generating a positive externality. The Program's net emissions are the difference between gross emissions and baseline emissions.

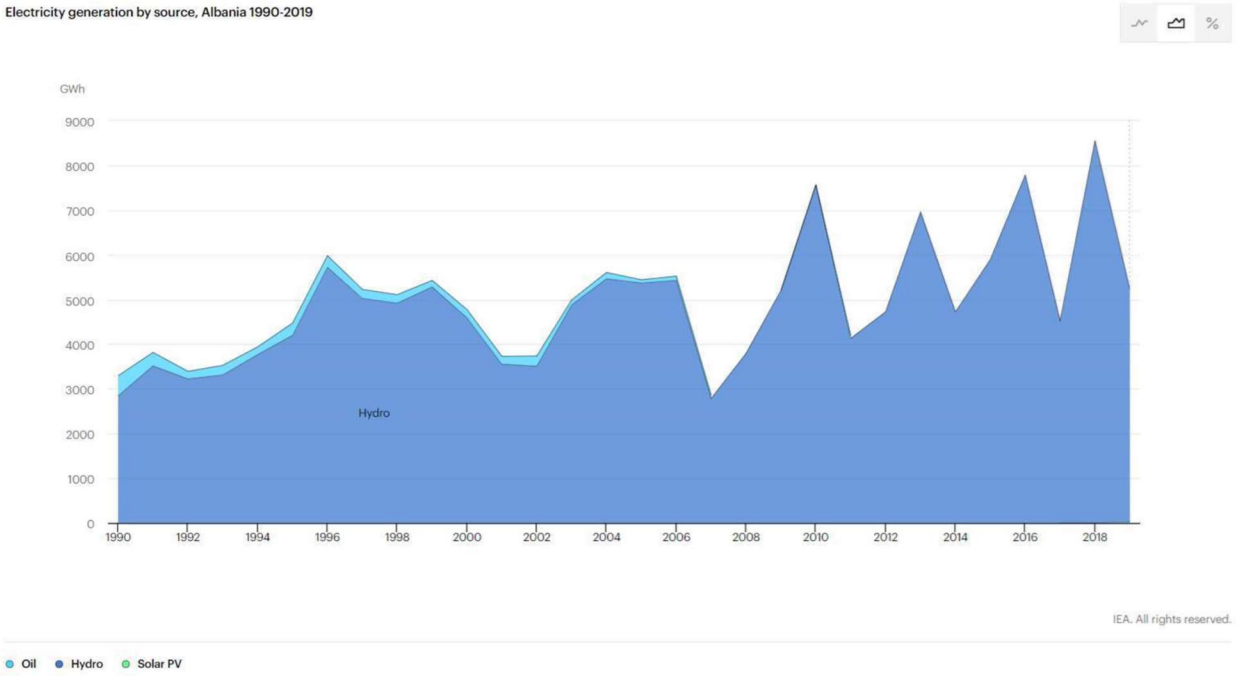
40. **To evaluate the net GHG emissions generated/reduced by the Program, this assessment used the shadow price of carbon recommended in the World Bank guidelines,** which lies between US$40 (low estimate) to US$80 (high estimate) per ton of CO_2e in 2020 and increases to US$50–US$100/tCO_2e by 2030. From 2030 to 2050, the guidelines recommend using the same growth rate of 2.25 percent every year.

41. **Results show that the Program will generate a positive externality by reducing GHG emissions and ensure avoided costs of US$0.5 to US$1 million during its economic lifetime.** This additional benefit will increase the Project's expected return from 20.2 percent to 20.3 percent.

Climate Change Mitigation, Adaptation, Co-benefits, and GHG Reduction

42. **GHG reduction.** The energy efficiency interventions prioritized in the policy guidelines for capital investments under RA1 (linked with DLI1) and undertaken under RA2 (linked with DLI2 and DLI3) are expected to yield energy efficiency savings of up to 25 percent compared to a conservative baseline, reducing energy consumption of the relevant utilities by an estimated 20 GWh/year for total savings of 400 GWh over a 20-year period. This translates to GHG reductions of 860 tons of carbon dioxide equivalent (tCO_2e) per year, or -17,200 tCO2e during the economic lifeline. This is based on the assumption of a grid emission factor of 43 grams per kilowatt-hour (g/kWh), as Albania's energy mix for electricity production is almost entirely composed of hydroelectricity and solar photovoltaic (PV), making it one of the cleanest energy mixes in the world.

Figure A3.4 Electricity Generation by Source, 1990–2019



43. **The expected climate mitigation and adaptation benefits are based on specific activities supported under each of the RAs and rewarded by the different DLIs as follows**:

(a) The compulsory preparation of water safety plans by WSS utilities (requirement introduced under DLI1 and rolled out under DLI2) will build resilience against climate-change-related risks (including droughts, floods, natural disasters) and other risks such as the current pandemic.

(b) The foreseen investments under RA2 using PBGs and capital investment grants (and rewarded by DLI2, DLI3, and DLI4) focus on: rehabilitation and construction of water supply infrastructure to improve continuity of service (24/7), setting up of DMAs, reduction of NRW and leakages, increased metering and energy efficiency at the system level, and other measures (to improve overall commercial and operational performance as well as levels of service, water, and energy conservation and overall resilience). In particular, given the high operating costs of existing diesel pumping systems, the investments are expected to adopt lower-cost, energy-efficient pumps. This will have climate mitigation co-benefits through a reduction in fossil fuel usage.

(c) Improved O&M activities incentivized through the Program will reduce water losses and increase efficiency of water resources (proper management of wastewater discharged by WSS utilities will enhance water quality) as well as of energy (lowering energy costs). The investments in NRW reduction, the introduction of metering, the application of modern business tools, and better financial and operational management (including better maintenance of water supply infrastructure) will increase the volume and quality of available water, building resilience to climate-change-related droughts (including investments under

RA3, as stated in para. 48 of this PAD).

(d) Improved resistance to flooding can be achieved through improved construction standards for water supply systems (considering the risk of landslides for water supply systems in rural areas under RA3) and improved standards for on-site sanitation facilities (which will help decrease the uncontrolled discharges to receiving bodies including groundwater resources and reduce the volume of contaminated floodwaters in case of flooding). The new standards will be included in the guidelines to be developed under RA1 (DLI1) and their application will take place under RA3 (DLI5). The feasibility studies and engineering designs (financed under the IPF) will include building resilience to drought, flooding, and sea level rise.

44. With regard to climate-change-related benefits, it is worth noting that while DLI3, DLI4, and DLI5 reward outcome-level results (and in the case of DLI5 output-level results), their achievement will require investments through financial instruments developed by the central government under DLI1 and the subsequent annual allocation of resources based on the APA process and compliance with eligibility criteria. Hence, although the process of public resources allocation is reflected in DLI2 with a US$25 million allotment of loan proceeds, the actual capital investment expenditures under the Program's RA2 are expected to far exceed this amount.[129] So, although DLI3 and DLI4 reward outcome-level results, driving the disbursements of the central government from the Bank loan, the proceeds allocated to these two DLIs will be utilized by AKUM to fund projects at the local level in NRW reduction and energy efficiency, among others. This results-based approach will build the foundation for driving the WSS utilities to seek further efficiencies, improve resilience (financial, operational, and vis-a-vis climate change risks/impacts), and reduce life-cycle costs. See Table A3.4 for a summary on the climate change adaptation and mitigation activities related to each DLI.

Table A3.4 Program's Climate Change Actions

	Total DLI (US$ mill)	**Specific Program Climate-Change-Related Actions and Linkages with PDOs or Intermediate Indicators**
Results Area 1: Strengthening the National Sector Framework	**10**	
DLI 1: Improved sector financing instruments and incentives for improved performance adopted Approval by Borrower of new guidelines with eligibility criteria and performance-based methodology for allocation of state budget subsidies for: (i) COVID-19		Policy guidelines for utilities to access financial support from the central government include the following requirements which will translate into improved sector resilience and adaptation/mitigation of climate change impacts (PAD para. 45.(a): i) Guidelines for COVID-19 liquidity support grants and/or PBGs for operational expenditure require utilities to prepare **water safety/risk management plans**. ii) Guidelines for capital investment grants include **prioritization of water conservation (NRW reduction) and energy efficiency investments.** iii) Guidelines for capital investment grants for new connections in underserved areas **include upgraded construction standards to reduce**

[129] These are expected to be of US$101 million (with US$45million of Bank financing including disbursements under DLI2, DLI3, and DLI4, and US$56 million of GoA financing).

	Total DLI (US$ mill)	Specific Program Climate-Change-Related Actions and Linkages with PDOs or Intermediate Indicators
impacts and operational expenditures; (ii) capital investments; (iii) incentives for WSS utilities restructuring /regionalization; (iv) new access to WSS in unserved areas		**risk of landslides.** In addition, the Business Plan guideline mentioned in PAD para. 45.(b) to be approved by the Regulatory Authority (ERRU) is expected to include a section on preparation of water safety/risk management plans by the WSS utilities in the face of emergencies like COVID-19 or other risks (i.e., natural disasters that are more likely to increase due climate change. Para. 40.(b). See para. 9 and paras 66–69 of the PAD (as well as paras 41–43 above, in the present annex) on the relevance of expected NRW reduction and energy efficiency interventions, as well as the impact of these interventions on GHG emissions reduction. Please also see technical assessment (annex 4) with results of preliminary energy audits in four WSS utilities. ***Linkages with PDO Indicators (and target values):*** • Improved sector financing instruments and incentives for improved performance adopted (Yes). • New Business Plan guideline for tariff reviews approved by ERRU (Yes).
Results Area No. 2: Improving the Operational and Financial Performance of WSS Utilities	**45**	
DLI 2: Improved allocation of public expenditure to the WSS sector Liquidity support for COVID-19 revenue shortfalls, performance-based grants for operational expenditures, **capital investment grants,** and incentives have been allocated by AKUM to eligible WSS utilities/LGUs	25	As described in PAD para. 41.(b), capital investments to improve water supply infrastructure, district metered areas (DMAs) setup, NRW reduction, and energy efficiency interventions will be undertaken by the utilities, supported by the central government with financing from the Program through capital investment grants (overall investments under the Program considering the government counterpart will be US$101 million, with US$45 million provided by the Bank under RA2). Overall investments in NRW reduction are expected to generate savings of around 35 million m^3 of water per year. Energy efficiency investments are expected to reduce energy consumption by 25 percent. Specific investments will be undertaken in at least four utilities that already underwent preliminary energy audits during preparation, so the investments are already preidentified (see annex 4 of Technical Assessment). ***Linkages with PDO Indicators (and target) and Intermediate Indicators*** • ***PDO:*** Number of WSS utilities/municipalities from within the 10 largest energy consumers with **at least 20 percent energy savings** in the operation of their services (at least 5). • ***Intermediate indicator (RA2):*** Number of **energy efficiency audits** undertaken in WSS utilities (12); these wil be financed under the IPF and the TORs have been agreed with the client. • ***Intermediate Indicator (RA3):*** Guidelines for on-site sanitation.
DLI 3: Improved financial viability as reflected by improvement of the national	10	Under this DLI, expected improvement in the cost-recovery ratio is mostly attributed to cost reductions brought about by: (i) cost savings from energy efficiency investments; and (ii) revenue increases and further cost reductions

	Total DLI (US$ mill)	Specific Program Climate-Change-Related Actions and Linkages with PDOs or Intermediate Indicators
aggregated direct operating cost coverage (DOCC)		from NRW (both commercial and physical) reduction activities (i.e., improved collections and reduced pumping costs due to reduced leakage). DLI3 rewards outcome-level results driving the disbursements of the central government from the Bank, but the allocated proceeds will be utilized by AKUM to fund projects at the local level in NRW reduction and energy efficiency, among others (investments in priority measures that can favorably impact cost recovery, as described in para 41.(a), (b), and (c)). Total expected investment in similar projects under RA2 is US$101 million (with US$45 million financed by the Bank). ***Linkage with PDO indicator***: Improvement in **national aggregated score for direct operating cost coverage** (percentage) of at least 10 percent from baseline.
DLR4: No. of new urban areas with minimum 18 hours of water supply (at least 20)	10	Under this DLI, foreseen investments include necessary water supply infrastructure to improve continuity of service (24/7), DMA setup, NRW and leakage reduction, metering, and other improvements in urban areas and rural areas with a high density of population or areas under the strategic focus of GoA for tourism. As with DLI 3, DLI 4 rewards outcome-level results driving disbursements of the central government from the Bank, but the allocated proceeds will be utilized by AKUM to fund projects at the local level, which can improve continuity of water supply services and other efficiency projects. under RA2 is US$101 million (with US$45 million financed by the Bank). ***Linkage with PDO Indicator:*** No. of new urban areas with minimum 18 hours of water supply. Water conservation activities will increase water availability, and also help to build resilience against droughts.
Results Area 3: Closing the Gap towards Universal Access to Water Supply Services	**20**	
DLR5: No. of functional water supply connections in vulnerable and nonvulnerable households (around 12,500)		The Program will provide financing for around 10,000–12,000 new household connections (benefiting around 40,000–50,000 people). The interventions will include rehabilitation of small-scale autonomous WSS systems and the reduction of leakages close to the water withdrawal point through rehabilitation and replacement of infrastructure, which will help conserve ground and surface water resources. The Program will also promote water conservation through improved demand-side management measures (metering, raising community awareness on water conservation practices, and others), which will help build resilience against droughts (para. 48). In addition, and in accordance with guidelines to be issued under DLI1, the mentioned investments will be done following an upgradation of construction standards that take into consideration the risk of landslides (particularly in

	Total DLI (US$ mill)	Specific Program Climate-Change-Related Actions and Linkages with PDOs or Intermediate Indicators
		rural areas) caused by increased flooding events brought about by climate change (para. 42). **Linkage with PDO Indicator:** No. of new functional connections providing safe and reliable water services in vulnerable households (5,600).
Total Financing Allocated:	**75**	

Technical Risk Assessment and Program Action Plan (PAP) inputs

45. **Overall, the sector suffers from weak institutional capacities** at both the central government (mostly in terms of numbers) and local levels, which is a challenge for program implementation and achievement of results. This is exacerbated by the fact that water and sanitation is a traditionally decentralized sector with many vested local interests in the business-as-usual scenario, which may mean a significant resistance to change. The lack of previous experience with PforR instruments in Albania has also added to the "Substantial" rating for fiduciary and environmental and social risks. At the same time, the technical design of this operation is ambitious, and the implementation capacity, especially in smaller municipalities, at the local level is limited. Physical distancing measures during the evolving COVID-19 crisis with many government staff working from home, may slow down the progress of reform implementation (for example, pushing for the regionalization strategy from the side of local governments). Despite the circumstances, the government has demonstrated strong leadership and commitment to the reform agenda. To mitigate risks, the operation has put emphasis on closely aligning with TA and other financing operations by the World Bank Group and other international partners.

46. **The overall implementation risk of the Program is assessed to be "Moderate."** Although several individual risk categories have been assessed as Substantial, these are not deemed to seriously endanger the achievement of the agreed key program results and objectives, and it is the team's assessment that the entire Program design and the embedded mitigation measures, including those in the Program Action Plan, provide for a robust framework to adequately manage these risks. There is also strong government leadership and support for the Program, and the government at the highest level has recently highlighted the modernization of the water and sanitation sector as a priority. Based on this assessment and context, the overall risk of achievement of the Program's key results and development objectives and of any unintended consequences, is rated as Moderate at this stage.

ANNEX 4. SUMMARY FIDUCIARY SYSTEMS ASSESSMENT

SECTION 1: CONCLUSIONS

Reasonable Assurance

1. **The fiduciary systems assessment** (hereinafter referred to as FSA or assessment) has been carried out in accordance with the World Bank Policy and Directive for Program for Results Financing[130] and the Bank Guidance PforR Fiduciary Assessment Guidance Note,[131] to determine whether the Program's fiduciary (procurement, financial management, and fraud and anticorruption) systems and governance framework are adequate to support its implementation.

2. **The assessment concludes that the fiduciary systems identified during the assessment, in general, provide reasonable assurance** that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability, subject to implementation of the recommended risk mitigation measures as outlined in the PAP and those supported through the IPF TA.

Risk Assessment

3. **The Program's fiduciary risk rating is Substantial.** The analysis took into consideration the Bank's knowledge of the water sector, information provided by government's institutions responsible for the Program implementation, information available on public domains, reviews of audit reports, the results of field visits undertaken during the assessment, as well as the latest Public Expenditure and Financial Accountability 2017.

4. **Procurement risk includes:** (i) lack of methodical approach or consistency in procurement planning; (ii) high rate of procurement complaints associated with an extended timeline to deal with the claims; (iii) lack of transparency of contract administration and the monitoring process due to inadequate regulation of contract management by the previous Public Procurement Law (PPL) applicable for the reviewed period; (iv) frequent contract addendums resulting in significant increase in contract prices; (v) weak capacity at local-level institutions to conduct procurement for investment projects; and (vi) lack of information among multiple implementing institutions involved in procurement transactions on the lists of debarred and suspended firms declared by the World Bank and other multilateral development banks.

5. **Financial management risk includes** the following:

(a) The assessment indicates WSS budget estimates are poorly linked with strategic planning documents. As a result, there is a risk that costs required to implement activities in support of the achievement of the DLIs may not be fully funded in the state budget regardless of

[130] July 10, 2015.
[131] June 30, 2017.

World Bank financing availability. There is an increased risk of diversion of program funds to meet other priorities (cash crunch, emergencies, period end).

(b) As the Program implementation arrangements are complex, the specific responsibilities of the central and local-level institutions and the scope of required interinstitutional coordination should be clearly defined and agreed during preparation and maintained throughout the Program implementation (to be further defined in the POM).

(c) The assessment has revealed deficiencies in investment prioritization, planning, and project management within the sector as indicated by the existence of recurrent sector arrears, frequent in-year reallocations between projects, procurement and work schedule slippages, and low budget burning rates by projects (PAP measure).

(d) Risk of disruption of treasury operations due to emergencies (social distancing, travel limitations, etc.).

(e) The government does not automatically produce specific, consolidated project financial statements. In this regard, it is critical to enable the Accounts-Based Financial Management Information System (AFMIS)/Albania Government Financial Information System (AGFIS) to track the PforR Program Expenditure Framework (PEF) budget and spending separately for effective monitoring and reconciliation (PAP measure).

(f) Deficiencies in the internal control framework in AKUM/municipalities/utilities. This is work in progress supported by GIZ but needs to be strengthened for the proposed operations (PAP measure: adoption of GIZ outputs, PBG manuals, information system).

(g) Weak financial management capacity at the municipal level/utility (procurement, contract management, contract planning, workflow, commitment controls, reporting). (PAP measure—contract management, planning, financial management training).

(h) Generally, weak corporate governance, accountability, control framework, and financial reporting is observed across water utilities (supported by IPF TA).

Procurement Exclusion

6. Given the nature of the Program, it is not envisaged to finance any contract for works, goods, and consulting services above the Bank's Operational Procurement Review Committee (OPRC) thresholds.[132] The highest estimated value procurements are planned in the RA2 of the Program, estimated at US$105 million.[133] However, should such OPRC-level contracts be financed, they would be excluded from the Program.

[132] OPRC thresholds for substantial risk projects are US$75 million for works; US$50 million for goods, information technology, and nonconsulting services; and US$20 million for firm consultants.
[133] Refer to Section 3.1.4 "Procurement Profile of the Program."

SECTION 2: SCOPE

Scope of the Fiduciary System Assessment

7. **The FSA's scope covers the Program's institutional framework, governance and anticorruption aspects, fiduciary capacity, and implementation performance** of the key institutions directly responsible for Program implementation, being the MoIE, AKUM, municipalities, and WSS utilities. The scope is based on the defined boundary and PEF, i.e., included in the PforR (captured principally in various budget codes associated with the Program). Considering the relatively high number of municipalities (61) and utilities (58) that could participate in the Program, the assessment at local-level entities was conducted on a sample basis, by selecting two utilities and/or municipalities for each group of utilities.[134] The assessment was extended also to relevant public financial management (PFM) and procurement administrative, supervisory, and oversight authorities, like the MoFE, Supreme Audit Institution (SAI), Public Procurement Agency (PPA), and Public Procurement Commission (PPC).

8. **The assessment was conducted based on the desk review of relevant legislative acts**, available sector and PFM diagnostic analysis,[135] sector audit and review reports, selected procurement transactions and information on contracts executed, several meetings held with participating institutions, as well as documentary evidence provided by these entities and other procurement-related data analysis conducted based on the information retrieved from the Electronic Public Procurement database.

SECTION 3: REVIEW OF PUBLIC FINANCIAL MANAGEMENT CYCLE

Planning and budgeting

PforR Expenditure Framework

9. **A strong budget classification system is in place which permits all transactions to be tracked throughout the formulation, execution, and reporting of the budgets. However, a few modalities are required to identify separately the Program of Expenditures and monitor budget formulation and execution.** The Program of Expenditures totals US$135 million for specific activities, expenditures, and results identified under the proposed RAs supporting the achievement of the NSS strategic objectives, selected from the overall government expenditure program for the sector. The government WSS program is well defined and properly identified in the government budget. The program expenditures are classified, inter alia, by responsible line ministry, function, execution agency, source of financing, economic account, and budget outputs. Furthermore, capital expenditures are detailed and allocated by project, defined at the budget execution stage. For the purpose of monitoring the Program's budget formulation and execution, as well as financial reporting, new specific budget output(s) will be created based on the

[134] The Bank technical team had used for assessment purposes a categorization based on the number of connections, from 0–5,000, 5,000–10,000, 10,000–50,000, and >50,000 which was discussed with AKUM. From this categorization, WSS utilities are grouped into four groups. The fiduciary team has conducted field visits to Durrës Utility form Group I; Gjirokastër, Elbasan, Korçë, and Kavajë from Group II; Librazhd and Belsh from Group III; and Peqin and Vorë from Group IV.
[135] PEFA 2017, SIGMA and IMF reviews, Open Budget Index, World Bank Governance indicators, A&A ROSC 2019 (World Bank), Albania SOE monitoring framework 2019 (World Bank), annual MoFE PFIC reports, annual MoFE WSS utilities aggregate report (2018), and so on.

Program of Expenditures boundary. In addition, it has been discussed that for the CAPEX, separately identified project codes will be maintained.

Adequacy of Budgets

10. **The Organic Budget Law regulates the budgetary process for all levels of the public budget, including the budget calendar, which integrates all the stages of budget planning, budget preparation, scrutiny, and approval.** The budget process in Albania has a medium-term perspective. Expenditure estimates for the Mid-Term Budget Plan (MTBP) cover the next budget year and the following two fiscal years. The set of instructions[136] used for MTBP and budget preparation is comprehensive, covers total budget expenditures for the full fiscal year, and provides clear guidance to budgetary units. These instructions are largely adhered to by the budgetary institutions, including the MoIE and AKUM. The standard budget instruction is a comprehensive document that defines the details of the MTBP and annual budget preparation processes. The annual instructions include information specific to the respective year, including the detailed budget calendar and expenditure ceilings. The process enables proactive discussion of budget proposals between the line ministries and MoFE. Once the draft budget is approved by the government, it is submitted to the Parliament. The latter has a very comprehensive approach to the scrutiny of the draft budget. The Economy and Finance Committee leads the review process that precedes the plenary hearings. Generally, the annual budgets are approved by the legislature before the start of the respective budget year. Budgets are detailed at the level of programs, main expenditure categories, and source of financing. In 2020, the MoFE developed and launched a new system (AFMIS) that supports the budget formulation process and is integrated with the treasury system. The MoIE is one of the institutions selected to pilot[137] and use the system.

11. **Expenditure policy proposals in the annual budget estimates do not completely align with strategic plans.** The MoIE issues a decision at the beginning of the budget cycle which establishes internal working groups to develop MTBP proposals. Each group is assigned responsibility for a particular program. The groups come up with the proposed submissions for the programs assigned to them, including the policy and spending priorities, which are then reviewed at a special ministerial meeting and based on the decision of that meeting consolidated into the ministry MTBP submission. However, the working mechanism in place cannot assure the link between the existing/planned sector strategies and MTBP submissions.

12. **Specifically, in the long term, the water sector budget seems poorly linked with strategic planning documents.** The total cost of the NSS (including both CAPEX and TA but excluding operational expenditures) by 2030 is estimated at US$1.65 billion. Based on historic and currently committed allocations, the government's total estimated sector expenditure by 2030 will be US$973 million. Thus, there is a funding gap, of almost 41 percent, with respect to the overall cost of implementing the strategy. The projected sector expenditure does not include investments directly financed by local government budgets or by the utilities. However, considering the limited financing and creditworthiness capacities of

[136] The standard instruction for budget preparation issued in 2012 (and updated late 2016), and annual instructions issued in February/March and July.
[137] Originally, it has been planned that the pilots would run the 2021 budget formulation process through the AFMIS system. However due to considerable slippages in the preparation schedule because of emergencies, the piloting was delayed.

the latter, the funding of the NSS in the medium to long run (CAPEX, technical assistance, and OPEX) will hence require additional resources.

13. **In the short to medium term, the MTBP annual budget estimates do not sufficiently align with the National Strategy's action plan.** Concurrently, the team has assessed a current fiscal gap[138] of US$56 million (or 40 percent of total program expenditure) over a period of five years pertaining to the PforR PEF (total US$135 million). The additional budget required for the first two years of program implementation would be of US$6 million, respectively, scaling up to US$15 million annually for the remaining years of implementation. Hence, there would be a risk that costs required to implement activities in support of the achievement of the DLIs may not be fully funded in the state budget regardless of World Bank financing availability. However, during negotiations the Ministry of Finance has confirmed its long-term government commitment to the Program results reflected through sector prioritization and provided assurances that Program activities were adequately funded in the budget. Starting from 2022, the financing of the Program as required for achievement of the DLIs will be enabled via the regular budgeting process and through the domestic fund of the budget.

14. **The various PFM reviews indicate that, in practice, the budget development process is largely driven by demands for spending, as opposed to resource availability and prioritization, and de-linked from the planning process.** The budget appropriations, in practice, do not reflect candidly projects' implementation plan and actual works schedule. The reported arrears by AKUM consist mainly of unfunded multiannual construction contracts: contractors have advanced with works beyond the contract payment schedule. The liability could be higher considering the uncertain nature of such records, which may not capture accurately the actual value of works. It is critical to implement measures to strengthen the data collation, validation, and analysis underpinning Program budget formulation within AKUM/MoIE, especially with respect to multiannual activities. This is interlinked with the establishment of proper asset management practices at the level of the WSS utilities, that will inter alia, improve the capital investment planning.

Procurement Planning

15. **The public procurement legal and regulatory framework allows for a rather realistic preparation of annual procurement plans based on budget allocation and requires publication of public procurement forecasts.** Procurement planning is linked to the available budget and procurement procedures and cannot be launched if the budget is not available to the contracting authorities (CAs). Several delays to start procurement at the beginning of each budgetary year were reported due to the requirement of the MoFE instructions for budget execution, that the CAs would have "fiscal" access to their budget before launching procurement, but starting from 2018, PPA lifted this requirement and instructed CAs to start preparing their tenders immediately upon approval of the annual budget. The e-procurement system (www.e-procurement.gov.al) is expected to be integrated with the AGFIS to ensure the automatic check of available funds before contract signature. All CAs are listed in the electronic system

[138] The gap between projected allocations, based on current MTBP 2020–22 allocations and assuming same level of allocations for 2023–25. The projection assumes that the additional expenditures planned under the PforR could not be accommodated/covered under MTBP 2023–25.

the annual procurement registers within 10 days from the approval of the annual budget, and the PPA should publish this register on its website (app.gov.al).

16. **The division of responsibilities for procurement planning depends largely on the capacities of CAs at the local level; a clearer methodology for measuring these capacities needs to be developed.** During 2019–21, it was noted that AKUM played an important role in supporting procurement planning at smaller utilities, being responsible for planning and budgeting the investments that will be financed by state budget subsidies for investments, while project preparation and relevant budget estimation are under the responsibility of the respective utilities. During the assessment it was noted that procurement planning at large utilities (in Group 1 and a few from Group 2) is decentralized while for the other WSS utilities (belonging to Groups 3 and 4) investment projects are planned by AKUM in coordination with the relevant municipalities. Based on the summary analysis of the registers of forecast for FY2020, it is observed that most of the activities procured directly by WSS utilities are limited to procurement for institutional/operational functioning and are mainly low value. During the assessment it was noted that this procurement planning process is not formally included in any guidelines on budget implementation.

Procurement Profile of the Program

17. **The share of procurable items under the Program is about 83.7 percent of the total amount of the PEF.**[139] The Program of Expenditures totals US$135 million for specific activities, expenditures, and results identified under the following proposed RAs supporting the achievement of the government program for the sector and strategic objectives reflected in the National WSS Sector Strategy 2019–30 (NSS).

18. **The procurement procedures to be conducted under the Program are relatively standard work contracts, supply of equipment, and consultancy services, as needed to support the investment projects.** The Program will include procurement of activities that are envisaged in RA2 and RA3 such as: (i) efficiency and performance improvement projects, including TA and capital expenditures to improve water supply infrastructure for 24/7 supply, DMA set-up, NRW reduction, metering, and other improvements in urban areas and rural areas with high density of population or under strategic focus of GoA in tourism; (ii) energy efficiency investments in the utilities with greatest energy consumption based on the findings of energy audits to identify in these utilities and other further measures such as pumps/transformers replacement, power factor improvement, and potential solar PV installations; (iii) financing for around 10,000–12,000 new household connections. None of the planned procurement activities, based on their estimated values at the time, will require review and approval of the Operational Procurement Review.

19. **The same procurement profile expected under the Program was financed and implemented by the existing government program for the years 2018–19 and further confirmed for 2020–21.** The detailed analysis of the procurement conducted through competition procedure (open tender) for the last two years by AKUM and utilities[140] shows that, the majority (about 80 percent) of procurement financed under the Program for goods and services are below the lower monetary threshold determined in the PPL

[139] Details are provided in Annex 1of FSA—Procurement Data Worksheet—Table A—Share of procurable items under the PforR.
[140] Data collected by the register of procurement procedures conducted during 2018–19 by AKUM and all utilities available through the Albania E-Procurement System.

and its regulations.[141] The remaining share of 20 percent of procedures do not exceed, for goods, the value of 360,000,000 ALL (approx. US$3.3 million), and for services the value of 560,000,000 ALL (approximately US$5 million). The procurement profile for the works contract appears to differ from the supply and service contracts, with an average rate of 60 percent of procurement procedures above the lower monetary threshold, but not exceeding 400,000,000 ALL (approx. US$3.6 million). Also, considering the MTBP 2020–22, the new investments under the government program for the WSS sector include mainly works and supply contracts above the lower threshold and service contracts for the supervision of works.

Budget Execution

Treasury Management and Funds Flow

20. **The Program will rely on the existing treasury management and funds flow arrangements applicable to the government WSS program.** The loan will be disbursed upon achievement of the DLIs. Evidence of achievement will be based on the MoIE's, AKUM's, and/or the other implementing agencies' respective technical documentation and will be verified by the independent verification agent following the Verification Protocol. The Bank will review the documentation submitted and will reserve the right for further due diligence on the robustness of data as needed. After the Bank formally considers the DLI(s) met, it will then issue an official letter to the government confirming the achievement of the DLI targets and the value of disbursement. For the disbursement of the respective amount, the Borrower will submit a Withdrawal Application, accompanied by the Bank confirmation letter on achievement of the DLIs. The funds will be disbursed in the Treasury Single Account. The Program funds will be distributed to AKUM, and participating municipalities and WSS utilities, through the standard government budget planning and execution process. The modalities that will determine whether municipalities or utilities will procure, implement, and in tandem release the payments to contractors, will be defined in the relevant guidelines (performance based, COVID-19 subsidy, CAPEX, regionalization incentives) that will be developed and included as part of the POM. For the subsidies received from central government, the WSS utilities release payments through the treasury system, similarly as with budgetary institutions, whereby they will receive the annual allocations granted to their specific institutional code (system wise). The payment is enabled by the regional Treasury District Offices (TDOs), upon deposit of authorized signatories and submission of relevant evidence.

21. **During the last few years under observation, the start of year budget release for the WSS program has been finalized by the end of February.** Contributing factors to the delays are the hierarchical budget structure, institutional fragmentation of the budget release process, CAs' own internal procedures, and in rare cases delays in the approval of the annual budget appropriation law. The process should be typically completed by early January as it is a prerequisite for release of payments. For the Program implementation, the MoIE and AKUM should streamline to the extent possible the process of interaction between the two institutions and advance the confirmation of the detailed activities before the budget year starts.

[141] Article 8 of the CoM no 914, dated December 29, 2014, for the approval of procurement rules, as revised indicates that the lower monetary threshold for works contracts is 12,000,000 (approx. US$110,000) All and for service and goods contracts it is 8,000,000 ALL (approx. US$74,000).

22. **The transactions related to the WSS program are processed using the uniform treasury procedures, which are well developed and documented.** Those payments are released by the treasury single account held at the National Bank of Albania. The General Directorate of Treasury (GDT or Treasury) has the lead responsibility for budget execution. It operates the treasury's single account, other government accounts, and the treasury's information system. The GDT's budget also plays an important role in the process of budget execution: it is responsible for monitoring and reporting, including approving budget reallocation requests during the year (virements), and consolidating and analyzing budget reports. The treasury authorizes and processes the payments, while the primary responsibility for executing the budget lies with the line ministries. The MoIE Finance department is responsible for: (i) preparing the consolidated budget proposals for the budget institutions under their authority; (ii) executing the approved budget; and (iii) preparing the financial accounts of subordinate institutions. For the WSS program, the budget formulation, budget execution, and financial reporting is conducted through AKUM. However, primary responsibility remains with the MoIE. The MTBP and Budget program submissions are prepared by the respective policy units, while the Finance Department staff only consolidate the proposals and submit them to the MoFE for approval. Instructions for payments are submitted by finance departments to the regional TDOs (through the system—in case of access, or manually), which checks all supporting documentation, sends it back if incomplete or with errors, and when approved, executes the payment, subject to the availability of cash.

Accounting and Financial Reporting

23. **The assessment confirmed that in general the central government's accounting and financial reporting systems are overall adequate, with adequate records to be maintained for the Program.** Government agencies, MoIE, AKUM, municipalities, and WSS utilities utilize the AGFIS for budget execution of WSS program activities, which enables recording of contracts, invoices, and payments in the contract and payment module, and captures all the transactions in the general ledger and vendors' accounts. The central government is committed to the adoption of an International Public Sector Accounting Standards based public sector accounting, taking steps in transition from cash accounting to full accrual accounting. To date, WSS program expenditures are recorded and reported in the AGFIS using the modified cash basis of accounting.

24. **The WSS program (program code: 06370) budget execution reports are generally consistent with budget coverage and classification to allow monitoring of budget performance and to be used timely for corrective measures.** In-year budget reports are prepared every four months and used to measure the year-to-date performance through the analysis of expenditures outturns, with respect to original and revised budget estimates, and provide information by group economic accounts and source of financing, and budget outputs. The reports are complemented by capital investments progress schedules, presenting project commitments, actual and cumulative expenditure, respective budget allocation, and project status.[142] More frequent reports are prepared for management purposes but not disclosed. A similar reporting structure is used for annual budget execution reports for the Program. However, reports are not accompanied by a detailed analysis and commentaries of budget execution related, for instance, to changes in the initial allocation between headings. For the purposes of the

[142] Project codes are assigned by contract (civil works, goods, consultancies, technical). However, there are instances where project codes are assigned by activity or group of activities.

Program monitoring, the current financial reporting arrangements will require improvements in terms of content and processes. Such will be agreed and included in the POM.

25. **Overall, the quality of the accounting records and financial statements at the WSS utility level is poor.** Mainly, the WSS utilities use automated accounting software for accounting and financial reporting. However, the smaller utilities have been observed to use spreadsheet reporting. Weaknesses are noted in the maintenance of customer ledgers, property plant and equipment registers, and government grants.

Procurement Processes and Procedures

Legislative and Regulatory Framework

26. **The legal framework for procurement (PPL and secondary legislation) is clearly established and provides the elements needed for a functional decentralized procurement system.** The legal framework on public procurement is largely in line with the 2014 EU directives procurement. A new PPL[143] was approved by the Parliament in December 2020 and has been effective since March 30, 2021. Procurement under the proposed Program will be conducted in accordance with the new PPL and the set of implementing rules and instructions in force for PPL implementation.

Institutional Framework of the Public Procurement System

27. **The PPA and PPC are the key actors in Albania's public procurement system.** The PPA is the main regulatory body, established as a stand-alone organization accountable directly to the prime minister to whom it reports on a yearly basis. On the other hand, the PPC—with a direct reporting line to the Parliament of Albania, which appoints and removes from office its president and four other members—deals with complaints and appeals against decisions of CAs.

28. **CAs have the ultimate responsibility to conduct the procurement process for all public contracts financed through public funds.** Each institution must be registered as a CA at the Electronic Procurement System (E-PS) and have at least dedicated responsible staff for procurement procedures within the institution. According to the statistics provided by the PPA, the total number of active CAs in Albania in 2018 was 1,388 while during 2019 about 1,327. **All WSS utilities and municipalities operate as individual CAs.**

Procurement Procedures

29. **All WSS utilities and municipalities operate as independent CAs that are responsible for conducting procurement for their self-generated budget and for state budget funds which are transferred by AKUM as investment subsidies.** During 2019, AKUM maintained the role of CA for five procurement procedures while the rest of the procedures were transferred to municipalities, not to WSS utilities. Only two WSS utilities conducted procurement for the state budget transferred from AKUM, a figure that indicates that their capacity is weak and requires a systematic approach to be involved in project preparation and implementation. Although the number of procurement procedures conducted by

[143] Law on Public Procurement No. 162/2020.

AKUM during 2020–21 is low,[144] procedures have set up AKUM as a CA, covering procurement on behalf of two WSS utilities. The same approach is expected to be followed under the PforR Program: in principle the allocation will go to the municipalities. By identifying through a detailed methodology, the cases where the works, services, and goods will be procured by the municipality and where WSS utilities have good capacities to handle procurement, the responsibility will be transferred from the municipalities to WSS utilities.

30. **The mandatory use of the E-PS has significantly reduced the use of negotiated procedures without publication of prior notice (direct contracting).** One of the main issues identified by an assessment of public expenditure and financial accountability in 2017 was the high number of direct selection procedures, amounting to 30 percent of the total procurement procedures that year. Starting from 2018, the PPA enforced the use of E-PS also for negotiated procedures without publication of prior notice, which helped reduce their number. In past years direct contracting has significantly decreased, to 9.4 percent in 2018 and to 3.2 percent of the total procurement procedures launched in 2019.[145] During 2020, the overall amount of direct contracting increased at the national level, due to earthquake and COVID-19 recovery procurement procedures, but it did not affect the water sector. The same declining trend is noted in AKUM, with only two such procedures in 2018 and none in 2019–21.

31. **Preparation of bidding documents and technical specification is coordinated among procurement units (or procurement dedicated staff in small-scale CAs) and technical divisions within the institutions.** Use of standard bidding documents is obligatory for each procurement process. Model procurement documents and contracts are included as part of tender documentation for goods and works and services available, and the content of the standard and mandatory clauses and templates of the standard contract conditions is consistent with internationally accepted practice. The tender documentation does not refer to any brand names, or catalogue numbers, or names of manufacturers. General conditions of the tender documentation include number and names of the lots, qualification requirements, technical specifications, agreement on participation, information on qualification, and limit of fund available (cost estimate) for the tender.

32. **One-third of procurement infringements, as identified by audit reports of the State Audit Institution (SAI), are related to technical specifications and related qualification requirements included in the bidding document.** An audit conducted at AKUM during 2018–19 identifies that some qualifications requirements related to the contractor's previous experience are not set as required by the PPL in conformity and with the scope of the respective procurement procedure. Usually, the preparation of technical specifications and bidding documents is a lengthy process and it often takes time to collect the necessary data. Technical inputs are collected by technical departments of utilities or municipalities and provided to the unit established for the preparation of the bidding documents under each specific procurement procedure that is launched. This ad hoc unit is composed of three staff assigned by the head of the CA, among whom is always someone from the procurement unit/staff who will guarantee that the requirements of the PPL are correctly observed.

[144] During 2020, AKUM conducted procurement of two works contracts and two service contracts. During 2021, the number of planned procurements was two; however, none of them was successful.
[145] PPA 2018 and 2019 annual reports.

33. **The level of competition differs by the type of procedures and nature of the contract; however, on average, the number of bidders in open competitive procedures is three.** Taking into consideration that in some cases this number is reduced if the financial offer is above the fund limit disclosed by the CA, there is the risk of low competition or cancellation of the procedure. At a national level, the rate of unsuccessful procedures was 15.4 percent of procurement procedures launched in addition to the number of procedures that have been annulled (2,353 out of 8,400 published on E-PS).[146] Overall, this means a 28 percent cancellation rate and 15 percent failure to announce winners of procedures, which shows that not only should the CAs improve their preparation for procurement procedures, but also the PPA should analyze cases by taking appropriate measures toward legal improvements for the development of qualification requirements and training and other measures provided by law. The assessment also noted a high rate of cancelled procedures in AKUM, with a 68 percent cancellation rate in 2018 and 36 percent in 2019. On average the rate of cancelled procedures at WSS utilities during 2018–19, as assessed during the FSA preparation, was 16.5 percent.

34. **The average time to process procurement generally complies with the requirements of the PPL, with some exceptions when complaints are made by bidders participating in the tender.** The processing time is linked with the type of procurement method, but as an average, the time required from launching the procurement notice up to the contract award for open competitive bidding is two months for a works contract and from 1 to 1.5 months for supplies. In a limited number of procedures, the timeline to conduct procurement is prolonged due to complaints submitted, and consequently the procurement gets suspended.

Review and Grievance Mechanism

35. **The PPC is the centralized body responsible for reviewing complaints in the field of public procurement procedures. Due to a very high number of complaints, there were noted delays in the decision-making process by the PPC.** The provisions of the previous PPL in force at the time of FSA preparation, stated that the PPC shall decide upon a request for protection of rights within 15 days from receipt of the request and not later than 30 days. During 2018, 38 percent of cases were ruled within 0 to 30 days from their submission, while 68 percent of cases were ruled beyond 31 days. The average time to process seems to have improved during the first half of 2019, when 71 percent of lodged complaints were dealt with in 0 to 30 days and 29 percent of cases exceeded 30 days. The new PPL provides for a more streamlined complaint mechanism through mandating the submission of complaints at the same time to the CAs and the PPC, aiming to reduce the time for handling complaints. Also, an e-complaint system was made operational by the PPC by mid-2021, which is expected to reduce the administrative time for filing and dealing with the complaints.

36. **The rate of complaints for procurement in the water sector was almost 23 percent of the total number of procurement procedures conducted during 2018–19 by CAs operating in WSS, out of which 45 percent were accepted by the PPC, with an average of 45.2 days to process and rule a claim.** Complaints and all relevant documentation are submitted and kept in hard copy rather than electronically (e.g., in a database or an electronic procurement system). This made the data analysis difficult and time consuming. It was difficult to generate statistics by type of complaint, sector, category of procurement,

[146] Data collected from the 2018 PPA Annual Report.

economic operator, and so on, at a specific point in time, and some of the decisions were not accessible (link was not functioning through the PPC website). The number of PPC decisions challenged in the Administrative Court is not significant (i.e., in 2019, out of 43 cases only 3 have been brought to the Administrative Court). Since it was not able to access how the Administrative Court had ruled over these cases, the fiduciary team took into consideration the figures provided by the PPC 2019 annual report, where it is indicated that on average 80 percent of the decisions of the PPC are confirmed by the Administrative Court,[147] implying that PPC decision-making is solid.

Control Mechanisms

37. **Based on the findings of the SAI, procurement compliance is still generally weak, especially in more complex procurement procedures. The main findings of the 2018 state budget audit reveal that 40 percent of the audited funds have been identified with infringement of procurement procedures.** The audit scope covers the type of the procedure and all related decisions, bids, evaluation reports, decisions of contract award, and the contract itself and its execution. The most common findings are due to poorly prepared procurement plans, lack of experience in public procurement, and particularly, unrealistic needs assessments. In total, 291 procedures are declared to have not correctly followed the PPL and secondary legislation, out of which 193 are during procurement process, 135 during the preparation of technical specification, and 75 during contract execution. Some general remarks on the legal gaps identified show that the PPL is silent on the obligation to provide only bank guarantees as bid security. The audits have noted that majority of bidders present only security policies issued by insurance companies which expose the CAs to a great risk. Also, a lack of administrative penalties in case the first-ranked bidders withdraw from the bidding process raises the concern of potential collusion; as such the PPA should provide some legal revisions to the regulation to add this type of penalty. The findings of the SAI also raise the issue of different prices provided by economic operations for the same type of services/supplies/works during the preparation of market analyses and establishment of the fund limit, and they are higher than those offered during the bidding process by inflating the fund limit.

38. **Procurement staff face the potential risk of being demotivated and imposed with financial fines.** According to the audit procedures, in cases where SAI identifies any infringement of the PPL and its secondary legislation, it informs the PPA of its findings and recommendations. Based on the provisions of the PPL, the PPA is responsible to assess on its own the findings and set the appropriate measures. During 2018, based on the assessment of the audit reports, the PPA imposed financial fines on 267 employees engaged in different stages of the procurement process, while disciplinary measures were applied to only 81 employees.[148] This approach, even though it is based on the provision of the PPL, produces a chain of demotivation for the staff of CAs to be involved in procurement activities and has been one of the reasons for continuous turnover of procurement staff.

Contract Administration

[147] 2019 Annual Report of Public Procurement Commission.
[148] SAI annual report 2018 on state budget execution accessible at https://www.klsh.org.al/

39. **The contract management phase was narrowly covered by the previous PPL and has been identified by SAI as an area where several critical elements are encountered.** The said PPL did not envisage a clear procedure to amend the contract during its implementation phase. After conclusion of a public procurement contract, the contracting authority may conduct a contract amendment that will result in a change of contract price only by means of a negotiated procedure without prior notice. However, this procedure is introduced in the new PPL, which foresees the contract modification procedure as a separate step, by indicating the maximum revision of the contract value by 20 percent through the modification procedure. During the assessment the team was not able to collect data on contract management due to the nascence of the new PPL, which was enacted on March 30, 2021.

40. **In some large investment projects in AKUM, SAI has indicated that the additional works approved lack the rationale and justification from a technical point of view, putting in question the need to add financial resources for the additional works. Despite the above audit conclusions, it should be acknowledged that the number of contract amendments was reduced significantly during 2018–19.** Only in 2018, AKUM proceeded with contract amendment for two ongoing contracts, using the negotiated procedure without prior publication of notice by adding 20 percent of the original contract value. During 2019, there were no contract amendments for additional works. Contract amendments to postpone the contract implementation timeline are, however, more frequent and although they do not have direct financial impact there is the risk of associating this practice with overall economic loss for the CAs in obtaining the investment when planned and initially scheduled. No contract amendments were recorded by AKUM during 2020–21.

41. **The current PPL foresees that the PPA will also be responsible for monitoring CAs in the contract management processes**. The PPA will collect information on a regular basis on the signed contracts, their amount, the implementation timeline, and agreed schedule of implementation. CAs must submit a report on contractual modifications to the PPA. Mandatory quarterly reports prepared by CAs delivered to the PPA, among others, must contain information on awarded public procurement contracts, amended public procurement contracts, and execution of public procurement contracts. Further improvements of the E-PS were planned in the PFM Strategy 2019–22 by creating a new model that would ensure that contract implementation is registered in the system.

Internal Controls

42. **Generally, there is a sound legal base for public sector financial management and control. However, significant weaknesses are reported in their actual implementation.** In practice, there is a lack of understanding of the need for business processes descriptions, which are often confused with job descriptions. Undocumented policies and procedures on the budget execution process give rise to inefficiencies in the process of handling requests, commitments, payments, and reporting, mainly because the roles and responsibilities across various divisions are not clearly defined and documented. These gaps in the control environment are noted in all the sector entities (MoIE, AKUM, and water utilities), and affect most business processes. During 2019, AKUM, with the support of donors, developed and endorsed the organizational structure, internal regulations, and job descriptions, while a manual of procedures for the operations of AKUM was being developed. Once endorsed, the implementation of the given requirements will require proper staff training, and proper monitoring and oversight at the management and MoIE level. Another important aspect with respect to the composition of the finance and budget department of

AKUM and MoIE, is that the finance units seem to be understaffed compared to the role and competencies given by the PFM and financial management control (FMC) rules; hence, undermining the principles of division of labor and segregation of duties. In addition, the program is introducing a new PBG mechanism for the water utilities. It is crucial that detailed guidelines and procedures are prepared and endorsed for the annual performance assessment and grant administration, the new system deployed for the performance monitoring is used effectively, and all the stakeholders properly trained. These activities are supported by the IPF TA.

43. **Commitment controls** (relevant for AKUM and MoIE). During the interviews, the assessment team noted that management reviews periodically the physical progress of active investments against the financial progress, to assess the funding needs. No other monitoring controls over commitments are in place. Controls such as a review of the aging of open purchase orders and purchase requisitions, reconciliations, and monitoring and follow-up of stale items, or management reports would enhance the effectiveness of commitment controls. To the extent possible, these control activities will be adopted for the Program monitoring.

44. **Compliance with payment rules** (relevant for AKUM, municipalities, and utilities). Treasury instructions on the recording, processing, and reporting transactions are clear and are respected by the financial officers involved in the preparation and entry of the transactions. The TDOs are ultimately responsible for payment execution. The Treasury system has built-in extensive checks that ensure that errors are detected before they enter the system and are corrected when processed. Specifically, every payment order presented by the institutions (AKUM, municipality, or utility) is controlled by the financial officers at the TDO before it is processed, irrespective of whether the unit has direct access to the system or not. Regarding payroll in MoIE and AKUM, the audits indicate that there are adequate links between the approved budget, personnel records, and payroll records, with payroll payments properly authorized via an automated system.

45. **Monitoring of the quality of internal control system.** The MoFE monitors the Public Internal Financial Control (PFIC) performance across public sector units though a set of budget, treasury, and FMC indicators, and the results are presented in the PIFC annual report.[149] The 2020 data indicate that the performance of the MoIE and AKUM is poorer than that of most peer institutions, especially in areas such as: arrears recording and reporting, timeliness of submission of contracts and invoices for payments, and recording of settlement plans for multiannual contracts. AKUM and the MoIE should undertake the necessary measures to improve the performance in these areas. On the other hand, the compliance audits (both internal and external audit), conducted during the recent years, have not reported significant deficiencies and noncompliance of payment transactions for salary or non-salary expenditure with established procedures (regular procedures and procedures for exceptions).

46. **Governance and control environment in WSS utilities.** Water utilities receive considerable direct budget subsidies, guaranteed debt, and budget support in the form of loans for financing of investment projects and coverage of negative operating cash flows, as well as various forms of indirect support, that generate significant direct and contingent liabilities to the budget. However, existing monitoring and disclosure requirements are insufficiently developed and poorly integrated into the government's overall

[149] Ministry of Finance order no. 89, dated 28.12.2015 on the methodology for performance monitoring of the public units.

budgeting and reporting. Furthermore, corporate governance of water utilities is hindered by shortcomings in the legal and institutional framework for the appointment of management members (composition, competence, and selection process). There is generally weak control environment and financial management capacity across utilities; the organizational structure and internal regulations are outdated; job descriptions and written procedures are lacking; staff turnover, human capacities, and the effectiveness of internal controls procedures are questionable; external auditors do not seem to be properly assessing the quality of financial information produced by water utilities, and transparency requirements are not being complied with. Continuous capacity building and legal institutional strengthening is required to address the above shortcomings, which would be supported by the IPF.

Internal Audit (IA)

47. **There is a comprehensive legal and institutional framework in place regulating the public sector IA. However, recent reviews[150] indicate that the IA function at the national level still has no systematic or diagnostic nature in assessing the effectiveness of the internal control.** In practice, internal auditors face a lack of support and are confronted by misinterpretation of their function by their top managers. The IA function primarily consists of ex post reviews, which are focused on checking financial transactions and compliance. On the other hand, the auditors have limited understanding of system-based auditing, and the requirements of such are not reflected in their working papers and reports, even though their audit plan indicates that they will perform an audit assessment of specific systems. IA activity is monitored on a yearly basis by the MoFE Central Harmonization Unit.

48. **There is an operational IA function in the MoIE, with overall adequate capacity and qualification considering the well-established certification and training program implemented by the MoFE.** The unit has nine certified internal auditors and operates based on an approved annual audit program. All MoIE programs are subject to the audit and the scope extends to all the institutions that received budget from the MoIE, including AKUM, the municipalities, and WSS utilities. While full-scope audits (including financial and compliance) are conducted on AKUM as direct subordinate of the MoIE, compliance audits are a norm on the activities implemented by municipalities and WSS utilities with the budget received by the MoIE/AKUM. AKUM has been the subject of audit at least once every two years. The WSS utilities and municipalities are selected based on the assessed audit risk. Changes to the original audit plan are approved by the minister based on justification. The internal auditors submit their reports to the minister and IA committee and the head of the public entity audited. Audit findings are generally reported to be followed up during subsequent reviews as well as through immediate responses/actions taken by the respective heads and ministers. Most findings on those audits relate to weaknesses in the procurement systems for purchasing and capital investments. The audits indicate that capacities in the WSS utilities have improved after the territorial reform, but capacities are still very weak.

49. **By contrast, the IA function, in those WSS utilities that have been established, is still at a very embryonic stage and not effective.** To date the IA function is established in six WSS utilities, with composition and qualifications varying between the utilities. These WSS utilities do not have an audit committee, and IA units are subordinated and report to the administrative board/managing directors. The resulting lack of independence limits the IA effectiveness. By mandate, the LGU's IA function should cover

[150] PEFA 2017, World Bank.

the WSS utilities that do not have an established IA function. The IA arrangements in the LGUs are similar to those of the central government. The size and staffing of the IA units vary depending on the size of the municipalities. In addition, staff capacity and qualifications vary across LGU IA units.[151]

Access to Information

50. **Access to information should be facilitated and maintained throughout Program implementation. It should be noted that during the assessment of the PforR Program's fiduciary systems, access to some internal information of the implementing entities' fiduciary systems required was not timely.** This still has been identified as a substantial risk, as such information is necessary to be reviewed not only during the Program assessment but also during the Program implementation (for monitoring of the performance of the Program's fiduciary systems), and it is important that the MoIE and AKUM support the Bank fiduciary team to get access to such information during the entire period of Program implementation.

Program Governance and Anticorruption Arrangements

51. **Procurement remains a sensitive area; perceptions of high rates of corruption are not reflected in the low number of cases that go through formal prosecution.** However, according to the information gathered for the FSA, actors involved in procurement both at the central and local level in many instances do not confirm the allegations, which generally only raises the degree of perceived corruption. Based on the Transparency International Corruption Perception Index for 2019, Albania is positioned 106/180, with an overall score of 35/100. The 2018 and 2017 score for the same index was 36/100 and 38/100, which indicates a loss of 2–3 points; Albania lost seven places from the 2018 ranking. Also, according to a global report of the World Bank on enhancing government effectiveness and transparency, although innovative measures have been introduced to fight corruption (e.g., the E-PS), an unexpected consequence is that perceptions of corruption increase based on the number of unpublished procedures, conducted as negotiations out of the E-PS.

52. **To address the possible cases of fraud and corruption associated with Program implementation, the Program will rely on the respective country systems.** The main agencies responsible for the implementation of the Program's anti-corruption measures will be the Ministry of Justice (MoJ) and implementing agencies. The POM will include a protocol of reporting the cases of fraud and corruption allegations through Program implementation. For the purpose of reporting to the Bank, the MoJ, through its General Directorate of Anti-corruption, will be the main responsible institution that, in coordination with the above agencies, will collect the required information. The Program implementation will be aligned to the Anti-Corruption Guidelines applicable to PforR operations dated February 1, 2012, and revised on July 10, 2015, and will include the below measures:

- *Sharing of list of debarred firms and individuals.* The Program's participating agencies will use the World Bank's List of Debarred and Cross-Debarred firms and individuals to ensure that persons or entities debarred or suspended by the Bank are not awarded contracts under

[151] The IA units have been established in 50 municipalities out of 61. In total there are 145 auditors out of which 94 are certified and 15 are in the certification process. Those LGUs that cannot establish the IA function pursuant to the criteria established in the law, can outsource from other institutions (MoFE).

the Program during the period of such debarment or suspension. The list can be accessed on the World Bank's website (*www.worldbank.org/debarr*). Compliance with this requirement would be monitored by the Project Coordinating Unit at AKUM and will be checked by the Program's auditor. Since multiple agencies will be involved in procurement transactions to avoid the risk of not being aware of the debarred list (i) the PPA will publish on its website the updated list of debarred firms and individuals and will issue a notice that this list is applicable to all CAs participating in the Program; (ii) the updated lists of debarred and temporarily suspended firms and individuals will be shared by the PCU on a regular basis (through a web page, if feasible, updated concurrently with World Bank update) with the agencies in charge of procurement; (iii) the TOR for an annual audit of the Program will request that auditors check on a random-sampling basis whether any contract has been awarded to an ineligible firm or individual; and (iv) regular progress reports should confirm that no such debarred or suspended firms have been contracted under the Program.

- *Sharing of information on fraud and corruption allegations*. Annually the MoJ, through its General Directorate of Anti-corruption, will prepare consolidated information based on a format agreed with the World Bank on all allegations received regarding fraud and corruption under the Program and share it with the World Bank. For this purpose, the MoJ will coordinate with the implementing institutions of the PforR program based on a Protocol for Fraud and Corruption Reporting for the Program to be agreed among the MoJ and MoIE and included in the POM.
- *Investigation of fraud and corruption allegations*. The implementing agencies will provide full support to the General Directorate of Anticorruption at the Ministry of Justice and World Bank when carrying out investigations related to fraud and corruption allegations made during the Program implementation. The MoJ will promptly inform the World Bank on all credible and material allegations or other indications together with the investigative and other actions that the Borrower proposed to take with respect thereto. The World Bank will retain a right to investigate allegations, and the Borrower will provide the World Bank with the necessary access to needed persons and information applicable to the Program. Other pillars of the Program Anti-Corruption system include use of independent auditors/verifiers for the audit/verification of the Program. The auditors will be appointed from the list of auditors acceptable to the Bank.

Auditing

Program Audit. Arrangements for independent audit of the program and related risk including procurement.

53. **High State Control (HSC), Albania State Audit Institution, will be responsible for an annual audit of Program financial statements.** Such an agreement will be included in the Program's legal agreement, and arrangements were discussed with HSC during the Program preparation. Program audits will need to be carried out starting with the first year of Program implementation. The audit reports will need to be produced no later than nine months after the end of each fiscal year. A Program audit is not part of the existing annual audit arrangements at HSC and therefore should be separately discussed and agreed.

54. **The Program financial statements will include all budget lines associated with the Program, and respective spending (annual and cumulative), as well as Program liabilities.** The Borrower will disclose the audit reports for the Program within one month of their receipt from the auditors and acceptance by the Bank, by posting the reports on the MoIE website. Following the Bank's formal receipt of those reports from the Borrower, the Bank will make them publicly available according to the World Bank policy on access to information.

55. **The audit of Program financial statements will be carried out according to TORs that would be discussed and agreed between the MoIE and HSC, guided by the World Bank to ensure adequacy and acceptability.** The TORs would require auditing the annual program financial statements as well as report on any deficiency of internal controls noted in implementation of respective budget lines. Auditors will also review the procurement procedures and respective control framework and report on any high-value contracts. Auditors will be required to confirm that all budget program expenditures have been legitimate, including application of World Bank anti-corruption guidelines, limitations related to large-scale procurements and debarred firms.

Supreme Audit Institution Mandate and Current Coverage

56. **All public sector entities are subject to oversight by the country's Supreme Audit Institution (SAI) – HSC.** The HSC annually submits to the Parliament a report on execution of the budget along with its compliance audit opinion. Besides the annual budget execution report, SAI conducts periodic compliance/regularity audits covering all public sector entities, and issues separate audit reports for each institution. During the recent years, the SAI has started to provide an opinion as a result of its audits. The entities are audited periodically, according to an annual plan of audits that is determined based on audit strategy and assessed risk. The annual plan of audits and audit reports produced (or in some case parts of it) are published on HSC's websites. There is no legal provision in the SAI Law on the timeliness of the submission of audit reports to the legislature, but other relevant legislation, such as the Constitution and the Organic Budget Law require that the previous year's audit is submitted before the Parliament starts debating and approval of the following year's budget. More specifically, the SAI compliance audits on the sector are carried out on periodic basis. During the last three years (2017–19), there has been only one compliance audit of AKUM operations, which was carried out in 2019 and covered the period May 2016–July 2019.

57. **While the SAI carries out the full range of audits, most of the SAI audits are compliance audits with a focus on determining irregularities.** The SAI law prescribes the types of audits that can be undertaken by the SAI, such as financial audits, compliance audits, performance audits, and IT audits. In practice, most of the SAI audits are compliance/regularity audits with a focus on determining irregularities as well as highlighting any relevant material issues and systematic and control risks. In recent years, most of the audits conducted within the scope of the central government and local government operations, including water sector, have been as compliance audits. Financial audits are not yet widely used and not conducted on a regular basis, and SAI auditors are not accustomed with its requirements and standards. The root cause being absence of a financial reporting framework consistently applied by the budgetary organizations.

58. **An ongoing reform process is under implementation to ensure the Albanian SAI is becoming compliant with the International Standards for SAIs (ISSAI)**, with a strategy in place for the adoption of the ISSAIs to drive the audit approach to focus more on identifying opportunities to improve systems or address potential improvements in the efficiency and effectiveness of public service delivery. However, a progress in the consistent quality of compliance performance and financial audit is yet to be achieved. In practice, the SAI does not consistently follow international auditing standards, even though they have financial and compliance audit methodology developed based on international standards and good practices. The latest audit opinion issued by the SAI on the AKUM operations has been qualified[152] with respect to deficiencies and discrepancies, underpinned by noncompliance with requirements of the PPL and Law on the Supervision and Control of Civil Works.

59. **The State Audit Institution capacity limits the number of WSS utilities audited each year and the type of the audits conducted.** The Albanian legislation stipulates that state-owned enterprises (SOEs) fall under the mandate of the SAI. There is a separate department responsible for audits of SOEs at both central and local level. No financial audits are conducted, as statutory financial audits are carried out by independent audit firms appointed by the shareholder of the entities (as required by the Commercial Company Law). More specifically, SAI's 2019 plan of audits includes five compliance audits and one IT audit in the major WSS utilities. The audited entities deliver the response to the audit findings within 120 days, and implementation of the audit recommendations is assessed as partial. The main SAI audit findings relate to weak internal controls framework, weak procurement capacities, boards, and accumulation of arrears to other public enterprises or authorities, including tax. Although the SAI has been developing substantially over the past several years, the Law on State Audit Institution mandates a broad scope of auditees. As such, the SAI can conduct audits of WSS utilities at best only once every several years, and focused on the biggest utilities, which bear the most significant audit risks.

60. **WSS utilities' statutory audit.** The WSS utilities are subject to external statutory audit conducted by independent private auditors. Those audits are usually conducted by local auditors not from the Bank list. Various recent reviews focused on broader corporate reporting requirements in the SOE sector[153] and targeting on the WSS utilities[154] have plotted that the quality of external audits is questionable and challenged by several factors, including the lack of audit committees, lack of understanding of financial accountability of the boards and those charged with oversight, and a nontransparent process in the vetting, selection, and appointment of auditors. Hence, the external auditors do not seem to properly assess the quality of financial information produced by WSS utilities. Capacity building and legal institutional strengthening are required to address the above shortcomings, which would be supported by the IPF.

Procurement and Financial Management Capacity

Procurement Staff Capacity

61. **The PPA lacks a certification program for procurement professionals.** Albania has not yet started a tailored public procurement certification but offers only continuous training for procurement officials.

[152] Available at https://www.klsh.org.al/
[153] Albania A&A ROSC 2019.
[154] MoFE WSS Utilities Monitoring Report 2018.

The PPA in cooperation with the Albanian School of Public Administration provides irregular trainings on procurement, at several levels. Generally, the PPA initiates the preparation and deliver of training sessions for civil servants engaged in the procurement unit of CAs by the entry in force of any change or update of procurement regulations, parts of standard bidding documents, and so on.

62. **Procurement capacity differs among central-level and local-level CAs; capacity to manage public procurement procedures still needs to be improved substantially through continuous training.** Central-level institutions have more dedicated staff to deal with procurement processes such as line ministries or their subordinate institutions, where there is usually a unit of at least three people. Municipalities and utilities have limited number of staff assigned to procurement with a minimum range of experience in large investments projects. Indeed, from the perspective of contracting authorities and bidders, a lack of professional skills can become an issue. The level of understanding of common public procurement procedures among end users and their ability to contribute to the process of defining technical specifications can also be strengthened and will improve the overall efficiency of the procurement process.

Financial Management Capacity

63. **Public sector financial management capacity in the WSS sector is overall adequate.** The MoIE Budget and Finance Directorate consists of three sectors and their staff is fully utilized, as the MoIE is responsible for numerous and substantial budgetary programs, and mostly financial management transactions rely on manual work, rather than effective use of the treasury/ budgeting system. AKUM has a well-defined organizational structure, whereby financial management functions are primarily covered by (i) department of investment planning responsible for the budget development and monitoring (three staff), as well as investments selection and appraisal (five staff), and (ii) by the finance sector (three staff). Other AKUM departments play an important role in the financial management of the Program, such as the Directorate for Coordination responsible for collection and analysis of WSS performance data including financial reporting, and Directorate for Monitoring and Supervision responsible for the oversight over the investments implemented by municipalities/utilities. The capacity of public internal auditors in the MoIE is also overall adequate. In general, the FM/accounting staff of the MoIE and AKUM are equipped with qualified staff. However, the assessment indicates that training is necessary on budgeting/planning and contract monitoring. The public internal auditors have the national certificates confirming their qualification.

64. **The FM/accounting staffing capacity at the WSS utility level varies between utilities.** Furthermore, frequent turnover of management and FM/accounting staff is observed, which, in absence of written procedures, proper archiving and accounting, and financial reporting practice, exposes the utilities to the risk of losing institutional memory. Capacity building has been envisaged as part of the IPF TA to the management board, finance departments, and other relevant staff.

SECTION 4: FIDUCIARY ACTION PLAN

Risk	Mitigation Action	Timing	Type of Action (PAP, DLI, etc.)
Procurement capacity			
Lack of a detailed methodology to determine the division of procurement responsibilities among AKUM, municipalities, and utilities.	Develop and implement a written methodology to identify the criteria that will be used to establish the division of procurement responsibilities between municipalities and local utilities.	Before start of Program implementation	POM
Low level of competition and failure to award the contract.	CAs involved in the Program should ensure wide publication of tender notice to be published under the Program to obtain a satisfactory number of bids that will ensure wide competition and MoIE/AKUM to conduct business outreach/market sounding events will be organized before launching of planned procurement activities under the Program.	Continuously during implementation of the Program	POM
Delays in processing the complains by the PPC that affects extension of procurement procedures.	MoIE though the PMU shall establish a monitoring mechanism involving PPC, AKUM, and other CAs under the Program to ensure timely resolution of complaints in water sector procurement procedures.	Before start of Program implementation	PAP
Low capacity at CAs' local level (municipalities and utilities) to perform large and complex investment projects.	The MoIE and AKUM should coordinate with the PPA to: • Prepare and deploy capacity-building activities at CAs that are involved in the Program to improve capacities of procurement and technical staff involved in preparation of Bidding Documents, considering systematic issues/lessons learned from SAI audit reports. • Ensure continuous and sustainable development of the capacity of staff in procurement and contract	Continuously during implementation of the Program	PAP

Risk	Mitigation Action	Timing	Type of Action (PAP, DLI, etc.)
	management by providing regular trainings.		
Cases of possible fraud and corruption.	• The MoJ will consolidate and annually share with the World Bank information on all credible and material complaints on fraud and corruption under the Program and actions taken or being taken. • Specialized training on combating fraud and corruption is required to relevant institutions.	Every year throughout Program implementation	PAP
Award contracts to debarred firms or consultants.	The PPA will publish on its website and issue a notice for CAs under the Program to inform the debarment and suspension list.	Every year throughout Program implementation	POM
Lack of information to monitor Program implementation.	The MoIE and AKUM should ensure that the Bank team has access to the Program implementing entities' internal documentation relevant to the Program fiduciary systems' monitoring and supervision. The Bank will review the documents and provide respective recommendations, as necessary, to be implemented by the entities.	Throughout program implementation	POM
SAI auditors are not accustomed with the requirements for the financial audits.	• To the extent possible, the same audit team is maintained over the term of the project. • Training on financial audit, reporting, and audit recommendations. • Training on combating fraud and corruption for auditors.	First year of implementation, and second year if necessary	PAP
PforR tag.	Establish an appropriate PforR tag for the Program expenditure through new specific budget output and project code, to monitor budget planning and execution, and financial reporting.	Immediately	PAP
Strengthen budget monitoring and reporting at AKUM and MoIE.	Improved budget monitoring reports and financial statements templates will be agreed and	Throughout program implementation	POM

Risk	Mitigation Action	Timing	Type of Action (PAP, DLI, etc.)
	included in the POM.		
Strengthen budget planning.	Technical expertise on streamlining and strengthening MTBP preparation and annual budget implementation for the Program.	First year of implementation, and follow-up years if necessary	IPF TA
Governance, financial accountability, and corporate financial reporting at the WSS utilities.	Capacity building and legal institutional strengthening is required to address the above shortcomings.	Throughout program implementation	IPF TA

ANNEX 5. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

This annex is a summary of a full ESSA produced as a separate document.

1. **The objectives of the Environmental and Social System Assessment (ESSA) are to assess the PforR Program system for managing environmental and social (E&S) effects,** considering the capacity to plan, implement, monitor, and report on the E&S mitigation measures; the scope for improvements; and the risks and related mitigation measures. The specific objectives are:

(a) To document the E&S management procedures, standards, and institutional responsibilities that will apply to the proposed Program;

(b) To evaluate the institutional capacity to manage the likely E&S effects in accordance with the country's own requirements under the proposed Program;

(c) To assess the consistency of the Borrower's systems with core principles and attributes defined in the PforR Guidance Note on Environmental and Social Assessment;

(d) To establish the risks and potential negative environmental impacts of the Program and ensure that these will be subjected to an adequate initial screening so that relevant mitigation measures can be identified, prepared, and implemented;

(e) To recommend specific actions for improving counterpart capacity during implementation to ensure they can adequately perform their mandate. These measures will be agreed on between the Client/Borrower and the World Bank as part of the PAP and will be included in the activities to be supported by the World Bank and the borrower during the life of the Program.

2. **The ESSA preparation process has entailed an active consultation process with key stakeholders**, including the following:

(a) Numerous dialogues with government and line ministries, MoFE, and MoIE;

(b) Consultation with government agencies at the national, regional, and local level that approach the WSS sector;

(c) Consultations with potential beneficiary units, including municipalities, Water Supply and Sewerage Utilities, and Water Supply Directorate Boards and their representatives;

(d) Consultations with AKUM

(e) Meetings with ERRU;

(f) Consultation with active institutions or organizations;

(g) Communication and meetings with other national and international donors working in the WSS sector (SECO, EUROPEAN UNION, ADF, GIZ, KFW, etc.).

3. **Expected E&S benefits** include potential preservation and sustainable development of water environment, improvement of aquatic ecosystems, or compliance with national, regional and/or local environmental or planning objectives. The rehabilitation of the distribution network of water supply will

be associated with improvement of potable water service. This will encourage economic development and may support the development of local businesses. The MoIE and AKUM have expressed interest in strengthening outreach and communication about the social protection program that subsidizes the cost of water supply connections and meters. This activity will be supported by the IPF component. Other expected benefits include:

(a) The Program has the potential to expand water supply access to currently underserved rural and urban areas. New water meters to accurately measure water consumption and curb water wastage will be implemented.

(b) Social benefits may include more targeted service provision for underserved populations, higher-quality service provisions, and greater citizen participation in the development of water sector initiatives.

(c) The regulation and removal of illegal water connections has the potential to promote water conservation as users are less likely to waste water for which they are charged.

(d) Economic benefits will increase the added value of cash flow in the local and national economy for the duration of the investment through increased agricultural production, improved services for communities and citizens, creation of new jobs, and so on.

(e) Development of centralized reporting will provide the MoIE and AKUM with capability for more efficient and responsive resource allocation based on data from across the country.

Potential Adverse Environmental and Social Impacts

4. The following potential environmental impacts were identified:

(a) During construction, there could be impacts on ground water, surface water and soil, and ambient air quality, and the removal of vegetation.

(b) Contamination of surrounding environment and occupational health and safety impacts from asbestos from old water pipelines.

(c) Uncovering of historical and archeological resources.

(d) During operation, potential negative impacts could include contamination of water sources and the risk of delivery of unsafe water to consumers.

5. The following potential social impacts were identified:

(a) Prior to construction, resettlement impacts due to renovation of pumping stations.

(b) Land acquisition during the expansion of water connections and construction of new water supply facilities.

(c) Water supply tariffs may increase for some as a result of the revised methodology proposed.

(d) Removal of illegal water connections will affect the water access of households and businesses that have illegal connections.

(e) Through the IPF there will be TA activities to strengthen outreach and communication about social protection programs that subsidize the cost of water supply and meters.

Assessment of Existing Environmental and Social Risks:

6. The following potential environmental impacts were identified:

(a) The WSS utilities do not have environmental and health and safety specialists; usually this position is covered by the chief engineer.

(b) There are no Environmental and Social Management Plans (ESMPs), only rehabilitation plans at the end of a project.

(c) The identification of risks and significance of impacts needs improvement,

(d) Integrated water resources management is not regularly undertaken.

(e) In terms of asbestos pipe management, WSS utilities typically do not have protocols in place for the safe handling of asbestos pipes during construction works and the disposal of these pipes.

(f) Human resource constraints for monitoring water quality.

(g) For rural water supply networks, additional strengthening should be undertaken to ensure minimal environmental impacts.

(h) Environmental consent procedures are revised and improved.

7. The following potential social impacts were identified:

(a) Procedures of expropriation are defined in the Albanian Law for expropriation. The Albanian law on expropriation does not provide compensation in kind and therefore the provision of adequate housing with security of tenure is not required.

(b) Compensation is provided based on monetary value.

(c) The Albanian legislation on expropriation provides the right to affected people to bring actions before the courts for seeking higher compensation from that defined in the decision on expropriation enacted by the decision of the Council of Ministers, but the affected people cannot challenge the expropriation process.

(d) Claims do not cause suspension of the expropriation process, though it may result in a higher compensation to be paid, if so decided by the competent court.

8. As a result, the overall E&S risk associated with the Program has been rated as "**Substantial.**" Nevertheless, there are adequate risk management and mitigation measures as there is a system in place for public hearings and grievance mechanisms at the national level, through MOIE, and ERRU, and AKUM and the WSS utilities will strengthen their GRMs as part of the Program.

Other Risks

9. **Contextual risk factors**

(a) Increasing water connections will be associated with increasing water consumption and will generate more wastewater discharges that may outpace wastewater treatment plant capacity, which is already lacking.

(b) Sensitivities around water utility aggregation.

(c) Aged water networks and no official data regarding the age of pipelines.

10. **Institutional capacity and complexity risks**

(a) Institutional complexity risks given the Program is open to 61 municipalities and 58 utilities. While the legislation that governs the municipalities and water utilities is national in scope, the execution of E&S-related legislation and procedures may vary.

(b) There is a risk that during the utility aggregation process, roles and responsibilities may not be clearly defined for utility staff which may result in a disruption of service if handover procedures are not clearly defined.

11. **Reputational and political risks**

(a) There are risks around aggregation, related to vested interests within smaller utility companies that may be absorbed by larger utility companies.

(b) The process of determining who pays for the replacement of damaged meters is not fully transparent.

(c) Another risk relates to previous experience in the country regarding land acquisition.

Environmental Management System

12. **In addition to the legislation specifically pertaining to the need for an Environmental Impact Assessment (EIA)**, **there are national policies, laws, and regulations applicable to the proposed PforR** Program and its E&S aspects. Furthermore, Albania has developed environmental standards that are mainly based on the European Commission Directives. Existing standards include protection of the biodiversity, cultural heritage, air emissions, noise levels, water quality and discharge, and waste management.

Assessment of the Capacity of Program Institutions to Implement Program's E&S Management System

13. **ERRU has enough staff to observe public hearings on tariffs and manage their workload related to their complaints system and prepare reports.** However, ERRU has indicated they would appreciate help with updating the Water Supply and Sewerage Code and perhaps digitization of their grievance recording system.

14. **MoIE**—in terms of conducting a participatory process around the development of new policies and laws, the MoIE has prior working experience with other entities for support in complying with

regulations around this process.

15. **AKUM**—does not have staff with environment or social management backgrounds to conduct reviews of investment proposals or follow up implementation monitoring. AKUM has a grievance mechanism in place.

16. **Water utilities**—water utility engineers are not familiar with the E&S regulations. The water quality is monitored by public health institutions that sometimes lack the capacity to test/ monitor water quality in the water supply system, particularly in rural areas. Water supply utilities do manual chlorination which in some cases is not working optimally.

ESSA Recommendations and Actions

17. To help build capacity in AKUM, E&S staff should be part of the project proposal review team composition and in the unit that monitors the investment implementation process. The staff should be trained to review investments that would be considered eligible for disbursement, and they will be provided with training by the World Bank regarding PforR Program policies and strategies to be more familiar with the nature of the project as part of implementation support. The estimated workload of approximately 15–25 investments per year is considered manageable by two E&S staff. A sample position description has been provided in Annex C of the ESSA.

18. While AKUM will be responsible for E&S screening and monitoring, the WSS utilities will be responsible for implementation. The professional staff on the ground are mainly engineers whose main duties include inspecting pipes for illegal hookups, identifying needed repairs, monitoring water quality, and so on, and are sometimes involved in land expropriation as well. The existing staff will need training to carry out some parts of their responsibilities such as implementing/following an ESMP. The training of the WSs utility on implementing/following subproject related ESMPs will be financed by the investment loan, the TA component.

19. AKUM will develop an Environmental & Social and Health & Safety Standard Operating Procedure (SOP) which will also cover the management of potential risks related to asbestos pipe removal in accordance with the existing regulations on avoidance and mitigation of pollution from asbestos. The SOP, acceptable to the World Bank, is intended to be prepared and reviewed by the World Bank at an earlier stage, even if a final version is only required prior to effectiveness. AKUM will prepare and adopt this SOP, supported by staff of the WSS utilities. Therefore, the WSS utilities will have input in the preparation of the SOP, and there will need to be a mechanism whereby they also adopt the relevant parts of the SOP as an integral part of their institutional/operational systems. An integral part of the SOP will be also the ESMP with detailed measures to be taken during the implementation and operation of a project to eliminate or offset adverse E&S impacts, or to reduce them to acceptable levels and the actions needed to implement these measures.

20. To strengthen management of potential risks related to asbestos pipe removal, any potential presence of asbestos pipes should be indicated as part of the investment proposal submitted by the water utility. All employees who will be responsible for managing, overseeing, or coordinating work that may disturb asbestos-containing material shall receive appropriate training and education in keeping with the

level of asbestos work they may be involved with. All AKUM and WSS utility employees who work around and who may encounter asbestos-containing material shall receive training and education commensurate with their degree and risk of exposure. The SOP will include the provision for full-day training on asbestos management, designed to provide information on the uses, locations, and hazards of asbestos; discuss the different impacts of friable and nonfriable asbestos materials; and specific training on asbestos identification, handling, and disposal. Likewise, the SOP will plan for strengthening the capacity of WSS utilities to carry out the ESMP activities.

21. The WSS utility must indicate whether the investment involves replacement of asbestos pipes and submit a worker and public safety plan for removing the asbestos as well as the procedures for replacement set-up in the SOP and in compliance with the existing regulations on avoidance and mitigation of pollution from asbestos.

22. **The E&S SOP will apply to all investments laying out the review and acceptance criteria and indicators to monitor performance during implementation**. This should also be in place and followed by the E&S staff in AKUM. Parts of the SOP will be adopted by the WSS utility. The SOP should include, in addition to the measures for handling of asbestos pipes:

(a) An updated version of the check list on AKUM's screening procedure to include an EIA requirement and to guarantee that the obtained official declaration on land expropriation, released from the municipality, is verified carefully.

(b) Screening should include screening of the cadastral documents, physical terrain screening, and whether a public consultation was held to check the use of the land needed for the investment.

(c) As part of investment proposal documentation:

  (i) Screening will include formal cadastral documents, physical eye inspection, and public hearing. People will be informed where the pipe is going to pass through.

  (ii) Utilities/municipalities should indicate if investments will impact assets/land use of nonformal landowners, provide compensation, and document the compensation provided for assets affected.

  (iii) Utilities/municipalities should indicate if investments will require temporary land acquisition. If so, written agreement with the landowner should be included in the proposal.

ANNEX 6. PROGRAM ACTION PLAN

Action Description	Source	DLI#	Responsibility	Timing		Completion Measurement
Agreement by AKUM and ERRU on TOR and final output for Business Plan guidelines for WSS utilities	Technical		AKUM (coordinating with ERRU)	Other	Before procuring any TA services or in-house development of guideline; and before accepting/adopting final product	TOR to develop Business Plan guideline to be approved by ERRU and reception of final output subject to approval by ERRU. NO by Bank will be required.
Capacity building on fiduciary and environmental and social aspects to LGU/ WSS utilities/ AKUM staff on requirements of E&S SOP, procurement, contract management and budget planning, financial reporting and handling of F&C.	Other		MoIE, AKUM, LGU, WSS Utilities, PPA	Recurrent	Continuous	Fiduciary, E&S and F&C capacity building workshops held with the relevant institutions at least once a year
Consolidation of information on all credible and material allegation on fraud and corruption under the Program and actions taken or being taken, and sharing of report with World Bank.	Fiduciary Systems		Ministry of Justice	Recurrent	Yearly	Ensure proper reporting for fraud and corruption cases and how they have been resolved.
Establish appropriate PforR tag for the Program expenditure through new	Fiduciary Systems		MoIE, AKUM, MoFE	Other	Next MTBP, Budget cycle	MTBP, Annual Budget 2022 and beyond

specific budget output(s) and project codes, to monitor budget planning and execution, and financial reporting.						
Strengthening of E&S aspects management as per ESSA, including: Hiring of qualified E&S Specialists within AKUM PCU and secure E&S budget; Preparation of E&S SOP including on asbestos handling; Establishment of GRM at AKUM (and disclosure of results)	Environmental and Social Systems		MoIE and AKUM	Other	3 months after Effectiveness (before start of Program implementation)	Specialists hired, SOP approved by AKUM, GRM made publicly available
MoIE, through the PMU, to establish a monitoring mechanism involving PPC, AKUM and Contracting Authorities under the Program to ensure timely resolution of complains in water sector procurement procedures.	Fiduciary Systems		MoIE	Other	3 months after Program Effectiveness (before start of Program Implementation)	Preventing delays in processing the complaints by PPC that affects extension of procurement procedures
Training of the SAI auditors on financial audit, reporting and audit recommendations, as well as combating fraud and corruption.	Fiduciary Systems		SAI	Other	First year of implementation	Training report

ANNEX 7. IMPLEMENTATION SUPPORT PLAN

1. **Implementation of the Program will require considerable focused support from the Bank team.** This Program has the ambition of achieving improved sector performance while at the same time highlighting the merits of incentive mechanisms to support a decentralized delivery structure through a system of performance-based fiscal transfers (which Albania is currently using at a smaller scale and without adequate/accurate monitoring and verification protocols), accompanied by strengthening of central government–level institutions mandated with planning, financing, monitoring, and regulatory functions. To succeed, the Program will require more than just financial incentives (through the DLIs). The Bank will need to deploy significant resources and a multidisciplinary team with the right skills and behaviors to facilitate and inspire change. The Bank's facilitating role will be critical to making the PforR work.

2. **One challenge will be to coordinate the actions agreed in the PAP with operational activity on the ground**, ensuring that information flows effectively between the MoIE, AKUM, ERRU, SHUKALB, and the municipalities and WSS utilities. In addition, there will be a significant flow of new information to municipalities during the early stages of the Program relating to the PforR Program and to the additional focus on the preparation of Business Plans and Performance Improvement Plans and capital investment programs. At the local level, the WSS utilities will need to make a gradual shift (starting with those that are more ready to do so, through targeting a manageable number of 10 utilities per year of Program implementation) to focus on improving their own planning, management, and performance, as well as their overall corporate governance, possibly involving the adoption of new management structures including regionalization and others, to ensure that available funding can be accessed, and results delivered in time and within expected budget envelopes.

3. **Bank implementation support will be focused on implementation quality and on making the results-based incentive system work to its full potential.** This will include: (i) reviewing implementation progress (including that of the PAP) and achievement of Program results and DLIs; (ii) providing support on resolving emerging Program implementation issues and on building institutional capacity; (iii) monitoring the adequacy of system performance, and monitoring compliance with legal agreements; (iv) supporting the government in monitoring changes in risks; and (v) providing ongoing technical support through various Trust-funded activities and regional programs and exploring all avenues to enhance capacity building for the WSS utilities.

4. **Coordinating implementation support with critical points in planning and verification of results will be key.** The first implementation support mission will take place as soon as possible after Board approval to support the implementing agencies in the preparation of different activities under the trust-funded activities, including the preparation of an APA Methodology, Business Plan guideline, consolidation of the COVID-19 financial impact assessment, and subsidy/financial support package through relevant ministerial guidelines, preparation of business plan guidelines jointly by AKUM and ERRU, energy efficiency audits, utility improvement plans, utility governance reviews, the design of the new window for new access/rural water supply schemes considering climate smart elements, the promotion of regionalization program, and overall communication component, and other studies under the IPF component. Support from the Bank will include a review of the TORs for key consultancies, the planning for institutional strengthening, and the capacity-building measures. It is critical to have the early involvement of technical experts with relevant expertise in the different areas, in addition to the environmental, social, and fiduciary teams. In particular, the technical team should involve experts in utility reform, governance, rural WSS, behavioral change, regulation, and

citizen engagement. Subsequent implementation support may involve a stronger emphasis on verification/M&E skills.

5. **In addition, TA under the IPF and through the Bank's team engagement will be complemented through several trust-funded activities.** These will complement the PforR operation and support the GoA to strengthen the capacities of implementing entities and the conceptualization of the institutional measures under the Program.

6. **Implementation support for the FSA**. During program implementation the proposed fiduciary implementation support includes:

- Work with the team to review implementation progress, examine the achievement of the program results, and implementation of the proposed Action Plan;
- Help the client to resolve implementation issues and to carry out institutional capacity support; and
- Monitor the performance of fiduciary systems (including via the Procurement and Financial Management KPIs) and audit reports, including the implementation of the legal covenants and PAP; and provide recommendations to enhance efficiency and effectiveness.

7. **The selected key procurement and financial management KPIs** that will be used to monitor the performance of the Program fiduciary system during implementation as presented in table A7.1.

Table A7.1. Procurement and Financial Management KPIs

No	Indicator	Measure	Baseline	Target/Frequency
1	% of procurement completed in support of DLIs achievement	Number of procedures launched each year	0	30% of the amount under each DLI respectively during the 2nd, 3rd, and 4th year of program implementation
2	Average number of bids	Competition level	3	Increased to an average of 4 by the end of 3rd year and to 5 at the end of the Program
3	Volume of complaints received	Procurement effectiveness	25%	Reduce by 3% every year
4	Rate of cancelled procurement procedure	Procurement planning and bidding documents quality	36%	Reduce by 5% every year
5	% of cost overrun in completed contracts	Efficiency of design management	20%	Less than 10% at the end of the 3rd year and less than 5% at the end of the Project
6	Variance: budget allocated	Ratio: Allocated (confirmed)	N/A	95%/Annual

No	Indicator	Measure	Baseline	Target/Frequency
	by government vs budget proposal by AKUM	funds/requested funds (based on the approved annual work plan) (%)		
	Program expenditure aggregate and composition outturn	Ratio: Originally approved (and revised) annual government funding the Program/actual expenditure at the level of program expenditure component	Original 88% (indicator measured for the WSS program 2019)	Original 95%/ revised 100%/ Annual
7	Quality of program account payables/arrears at the end of the reporting period	Completeness of account payable records in AGFIS/accounting system as at the end of accounting period % of such accounts payable at the end of reporting period to the annual budget Average aging of account payable at the end of the reporting period (from the date invoice issued/receipt/ recorded)	N/A	100% recorded and presented in the annual program financial statements Less than 10%/ Annual Less than 30 days
8	Program budget allocation timeliness	Average business days required for budgetary allocations to be enabled at the start of the year (this is a process fragmented between AKUM/MoIE/MoFE)	More than 40 business days	Less than 20 business days
9	Timeliness of submission of contracts and invoices for payments	Annual score received by MoFE PFIC assessment of treasury indicators for Program budget line	12	Annual/24
10	Aging of the open purchase orders and purchase requisitions, reconciliations, and monitoring and follow-up of the stale items	Periodic management reports prepared including the periodic review of purchase/contract records in the AGFIS	No	Annual/Yes
11	Quality and timeliness of annual financial statements for the Program	Completeness and timeliness of annual reports	N/A	Audited annual financial statements of the Program with unmodified (clean) opinion to be submitted to the Bank no later than 9 months after the end of the fiscal

No	Indicator	Measure	Baseline	Target/Frequency
				year
12	Follow-up on Audit recommendations	Evidence of timely and adequate follow-up by the Program management on audit recommendations	N/A	Annual/All audit recommendations are implemented
13	Public disclosure of PforR key documents, including Program budget, budget execution reports, financial statements, audit reports (requirements to be included in the POM)	Timely disclosure on AKUM and MoIE website of (i) budget program (WSS program and PforR); (ii) interim budget execution reports (WSS program and PforR); (iii) AKUM financial statements; (iv) WSS audited financial statements; (v) PforR program financial statements and audit reports	More than 6 months from the endorsement	Annual/interim/ within two weeks from the endorsement of the document by the relevant authority

8. **Implementation support for ESSA**. Adherence to the core principles is monitored as part of Bank implementation support throughout the operational life cycle. The Bank task team monitors PforR Program performance and the implementation of the borrower's E&S systems that apply to the PforR Program, especially regarding any specific systems or capacity strengthening measures agreed with the borrower.

9. **The MoIE/AKUM will share complaint reports from the Portal Kombëtar i Konsumatorëve** (National Customer Portal) platform, and their own grievance platform and ERRU will also share reports on any complaints received under the Program.

10. **AKUM will also share documentation of land acquired as a result of the investments made under the Program** and instances where individuals that did not have rights to land but built structures that were removed as a result of Program activities have been adequately compensated.

Table A7.2 Main Focus of Implementation Support

Time	Focus	Skills Needed	Bank Staff Resources Estimate	Partner Role
First 12 months	Development of ToR for all IPF activities; Development of capacity-building plans; Establishment of arrangements for independent verification; Strengthening of the M&E system	Institutional, financial, legal, governance, procurement, financial management, E&S (gender and Roma minority), Energy efficiency, M&E, risk management/business continuity plans	3 implementation support missions plus 3 technical missions 4 x 10 people x 1.5 weeks = 60 weeks Plus 3 x 5 people x 1 week = 15 weeks Total 75 person weeks over first 12 Months	Joint missions with SECO
12–60 months	Reviewing implementation progress, crosschecking linkages between planning and results, providing support in case of disputes relating to verification (AKUM-WSS Utilities and/or between GoA and IVA)	Legal; fiduciary; social (gender and ethnic minority) and environment; sanitation systems specialist; hygiene promotion; M&E; economics and finance	2 implementation support missions per year, 2 technical missions plus midterm review 2 x 4 yrs. x 8 people x 2 weeks = 128 weeks 2 x 12 people x 2 weeks = 48 weeks 3 x 5 people x 1 week Total 201 weeks over 48 months	Joint missions with SECO
Other	Independent audit/ assessment of verification of results Local technical and institutional consultants	Independent technical expertise On the ground supervision	3 people for 6 weeks = Total 18 weeks 220 weeks	

Table A7.3 Task Team Skills Mix Requirements for Implementation Support

Skills Needed	Number of Staff Weeks	Number of Trips
Legal	14	n/a
Procurement	30	n/a
Financial management	30	n/a
Governance	30	5
Social– Gender[1]	30	14
Environment[1]	30	14
M&E	30	10
Economics	10	5
Technical/Institutional/Financial	90	15
Total	294	

[1] *Bank staff from HQ or local offices will support the local consultants.*

Table A7.4 Role of Partners in Program Implementation

Name	Institution/Country	Role
SECO	Switzerland (World Bank–managed single-donor TF)	The TF includes an RETF for TA, capacity building and program management support at local level (see annex 8) as well as a BETF to support the Bank's supervision and advisory activities for sector reform.
Global Water Security and Sanitation Partnership	Multi-donor (World Bank–managed Programmatic TF)	The TF will finance TA for the application of the Utilities of the Future framework (tool for water and wastewater utilities to self-assess their service quality, performance and maturity, and as well as optimize the use of innovation and technology) and provide TA to support Program activities.
Danube Water Program (DWP)	Austria (World Bank–managed TF)	The DWP supports smart policies, strong utilities, and sustainable services. This is a regional program that develops policy and regulatory instruments as well as capacity building of water and sanitation services sector professionals and policy makers. The proposed Program will benefit from different tools developed by the DWP and its key partner, the International Association of Water Utilities from Danube Region. In addition, the DWP is supporting the design of new tariff methodology by the Water Regulatory Authority.

ANNEX 8. INVESTMENT PROJECT FINANCING COMPONENT

1. **The proposed investment project financing (IPF) component will provide financing for the following activities:** (i) TA and capacity building in support of the three RAs of the PforR Program;[155] (ii) strengthening of capacities within central-level sector institutions for Program management, implementation, and monitoring; and (iii) verification of disbursement-linked indicators (DLIs), program audits, and monitoring and evaluation (M&E) of results. The technical assistance (TA) and capacity-building activities to be funded by the IPF are additional and complementary to the activities and results to be undertaken and achieved by the implementing agencies under the PforR, and they will support and strengthen the achievement of the Program's objectives and their sustainability. The list of TA activities for which the IPF will provide financing under each RA, and the implementing agencies responsible for their execution, are provided in the tables below.

2. **The IPF will be funded from the *Albania National Water Supply and Sanitation Sector Modernization Program Single-Donor Trust Fund* contributed by SECO** and to be managed by the World Bank on behalf of the Donor. The Trust Fund (TF) will be mostly executed by the Government of Albania as the Recipient though a Recipient Executed Trust Fund (RETF). The RETF will be formalized in a grant agreement between the World Bank and the Recipient (i.e., Ministry of Finance). To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the grant available to the Program implementing entities under a subsidiary agreement to be signed between the Recipient and the National Water Agency (AKUM). The TF will include a Bank Executed Trust Fund (BETF) for: (i) the provision of implementation support to Recipient-executed activities; (ii) advisory and analytical services to support sector reforms and sector coordination; and (iii) management and administration activities for the TF.

3. **As a working arrangement to enhance coordination between the two institutions and exchange information and views on the TF implementation, the Bank team will convene on a yearly basis an Advisory Panel (AP**) comprising management representatives from the Bank and SECO. The AP will provide nonbinding high-level strategic guidance and is intended to enhance synergies and collaboration and ensure effective communication, programming, and alignment of various ongoing activities and approaches from the respective engagement of the two institutions in Albania. The AP may discuss the standard progress reports and other relevant information regarding the TF implementation and the broader NWSSMP Program. This is in addition to participation in Program missions and other coordination meetings which may be inclusive of all active development partners, the MoIE, and AKUM, such as the existing Donor Coordination Group for the Water Sector in Albania currently led by the German Embassy, where several partners including the European Union, KfW, GIZ, SIDA, and others that have been actively supporting the design and implementation of water sector investment, capacity building, and technical assistance programs and initiatives, as well as broader economic and administrative reforms in Albania.

Table A8.1 Technical Assistance for Results Area No. 1: Strengthening the National Sector Framework

Activity	Timeline
Design of the following: (i) corporate governance, financial accountability, controls, and transparency measures in water utilities, including necessary plans for clearing debt arrears due for energy bills and repayment of other debts; (ii) complementary	Year 1–5 implementation

[155] Technical assistance needs for the implementation of the National WSS Strategy have been identified for an estimated cost of US$10 million during the period 2019–25.

Activity	Timeline
work for an APA system; (iii) guidelines for preparation of business and performance Improvement plans; (iv) standard operating procedures for eligibility and review of subprojects funded by state budget (including E&S and fiduciary aspects) under RA2; and (v) monitoring and evaluation (M&E) of the National Sector Strategy	
Final design inputs for National Training and Test-Based Certification Program for the Water and Wastewater Utilities in Albania (see development and implementation roadmap below)	Year 1–3 implementation
Development of policies and initiatives to promote gender balance, social inclusion, and citizen engagement	Year 1–5 implementation
Communication, outreach activities, capacity building, and knowledge exchange on NWSSMP and National Strategy Initiatives as well as on tariff, cost recovery, and affordability issues (particularly the strengthening of the mechanism for setting tariffs is one that will require a lot of proactive engagement with stakeholders and sophisticated communications with the public at large).	Year 1–5 implementation

Table A8.2 Technical Assistance for Results Area No. 2: Improving Operational and Financial Performance of WSS Utilities

Activity	Timeline
Energy efficiency audits and solar PV resource assessment study	Year 1 implementation
Preparation of: (i) business plans (BPs), performance improvement plans (PIPs), and tariff proposals at the WSS utility level in alignment with new requirements developed under RA1 as described above; (ii) feasibility studies for identified subprojects in BPs and PIPs, for performance-based contracts and other PSP modalities; (iii) risk management plans, business continuity plans, water safety plans vis-à-vis COVID-19 and other threats; and (iv) citizen engagement activities at the local level.	Years 1–5 implementation
Regionalization/aggregation feasibility studies (by MoIE and at the local level) and TA for implementation of regionalization pilots, including the design and implementation of soft “turnaround” measures.	Years 1–5 implementation
Capacity building and training at local utility/municipality level on: (i) preparation of BPs and tariff proposals in line with new methodologies; (ii) application of standard operating procedures in the preparation and implementation of investment subprojects, including on procurement and financial management and management of environmental and social aspects; (iii) corporate governance, financial accountability, controls, and transparency measures; (iv) participation and compliance with National Training and Test-Based Certification Program;(v) technical areas such as energy efficiency, NRW management, asset management, commercial efficiency, water safety planning, and others.	Years 1–5 implementation

Table A8.3 Technical Assistance for Results Area No. 3: Closing the Gap towards Universal Access to Water Supply Services

Activity	Timeline
Operating procedures and guidelines for: (i) new financing window including co-financing arrangements by municipalities; and (ii) appropriate technologies for on-site sanitation in line with UWWTD. These guidelines will be consistent with the work by the MoIE (with SIDA's support) on a DSIP for the EU UWWTD and they could be the basis for a national strategy/plan for a future on-site sanitation strategy/national plan.	Year 1 implementation
Feasibility studies for new water supply subprojects; communication and outreach activities for social support scheme to increase uptake among vulnerable households (including Roma).	Years 1–5 implementation
Capacity building on (i) application of procedures for preparation of universal access subprojects by WSS utilities and local governments; and (ii) information, education and communications (IEC), behavior change communication (BCC), and community outreach, including specifically for a subset of utilities in locations with high concentrations of Roma and other minorities.	Years 1–5 implementation

Program Management, PforR Results Verification, and Program Audits

4. The IPF foresees the following activities which will be required on annual or ad hoc basis.

Table A8.4 IPF Activities

Activity	Timeline	Responsible Entity
Strengthening of capacities at MoIE (PMU) and at AKUM (PCU)	By Program effectiveness—Years 1–5 implementation	MoIE AKUM
Outsourcing of DLI verification	Years 1–5 implementation	MoIE independent contractor
Program audits and M&E as needed	Years 1–5 implementation	MoIE

Approach to Technical Assistance and Capacity Building

5. **National Training and Test-Based Certification Program.** The implementation of the National Training and Test-Based Certification Program for the Water and Wastewater Utilities in Albania is already underway.[156] The National Board of Certification, under the leadership of the MoIE, conducted its first two meetings during 2019. The MoIE is also collaborating with the Government of Kosovo as part of an agreement between the two respective governments to work toward a joint certification program in the future, and AKUM has already assumed the responsibilities for administering the Certification Program and acting as a Secretariat to the Board of Certification.[157] Some further steps are required for its full development, including: (i) a mechanism to make certification mandatory needs to be established, most possibly as part of the licensing requirements by ERRU; (ii) the definition and approval of a roadmap for the implementation of a Certification Program by MoIE/Board of Certification; (iii) the establishment of capacities within AKUM to administer the Certification Program; (iv) piloting of all levels of the certification or implementation or implementation under a phased approach and developing of further adjustment needed by AKUM; (v) monitoring and definition of future steps for recertification (AKUM); and (vi) adjustment of certification training

[156] Based on the MoIE's Instruction no. 660, dated 28.09.2018.
[157] Based on Instruction no. 660.

courses (as a result of the piloting) to be made by the Water Supply and Sewerage Association of Albania (SHUKALB); (vii) supporting SHUKALB with the licensing process, and promoting the participation of utility staff in the training and certification program. The Program will support the roll-out of this innovative measure within the region, by including key decision-making milestones under the PforR DLI (RA1) and supporting additional TA needs under the IPF component.

6. **Capacity-building approach.** Weak managerial and technical capacities in the sector workforce (with many exceptions) have been identified by the GoA and under relevant analytical work by different development partners as a key bottleneck underlying poor sector performance in Albania (and the entire Western Balkan region). The Program expects to build on standardized approaches developed at the regional level and capacity building mechanisms existing in-country, promoting current activities of the national local government associations and SHUKALB to provide capacity development for its members. In addition to providing specific ad hoc TA for municipalities and WSS utilities and the support for the National Training and Test-Based Certification Program under the IPF component, local governments and WSS utilities will be encouraged to utilize the existing in-country and regional capacity building programs (using financial resources provided by AKUM under the PBGs and potentially supported by IPF resources if used at scale by the Program). These programs were conceived with the idea of their institutionalization in the countries as a key element for their sustainability, moving from a retail to a wholesale approach and aiming to strengthen local institutions on the ground for a sustainable offer of capacity building to key sector stakeholders and WSS utility staff.

7. **There is a significant offer of capacity-building programs available at the local and regional level which can support institutional strengthening under the Program.** Specifically, those implemented by SHUKALB in partnership with IAWD under the ***Danube Water Program*** (DWP)[158] and the ***Danube Learning Partnership*** (D-LeaP, *https://www.d-leap.org/*), as well as the ***Regional Capacity Development Network (RCDN)*** (financed by SECO). Both programs aim to develop local training and implementation capacity, i.e., individual Albanian experts that can not only provide structured trainings but team up with utility participants in the identification and implementation of efficiency-driven projects. SHUKALB is a D-LeaP hub for the Asset Management Program developed in partnership with GIZ under the Strategic Alliance Integrated Asset Management Project (GIZ), for the D-leaP Energy Program (as a hub for Albania and Kosovo). SHUKALB is also offering trainings for administrative councils of WSS utilities among others. Other capacity-building programs available to Albanian utilities, offered in the framework of the D-leap, include Commercial Efficiency Program (SHUKALB), a Utility Benchmarking Program (with SHUKOS as the hub for Albania and Kosovo), NRW management (with AQUASAN in BiH as an established hub and SHUKOS as an imminent hub for Albania and Kosovo), and a Water Safety and Crisis Management Program (with SHUKOS as a future hub for Albania and Kosovo). Additional programs that are being developed include a Utility Management Training (UMT) to be offered by IAWD at the regional level. The UMT program specifically provides utility managers with a "system of tools" that aim to both (i) equip them with

[158] The DWP is a regional TA and capacity-building program funded by the Austrian government since 2012 and implemented in partnership by the World Bank and the International Association of Water Utilities from the Danube region (IAWD). Its objective is to develop policy and regulatory instruments as well as capacity building of the water services sector professionals and policy makers. The DWP has developed and piloted specific tools ready to support the GoA's sector modernization efforts. The DWP has developed instruments for WSS Utility Performance Monitoring and Benchmarking, such as the Danubis Data Collection Management System and the DanubisDanubisubi.org Water Platform (*https://www.danubis.org/*). These tools, as well as other ongoing initiatives in Albania supported by GIZ and other donors, can be used to build the module on utility performance within the National Information System and provide training to the WSS utilities on the collection and management of standardized performance data.

analytical and technical tools in various functions of the WSS business, and (ii) establish a link between operations and management levels. Tools and frameworks such as water and energy balances, budgeting processes, commercial analyses, and many others are integrated in an eight-module program that aims to gradually nurture management culture in participating utilities and individuals. The participants will be required and supported in implementing some of the tools in their home utilities so the comprehensive training will be complemented by actual implementations at a more practical level.

8. **The WSS utilities will be required to prepare five-year business plans. These will follow the guidelines to be approved jointly by AKUM and ERRU and include measures to improve performance across the main utility business areas depending on the service and performance assessment, maturity level, and enabling environment.** Other requirements for WSS utilities include compliance with the National Training and Certification Program requirements and other capacity-building measures existing in-country and at regional level. The business plans will include short-term/annual PIPs, informed by the World Bank's Utilities of the Future Framework (building on the ongoing pilot with Korce utility). Under the SECO-funded IPF, AKUM, in close collaboration with ERRU, will provide guidance and TA support to WSS utilities to design and implement BPs/PIPs and tariff proposals for addressing managerial and operational gaps and weaknesses and regulatory compliance, to support WSS utilities to achieve better scores in their annual performance assessments and submit tariff proposals in line with regulation. Measures to be identified for support under the program include:

- Identification of gaps and weaknesses in utilities' existing systems and processes, with a focus on areas measured under the APA;
- Development of modern management and financial systems;
- Measures to improve governance, financial accountability, controls, and transparency in water utilities;
- Measures to improve all aspects of revenue administration, including billing systems, collection, administration of arrears, lowering the cost of revenue collection, and administration;
- Measures to achieve improved energy efficiency based on energy audits;
- NRW reduction programs;
- Measures to address key deficiencies in WSS management systems and regulatory compliance, including water quality monitoring;
- Strategies and measures to improve citizen engagement and customer orientation (including management of customer complaints and participation mechanisms);
- A social inclusion strategy to improve access and protect vulnerable citizens (in coordination with LGUs);
- Resilience improvement plans and risk management/business continuity plans;
- Capacity building, training, and certification of the workforce as per the new National Training and Certification System;
- Measures to address gender equality, including a gender diagnostic to understand barriers and set targets, leadership and training programs with equal access for females, support to female utility professional networks, and so on; and
- Citizen engagement measures, including consultation and dissemination of corporate decisions for improved transparency, ensuring that customer feedback and utility responses are guaranteed through the online platform, and reporting on beneficiaries' satisfaction with engagement activities.

ANNEX 9. NATIONAL SECTOR STRATEGY TARGET

Table A9.1 NSS Strategic Objectives and Action Plans

Strategic Objective 1: Improve Water Sector Data Quality, Accuracy, and Consistency	Strategic Objective 2: Expand and improve access to water supply and sewerage services	Strategic Objective 3: Improve efficiency and quality of water supply and sewerage service provision	Strategic Objective 4: Strengthen the financial sustainability and affordability of water supply and sewerage services towards the principles of cost control and full cost recovery	Strategic Objective 5: Enhance the capacities of the sector work force	Strategic Objective 6: Improve governance and regulation in the sector	Strategic Objective 7 Design and implement a program to aggregate water utilities
1.1 Establish Unit of Water Information System authorized by the Ministry for administration, management and information delivery, including responsibility for introducing, maintaining and updating the systematization of the water sector database.	2.1 Increase access of both urban and rural populations to safe, reliable drinking water.	3.1 Develop and Implement Programs to Reduce the level of Non-Revenue Water aiming: •Reduction of Commercial Losses •Reduction of Technical Losses	4.1 Orient utilities toward full cost recovery of operations and maintenance costs, debt service, and capital repair and replacement expenditures (based on proper Asset Management and Maintenance system).	5.1 Promote education and training of water professionals to strengthen the capacity of water utilities and to foster co-operation and knowledge-sharing.	6.1 Encourage co-ordination mechanisms to facilitate coherent policies across ministries, public agencies and levels of government, including cross-sector plans.	7.1 Analyze thoroughly the context in which aggregation will take place.
1.2 Perform an "in depth" analysis of water sector data accuracy and reliability and identify data needs gap.	2.2 Increase the connection of both urban and rural populations to sewage collection networks.	3.2 Develop and Implement plans aiming to increase staff efficiency at all water utilities.	4.2 Design and implement tariff structures to better enable cost recovery while protecting vulnerable consumers.	5.2 Implement the National Certification Program, with target requirements at all water utilities.	6.2 Develop and enforce a new sector specific law for water supply and sewerage services.	7.2 Identify complementary policy and legal actions necessary.
1.3 Perform regular inspection of data collection process, data verification, validation and reporting in each water utility.	2.3 Increase the share of population connected to a wastewater treatment plant and develop a sludge management strategy.	3.3 Increase collection of bills to reach good international practice levels.	4.3 Adopt mechanisms that foster the efficient and transparent allocation of public funds (targeted subsidy program).	5.3 Enhance professionalism of key water policy institutions in central and local level.	6.3 Complete the transposition process to comply with EU commitments on water and wastewater directives.	7.3 Design the aggregation process.
1.4 Conduct a National Water Supply and Sewerage Asset Inventory and Asset Valuation Program.	2.4 Plan, prioritize, prepare and implement financing of project for investment aiming 24/7 in the coastal areas.	3.4 Develop and Enforce measures to Improve quality of drinking water.			6.4 Encourage the use of regulatory to foster the quality of regulatory processes and make the results accessible to the public.	7.4 Implement a phased aggregation process.
	2.5 Increase the hours of water supply service for both urban and rural populations.	3.5 Encourage, Design and Implement PSP models to improve efficiency in the sector.			6.5 Develop and Implement Public Awareness and Information packages for Citizens.	
					6.6 Strengthen and mainstream gender in the water sector.	

Table A9.2 NSS Targets

Performance Indicator	Unit	Base Year 2018	Short - Term 2019 - 2021	Mid - Term 2022 - 2025	Long - Term 2026 - 2030
Water Coverage	% of population	78.2	79.8	81.4	85.5
Sewerage Coverage	% of population	54.5	56.7	60.9	67.8
Wastewater Treatment Coverage	% of population	11	14	28	60
Non-Revenue Water (NRW)	% system input	67	51	48	45
Metering level for water production	%	9	100	100	100
Metering level for water consumption	%	70.9	100	100	100
Zone Metering (DMA)	%	3	50	100	100
Staff Efficiency	Staff/1000 conn	4.84	4	3.5	3
Current Collection Rate	% of current bills	80	94	96	98
Past Due Bills Collection Rate	% of past due bills	38	50	58	70
Continuity of Service	hours/day	12.3	14	20	24
DOC Coverage with Collection	%	87.5	100	>100	>100
TOC Coverage with Collection	%	66	80	90	100

ANNEX 10. TEAM COMPOSITION

Team Composition Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Patricia Lopez Martinez	Sr. Infrastructure Finance Specialist	Task Team Leader	SCAWA
Trandelina Baraku	Water Resources Management Specialist	Task Team Leader	SCAWA
Susanna Smets	Sr. Water Supply and Sanitation Specialist	Water Supply and Sanitation/Social Inclusion Aspects	SCAWA
Paula Restrepo Cadavid	Senior Economist	Peer reviewer (Sr. Economist)	SLCUR
Lilian Pena Pereira	Senior Water Supply and Sanitation Specialist	Peer reviewer (Sr. Water Supply and Sanitation Specialist)	SEAW1
Andreas Rohde	Senior Water Supply and Sanitation Specialist	Peer reviewer (Sr. Water Supply and Sanitation Specialist)	SSAW1
Gustavo Saltiel	Lead Water Supply and Sanitation Specialist	Water Supply and Sanitation (Global Lead for WSS GSG)	SWADR
Kris Welsien	Senior Water Supply and Sanitation Specialist	Energy Efficiency	
Jamexis Denise Christian	Operations Officer	Social Specialist/ESSA	OPSSP
Avjeet Singh	Senior Operations Officer	Advisor/ Results Framework	SCADR
Evis Sulko	Senior Country Operations Officer	Advisor/Country Strategy	ECCAL
Ntombie Z. Siwale	Operations Analyst	Team Member	SCAWA
Jenny Helena Dangre	Legal Counsel	Legal	LEGLE
Fabiola Altimari	Country Lawyer	Legal	LEGLE
Mohammad Nadeem	Legal Analyst	Legal	LEGLE
Orjana Ibrahimi	Procurement Specialist	Procurement	EECRU
Jonida Myftiu	Sr Financial Management Specialist	Financial Management	EECG2
Aissatou Diallo	Senior Finance Officer	Disbursements	WFACS
Marina Mijatovic	Finance Analyst	Disbursements	WFACS
Anne Olufunke Asaolu	Senior Environmental Specialist	Environmental Safeguards	SCAEN
Shpresa Kastrati	Environmental Specialist	Environmental Safeguards	SCAEN
Bekim Imeri	Senior Social Development Specialist	Social Specialist/ESSA	SCASO
Roxanne Hakim	Senior Social Development Specialist	Social Specialist/IPF	SCASO
Elona Qana	Program Assistant	Operations	SCAWA
Estella Malayika	Program Assistant	Operations	SCAWA
Non-Bank Staff			
Name	**Title**	**City and Country**	
Erjona Bajraktari	Consultant, Environmental and Social Aspects	Tirana, Albania	
Valu-Add	Consultants	Tirana, Albania	

Diogo Faria de Oliveira	Consultant	Lisbon, Portugal
Luz Maria Gonzalez	Consultant	Washington DC, USA
Mahesh Pakantar	Consultant	Mumbai, India

ANNEX 11. MAP SECTION