

<b>1. Project Data:</b>		<b>Date Posted :</b> 09/17/2013	
<b>Country:</b>	Albania		
<b>Project ID:</b>	P077526	<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b>	Power Sector Generation & Restructuring Project	<b>Project Costs (US\$M):</b>	112.7      130.0
<b>L/C Number:</b>	C3872	<b>Loan/Credit (US\$M):</b>	25      24.7
<b>Sector Board :</b>	Energy and Mining	<b>Cofinancing (US\$M):</b>	97.4      104.4
<b>Cofinanciers :</b>	European Bank for Reconstruction and Development, European Investment Bank	<b>Board Approval Date :</b>	03/16/2004
		<b>Closing Date :</b>	01/31/2008      12/30/2011
<b>Sector(s):</b>	Power (100%)		
<b>Theme(s):</b>	State-owned enterprise restructuring and privatization (50% - P); Regulation and competition policy (25% - S); Infrastructure services for private sector development (25% - S)		
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>ICR Review Coordinator :</b>	<b>Group :</b>
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## 2. Project Objectives and Components:

### a. Objectives:

According to the Development Credit Agreement and the Project Appraisal Document, the objective of the Project was to achieve significant improvement in power system performance through: (i) priority investments to increase thermal generation; and (ii) measures to implement sector reforms and institutional strengthening.

### b. Were the project objectives/key associated outcome targets revised during implementation?

No

### c. Components:

The project consisted of two components:

(i) A combined-cycle power station fueled by distillate oil at a six-hectare greenfield site about six km north of Vlore adjacent to an offshore oil tanker terminal (appraisal cost US\$97.5 million, actual cost US\$125.3 million).

(ii) Technical assistance (appraisal cost US\$ 4.8 million, actual cost US\$4.7 million) for:

- bid evaluation, contract administration and supervision of project implementation;
- formation of a subsidiary company of Albanian Power Corporation (KESH) to own and operate the

plant, preparation of a power purchase agreement, and assistance in procuring the services of an operator for an initial period;

- follow-up studies required by the Environmental Management Plan;
- examination of the option for soliciting bids to supply gas to the plant;
- power sector reforms;
- consumer satisfaction surveys;
- improvements in inventory control; and
- training in procurement and environmental management.

**d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

**Project cost and Financing:** The actual project cost was US\$130 million and the credit was fully disbursed.

**Borrower Contribution:** none received, as planned at appraisal.

**Dates:** The closing date was extended three times, first, from January 31, 2008 to June 30, 2010. Then, the closing date was further extended by one year to June 30, 2011. Finally the closing date was extended to December 31, 2011. All extensions were made to enable the completion of the main component, namely the construction of the Vlore power station.

**3. Relevance of Objectives & Design:**

**a. Relevance of Objectives:**

Rated **high**.

Albania experienced a fall in hydropower production between 2000 and 2002 because of reduced rainfall. This had a direct and significant adverse impact on national economic output, and the load shedding caused cuts in production by industry and obliged other businesses to purchase and use costly back-up diesel generators. Also, households suffered without electricity for many hours of each day.

The 2002 World Bank Country Assistance Strategy (CAS) at the time of appraisal and the Government's 2001 Growth and Poverty Reduction Strategy emphasized the macroeconomic impact of the power crisis and the critical importance of addressing the priority investments in the power sector. The project was based upon a request from the Government to secure investment in a new thermal power plant to reduce the risk of load shedding associated with low hydrology periods of the existing system.

The main justification for the Generation and Restructuring Project was the need to address the serious electricity crisis that was putting at risk Albania's previously favorable macroeconomic performance and the country's economic growth prospects. The project objective remained relevant throughout the life of the project and also with the most recent Country Partnership Strategy for the period FY11-14 which aims at "Improved, and more financially sustainable, infrastructure services in roads, energy, and irrigation."

**b. Relevance of Design:**

Rated **high**.

The activities included in the project components were designed to contribute to the achievement of the project objectives. The results framework prepared at project appraisal adequately identified the linkages between the objectives, outputs, and intermediate outcomes. The causal chain between the activities funded under the project and the outcomes to be achieved was clear and convincing. The investments in a new domestic thermal power plant (Vlore Plant) would increase power supply by providing 0.75 TWh

per year. Load shedding during 2001-2004 averaged around 0.45 TWh per year. On average, Vlore Plant was expected to cover the deficit. The sector reform measures under the project were expected to affect all electricity consumers through their impact on electricity availability, reliability and costs of supply.

#### 4. Achievement of Objectives (Efficacy):

Achieve significant improvement in power system: rated **negligible**.

Although the Vlore Thermal Power plant was constructed, the power plant is not yet operational due to serious technical/engineering problems. According to the ICR (p. 6) the testing of the power plant was scheduled to take place by May 2009 but started five months later. When testing was done in October 2009, a problem was detected with the submerged cooling water intake system which had broken. In June 2010 the project was one year behind schedule due to this problem and a definitive solution had not been found. In January 2011 a decision was taken to rebuild the underwater water intake, which was completed in July, 2011. Testing with the refurbished intake was initiated in October, 2011 but was suspended due to lack of fuel. Further tests were conducted in December, 2011 but on January 7, 2012 the plant tripped due to a drop in the water intake at the plant, caused by a new failure in the cooling water pipe, which had emerged from the seabed.

The achievement of the project's objective is dependent on finding and implementing an effective and long-lasting solution to the cooling water pipe problem. The project team informed IEG that an independent assessment of the engineering issues was carried out by the Government and the Albanian Power Corporation (KESH) and the design and bidding documents have been finalized. The Bank is preparing the project concept note for a project to support the investments required to rectify the problem and make the plant operational by early 2016.

The Project supported the power sector reforms initiated under the previous Rehabilitation and Restructuring project by: (i) strengthening of regulatory agency, and (ii) privatization of the distribution business of KESH through a Partial Risk Guarantee which was acquired by a private company.

A new Law on Regulation of the Electricity Sector was enacted in May 2003. It removed the authority of the Government to fix a price cap for electricity and provided for the full unbundling of the electricity sector. The independent regulator is now responsible for setting tariffs annually based on a review of the associated costs.

#### 5. Efficiency:

At appraisal, the Economic Rate of Return (ERR) was estimated at 37%.

The ex-post ERR is in the range of 13 to 19 percent. This is based on the assumption that the plant would overcome its technical problems and can be put in service. Since the plant is not yet operational due to serious technical/engineering problems, the project efficiency is rated **negligible**.

Also, there were other inefficiencies. The project was delayed by four years and there were cost overruns. There was a significant disbursement lag between the actual and original disbursement schedule.

**a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :**

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	37%	87%
ICR estimate	No		

\* Refers to percent of total project cost for which ERR/FRR was calculated.

#### **6. Outcome:**

Although the project continues to be relevant for the purpose of providing support to the Albanian power system, it has still not become operational due to serious technical/engineering problems. The project has not yet contributed to achieving the project objectives. The project team informed IEG that they are informally working with the Government and are preparing the project concept note for a project to support the investments required to rectify the problem and make the plant operational by early 2016. Project efficacy and efficiency are therefore rated negligible. The project supported the power sector reforms initiated under the previous Rehabilitation and Restructuring project.

**a. Outcome Rating :** Unsatisfactory

#### **7. Rationale for Risk to Development Outcome Rating:**

There have not yet been measurable benefits from this project that may be put at risk in the future. The risk to development outcome rating is therefore based on the likelihood that the plant will not become operational in future. This risk is assessed as high. The power plant is not yet operational due to technical/engineering problems. Solutions to these problems still depend upon presently unknown engineering designs for which the Government/KESH are now in the process of hiring an engineering firm to prepare design and bidding documents with plans to issue them in September 2013.

Additionally, there is a high risk that the plant's off shore lines (cooling water intake and fuel line) will be increasingly vulnerable to ever more severe weather events. The project was not in commission to address the summer 2012 drought, for instance.

Also, there is no more project funding available to diagnose and fix the plant's technical problems.

**a. Risk to Development Outcome Rating :** High

#### **8. Assessment of Bank Performance:**

##### **a. Quality at entry:**

Project identification and preparation were based on a study entitled *Review of Electricity Supply and Demand in South-East Europe (2002–2012)*, the World Bank Working Paper Series (PAD p 19). The review led to a preference for funding a new generation project rather than simply extending transmission or distribution. All four previous IDA projects in Albania had been for rehabilitation and/or strengthening of transmission or distribution. Also, the option of a new IDA supported project to strengthen transmission links with neighboring countries was not considered necessary because KfW, Italy, and Greece had committed to new 400 kV interconnection to the north. Furthermore, the internal economic rate of return of this interconnection is lower than that of the proposed Vlore power plant. The analysis also justified a combined cycle plant using distillate as the least cost thermal option compared to a coal plant (PAD 21). Moreover, the failure in reducing losses and improving bill collection was the main cause of the poor sector performance until 2001 and had contributed to the unsatisfactory development objective ratings for the Albania Power Loss Reduction Project (Cr. 2677) and the Power Transmission and Distribution Project (Cr. 2628). The project design attempted to overcome these problems by emphasizing reduction in nontechnical power losses, improvements in bill collection, institutional strengthening, and sector reforms.

However, there were shortcomings. In May 2007, the Inspection Panel registered a Request for Inspection from local residents through the Civic Alliance for the Protection of the Bay of Vlore (see section 11 below). The Inspection Panel found that the Project preparation and appraisal activities

were in non-compliance with the following Bank Policies: Project Appraisal (OMS 2.20); Environmental Assessment (OP/BP 4.01); Economic Evaluation of Investment Operations (OP/BP 10.04); and Cultural Property (OP/BP 11/04). The specific issues were:

- The Environmental Assessment misrepresented the physical characteristics of the Project site. The proximity of the Project site to the Narta Lagoon, which is a protected area and a sanctuary to important animals, and plants that might be adversely affected by the Project.
- The Bank failed to take into account the future cumulative environmental impact of additional generating units as well as the other industrial investments already approved by the Government in the vicinity of the Project.
- The Project's economic and risk analyses were not adequate or consistent with applicable Bank policies and procedures. The risks and potential negative impacts on tourism activities and revenues for the Bay of Vlore and nearby communities were not taken into account and analyzed by the Project.
- No adequate public consultation was carried out during the preparation of the Project.

The Bank did not conduct capacity analysis of KESH to supervise the Owner's Engineer and oversee the construction of the thermal power plant. The ICR notes (p. 12) that KESH had limited experience with thermal power plants and their construction problems.

**Quality-at-Entry Rating :** Unsatisfactory

**b. Quality of supervision:**

The ICR (p. 12) reports that the Bank followed closely the execution of the Project and provided guidance at critical moments. However, Bank supervision had major shortcomings. The project team did not track all of the key indicators included in the PAD. After the privatization of the distribution business of KESH, the Bank did not revise the performance indicators to reflect this change.

The off shore works were delayed until September 2008. The contractor started off shore works in winter against the advice from the Owner's Engineer (OE). This caused many interruptions to the works, difficulties for quality assurance due to turbidity of the water, and finally, incomplete installations. The Bank should have supervised the timing of construction. It is not clear from the ICR if this was implementing agency shortcoming or a breach of contract on the part of the contractor. What is clear is that the contract for a plant that has never been fully operational to date was fully paid off (partly with approved IDA funding).

Although the Vlore project was contracted according to the World Bank procurement guidelines, there were procurement issues that adversely affected the construction of the power plant (see section 11b below). According to the ICR (p. 13) the Bank's standard documents were not adequate in enforcing the owner's rights in this case. The Bank's supervision and KESH shared responsibility for addressing the problems encountered during the construction and commissioning of the Vlore power plant. The initial designs of the submerged cooling water intake did not take into account the specific maritime conditions of Vlore bay, but were instead based on conditions in a similar but not identical location. The Owner's Engineer (OE) apparently lacked experience with the particular problems that could arise from these kinds of conditions and did not provide a constructive diagnosis to address them. The Engineering, Procurement and Construction (EPC) contractor, who ultimately bears the technical responsibility for the project, did not address the problems adequately. However, the EPC contractor had reached the cap for its liquidated damages, and so finding a solution to the problem would have incurred additional expenses that were not reimbursable to the contractor.

The project team informed IEG that once the engineering problems were identified, the project team worked closely with KESH to find solutions for the engineering problems and is continuing to do so. Also, IEG learned that the last payment of the contractor was withheld.

**Quality of Supervision Rating :** Moderately Satisfactory

**Overall Bank Performance Rating :** Moderately Unsatisfactory

## **9. Assessment of Borrower Performance:**

### **a. Government Performance:**

The Government's was fully committed to the project. It took the following actions: (a) passing a new law on the regulation of the electricity sector, (b) removing the authority of the Government to fix a price cap for electricity, and (c) supporting the privatization of the distribution business of KESH.

However there was a major shortcoming. In October, 2009 a problem was detected with the submerged cooling water intake system which had broken. In January 2011 decision was made to rebuild the underwater water intake, which was completed in July, 2011. Testing with the refurbished intake was initiated in October, 2011 but was suspended for lack of fuel. The Government issued an Operations Acceptance Certificate (OAC) on October 28, 2011 despite the problems encountered and no definitive solution being found (ICR p. 6). This raises the question as to whether the Certificate was issued prematurely and whether a lengthier testing period should have been envisaged.

At appraisal "Borrower Agency" committed US\$12.66 million, but only paid in US\$0.87 million (ICR p. 16). The ICR does not provide the reasons for this major shortfall.

**Government Performance Rating** Moderately Unsatisfactory

### **b. Implementing Agency Performance:**

KESH's had limited experience with thermal power plants. Consequently, there was excessive reliance on the Owner's Engineer (ICR p. 14). Despite this reliance, the off shore works were started in winter (September 2008) against the advice from the Owner's Engineer which resulted in poor quality of works.

The ICR (p. 12) reports that KESH could have shown more determination in pursuing a resolution of the problems encountered initially in 2009, e.g. by exerting pressure on the Owner's Engineer to provide additional support in facing the offshore line difficulties.

As noted earlier in this ICR Review both the Bank, through supervision and KESH as implementing agency share responsibility for the problems encountered during the construction and commissioning of the Vlore power plant. The shortcomings detailed under Bank Supervision in Section 8b of this ICR Review are reflected in the Borrower performance rating too, as noted below.

**Implementing Agency Performance Rating :** Moderately Satisfactory

**Overall Borrower Performance Rating :** Moderately Unsatisfactory

## **10. M&E Design, Implementation, & Utilization:**

### **a. M&E Design:**

At appraisal following two outcome indicators were specified: (i) reduction in power transmission and distribution losses; and (ii) improvement in electricity bill collection. These are standard indicators to measure the performance of electricity utilities. Baseline values were provided and targets were set at appraisal.

The Project Appraisal Document also included the following output indicators: (i) completion of Vlore power station within budget and on time; and (ii) energy generation from thermal power plant. These were important as the construction of the power station was the main component of the project.

### **b. M&E Implementation:**

The ICR reports (p. 7) that performance indicators were not tracked during the project implementation due to the privatization of the distribution business of KESH as after privatization, KESH was no longer responsible for some of the efficiency indicators associated with distribution, such as improvements in losses and collection.

### **c. M&E Utilization:**

The ICR does not report on M&E utilization.

**M&E Quality Rating :** Negligible

## **11. Other Issues**

### **a. Safeguards: Environment**

The Project was assigned Environmental Category "A" and the following two safeguard policies were triggered: Environmental Assessment and Involuntary Resettlement. At appraisal, environmental risks were recognized relating to the possibility of oil spills from the underwater fuel line, and an emergency oil spill action plan was developed in the event that such an emergency did occur. Oil spill containment equipment (e.g. booms) was acquired and practical training on its use was undertaken with qualified instructors and in coordination with the Port Authority of Vlore. If an oil spill were to occur when discharging fuel to the power plant it would be detected immediately and pumping through the fuel line would be suspended, and the emergency plan would be set in motion (ICR p. 7).

During construction adequate measures were taken to avoid environmental degradation, and the onshore work sites were walled off (ICR p. 7). Compensatory measures were taken with respect to tree felling by a replanting program.

### **Inspection Panel**

In May 2007, shortly after the Engineering, Procurement and Construction contract was awarded but before construction had begun, the Inspection Panel registered a Request for Inspection by the Civic Alliance for the Protection of the Bay of Vlore to focus particularly on the following concerns about the Albania Power Sector Generation and Restructuring Project (Inspection Panel Report No. 49504):

- The air and water emissions from the thermal power plant as well as the oil terminal located in the Bay's waters and its potential oil spills, might have negative polluting impacts on the tourism industry in the Vlore area, on the employment of the local population and on the fishing industry.
- The Environmental Assessment misrepresented the physical characteristics of the Project site. The

proximity of the project site to the Narta Lagoon, which is a protected area and a sanctuary to important animals, and plants that might be adversely affected by the Project.

- The Bank failed to take into account the future cumulative environmental impact of additional generating units as well as the other industrial investments already approved by the Government in the vicinity of the Project.
- The project design allowed for and implied the expansion of capacity of the thermal power plant, which might amplify its negative impacts.
- The selected project area has important archaeological, cultural and historical significance that were overlooked and not assessed during Project preparation and appraisal.
- The project's economic and risk analyses were not adequate or consistent with applicable Bank policies and procedures. The risks and potential negative impacts on tourism activities and revenues for the Bay of Vlore and nearby communities were not taken into account and analyzed by the Project.
- The Requesters asserted that no adequate public consultation was carried out during the preparation of the Project, in violation of Bank policy. They claim that the few meetings on the project were not properly announced, that the information provided at them was incomplete, and that these meetings were a simply formality as they took place after the Project site had already been selected and approved by Government authorities.

The Panel found that certain specific concerns expressed by the Requesters regarding environmental and natural/cultural heritage impacts were not born out by the facts examined. Among these, for instance, were Requesters' concerns regarding adverse impacts on the Narta Lagoon and Natural Habitat, on the air quality, or the pollution by thermal power plant's anticipated atmospheric emissions. Thus, the Panel concluded that the Bank Management was correct in its determination that the Bank Policy 4.04 on Natural Habitats was not triggered by the Vlore Project. Also, one of the main cultural risks feared by the Requesters regarding the presence of archaeological remains under the specific site of the plant was not born out either, as later excavations demonstrated.

However, the Panel found that the Project preparation and appraisal activities carried out by the borrower and respectively by the Bank were in non-compliance with the following Bank Policies: Project Appraisal (OMS 2.20); Environmental Assessment (OP/BP 4.01); Economic Evaluation of Investment Operations (OP/BP 10.04); Cultural Property (OP/BP 11/04); and Project Supervision (OP/BP 13.05). Non-compliance included: (i) failure to fully consult the local population; (ii) failure to produce a comprehensive environmental assessment; (iii) the total absence of a social impacts analysis; (iv) overlooking the high touristic potentials for Vlore's further development; and (v) omitting the requisite economic evaluation the project's economic opportunity costs and externalities.

The Inspection Panel's Progress Report (June 22, 2010, report No, 55634) noted good progress by the Bank's Management in all key areas requiring action according to the earlier report, including:

- (i) Project oil spill prevention and response equipment and plans were put in place with training ongoing;
- (ii) a continuous emissions monitoring system was installed and will begin reporting to the public when plant operations commence;
- (iii) no chance finds of archeological or cultural value have were found;
- (iv) the utility company (KESH) has taken following steps to engage the public: (i) tasking "Eco Watch" a civil society organization to interface with the public on environmental monitoring questions; (ii) establishment of an Energy Education Center at the Vlore Plant for public awareness-raising; and (iii)



signing of a collaboration agreement between the Vlore Plant and the Regional Education Directorate of Vlore;

(v) the Bank Management would support Albania with an Institutional Development Fund capacity-building grant called "Strengthening Aarhus Convention Implementation for Albania" to help Albania meet its commitments for public consultation under the Aarhus Convention (i.e. the international Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters);

(vi) strengthening of the social assessment in the Europe and Central Asia region through a new training program (launched in May 2010) for Task Team Leaders and the Regional Management Team on social safeguards and sustainability. This training would focus on the application of safeguards and use of effective consultation as key factors in successful and sustainable projects;;

(vii) no Category A project has gone to the Board requesting a waiver of the provisions of OP 4.01 regarding a conflict of interest on the Environmental Impact Assessment since October 22, 2009;

(viii) to improve external communications by the World Bank office in Tirana, the project task teams working in Albania were recommended to make use of external affairs specialist expertise in the management of project communications; and

(ix) safeguards lessons learned from this Inspection Panel case have been shared with staff.

## **Social**

At appraisal, land acquisition was expected to involve about 0.8 hectares and no resettlement was expected. The ICR (p. 7) reports that the land acquisition was limited to about 0.8 hectares with no resettlement and no impact on natural habitats and cultural properties. However, it does not discuss whether there was compliance with the Bank policies. (OP 4.12).

### **b. Fiduciary Compliance:**

**Financial Management** was satisfactory.

KESH employed a financial specialist who had appropriate skills and abilities to manage the project's financial management and disbursement issues. The implementing unit within KESH used a comprehensive set of accounting policies and internal control procedures in accordance with the Project financial management manual. The quarterly "Project Interim Financial Reports" were submitted on time.

The audits and project financial statements were submitted on a regular basis, albeit with some delays in a few instances. Project audits did not highlight any major irregularity. As foreseen at appraisal, the project team approved technical assistance to help KESH improve its financial management notably through better financial statements and the implementation of the accounting software.

**Procurement** followed the Bank guidelines. However, there were issues - the procurement of the EPC contractor was difficult and protracted due to a disagreement between the Bank and KESH regarding bid evaluation. The Bank considered that the bidder to whom KESH wanted to award the contract was non-responsive. KESH's argument was that if actual fuel prices had been used to evaluate the bids and not the fuel price set out in the bidding documents (which was about half the actual price), it would improve the offer of the bidder. The Bank's procurement criteria prevailed and the contract was awarded to the lowest cost responsive bidder (ICR p. 6).

### **c. Unintended Impacts (positive or negative):**

None.

**d. Other:**  
None.

<b>12. Ratings:</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement / Comments</b>
<b>Outcome:</b>	Moderately Unsatisfactory	Unsatisfactory	Although the project continues to be relevant for the purpose of providing support to the Albanian power system, it has still not become operational due to serious technical/engineering problems. The project has not yet contributed to achieving the project objectives. The project team informed IEG that they are informally working with the Government and are preparing the project concept note for a project to support the investments required to rectify the problem and make the plant operational by early 2016. Project efficacy and efficiency are therefore rated negligible. The project supported the power sector reforms initiated under the previous Rehabilitation and Restructuring project.
<b>Risk to Development Outcome:</b>	High	High	
<b>Bank Performance :</b>	Moderately Satisfactory	Moderately Unsatisfactory	At appraisal, there were shortcomings with regards to safeguards and some aspects of project preparation. Supervision was unsatisfactory. More intensive supervision could have identified the technical problems encountered during the execution of the project. The Bank's supervision and KESH shared responsibility for addressing the problems encountered during the construction and commissioning of the Vlore power plant.
<b>Borrower Performance :</b>	Moderately Satisfactory	Moderately Unsatisfactory	The Government issued an Operations Acceptance Certificate (OAC) on October 28, 2011 despite the problems encountered and no definitive solution being found. This raises the question as to

			whether the Certificate was issued prematurely. KESH had limited experience with thermal power plants. However, it could have shown more determination in pursuing resolution of the problems encountered initially in 2009, e.g. by exerting pressure on the Owner's Engineer to provide additional support in facing the offshore line difficulties.
<b>Quality of ICR :</b>		Unsatisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**13. Lessons:**

Adapted from ICR:

- The assessment of Vlore chose the combined cycle configuration without comparing it to the open cycle option, which could be more economic at low plant factors. An open cycle choice would not have involved the difficulties encountered with the cooling system required by the combined cycle configuration (and could be converted, if necessary, to combined cycle) (ICR p. 12).
- The owner i.e KESH must have the adequate contractual leverage to oblige the contractor to comply with his obligations as soon as problems are detected and risks of failure arise. In the case of Vlore, a definitive solution to the cooling water intake problem should have been designed in 2009, before the liquidated damages could be initiated because, once the latter reach their cap, the contractor may lose interest in complying with his obligations. In fact, once the liquidated damages are exhausted, additional costs are borne by the client.
- When things go badly wrong as they did in this project, then it is necessary to use panel of advisers to provide counsel and different points of view on solving problems. Also, given KESH's lack of experience with thermal projects, the role of the Owner's Engineer (OE) acquired an even higher profile. Hiring an experienced project advisor since inception would have been advisable, in order to support KESH in decision making with respect to OE and to closely EPC contractor performance.
- Restructuring of a project should be performed through a continuous tracking of performance indicators. The Vlore project shows how the lack of attention to the relevance of indicators impacted negatively on the completion assessment and how this failing could have been addressed at an early stage.

**14. Assessment Recommended?** ● Yes ○ No

**Why?** To validate project ratings and to better understand the reasons for project failure.

#### **15. Comments on Quality of ICR:**

The ICR is concise, but there are several shortcomings:

- ICR reports that counterpart financing received from the Government was “satisfactory” (ICR p. 8) but no amount paid in is reported in the cost table in Annex 1;
- The ICR does not assess the performance of the Bank or Borrower in financing and paying the contractor for the project’s main component before it was completed and demonstrably operational;
- The report also understates the shortcomings of the project results when it states that the operation “would contribute significantly to improve the sector’s performance. However, the fact that the plant is still not available constitutes a negative factor as the solution to its problems remains under discussion (p. 9);
- An overstatement of the project’s achievements comes when the ICR notes (p. 11) the “success” of the project’s technical assistance for procurement and contract administration, in a case where the contractor and engineering services hired by the project were unable to leave the project with a completed and operational plant; and the lessons are weak and generic and are not derived from project experience.

**a.Quality of ICR Rating** : Unsatisfactory