

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB5797

Project Name	Water Sector Investment Project
Region	EUROPE AND CENTRAL ASIA
Sector	Water supply (65%);Sub-national government administration (35%)
Project ID	P102733
Borrower(s)	ALBANIA
Implementing Agency	Ministry of Public Works and Transport
	General Directorate for Water and Wastewater Tirana Albania Tel: (355-4) 225-6091
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Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

Albania is endowed with an estimated 8,600 m³ per capita per year of water resources of which it withdraws only 6% annually. Currently the share of the population connected to a piped water network is estimated at 87% for the 65 urban municipalities and 47% in the 309 municipalities, or an aggregate of 74% for the total population.

However, Albania's considerable water endowment is offset by poor quality of service. The country's Institute of Public Health estimates that only 84 percent of tested water meets microbiological standards. The Water Sector Benchmarking Program estimates that compliance with the Albanian bacteriological standards for e-coli have hovered around 90% whereas compliance with the standards for residual chlorine stood at 59% in 2007. These indicators are unacceptably low and constitute a grave risk for the country's own population and for the growing number of tourists.

Non-continuous water service is likely to be one cause of poor water quality, which can allow the intrusion of surrounding polluted groundwater. An underdeveloped distribution system featuring inadequate supply and outdated, high energy consuming pumps, has kept the national average of 13 hours of supply per day well below the EU benchmark of 24 hours. In Durres, Albania's second largest city and one of its major tourist destinations, services cannot be sustained beyond 8 hours per day.

Inefficiencies of commercial services is another major issue facing the sector. Non-revenue water hovers at 70% against an EU benchmark of 20%. Average utility collection rates are 72%; financial working ratios remain high at 1.16 against an EU benchmark of 0.50; and utility administration is bloated with 14 staff per 1,000 water/sewerage connection, versus an EU benchmark of 1 per 1,000. Underlying some of these sub-standard performance problems is the fact that only 44% of the household connections are metered, which generally encourages overconsumption and lack of accountability for water resource usage.

These conditions highlight Albania's systemic challenge of delivering reliable, high quality water supply and sanitation services that predates the devolution of responsibilities from national to local governments for service provision through local utilities. Furthermore, at the strategic level, the Government of Albania is shifting its focus to the water sector in part because of its desire to comply with EU Directives over the medium to long-term, including such considerations as linking utilities with source water basins so that there is a more strategic and conscious effort directed toward water resource use and conservation.

Recent developments in the sector, however, are somewhat promising. Modest and incremental improvements are being made in the management of water, as reflected in the most recent reports issued by Ministry of Public Works & Transport (MPWT) Performance Monitoring and Benchmarking Unit. With the support of the Bank and other donors, the Government has initiated a reform agenda that focuses on developing a comprehensive sector strategy as well as the preparation of a Masterplan for Capital Investments in the sector, the latter of which is supported by KFW.

Rationale for Bank Involvement. The Bank has been involved in the Albania water and sanitation sector dating back to 1995. Alongside other donors, it has provided a steady stream of investments to help improve water and sanitation services, while contributing to institution building measures, including help in establishing the Performance Monitoring and Benchmarking Unit at MPWT, which provides the most reliable sector monitoring data.

In recognition of its long-standing sector engagement, its convening power, and its global experience, the Bank was recently asked by the Government of Albania to assist in preparing its new National Water and Sanitation Strategy. The new strategy would be an update of its 2003 strategy and would specifically aim to ramp up the sector reform agenda, while also supporting a more programmatic approach among donors, whose financing comprises the majority of investment in the sector today. As the Government's intention is to complete the Strategy update by October 2010, the proposed project would provide an ideal opportunity to advance the policy and institutional reform agenda, coupled with financing for priority investments, and the Government seeks the Bank's support for both. Proposed priority water supply investments in the Durres Region complement those by other donors who have focused to date on smaller settlement areas and on wastewater investments in Durres city.

The Bank's commitment to supporting Albania's water sector is reflected in the forthcoming CPS, which aims at supporting Pillar III in promoting sustainable growth.

2. Proposed objective(s)

The Project Development Objective (PDO) of the proposed project is to (i) improve the reliability of water service and cost recovery in the Durres region; and (ii) support the

Government's efforts to implement its sector strategy, including meeting EU accession requirements, while supporting the broader reform agenda at the national level.

Likely PDO indicators include improved reliability of service (measured by increased hours of supply) in the Durres region, improved water quality (measured by increased compliance with Albania's bacteriological standards for e-coli) in the Durres region, and improved demand management and cost recovery (measured by expansion of connection metering, reduction in non-revenue water, and improvement of the Durres Utility financial working ratio).

As a second generation project, the Bank's engagement this time would build on the important foundation established under earlier investment operations by pursuing a three track approach. First, it would aim to enhance the quality and reliability of water supply in the Durres region, one pole of the Durres-Tirana corridor, which accounts for one half of the country's population and about 70% of its economic activity. Second, it would consolidate and further improve the governance and sustainability of the Durres Water Utility through effective enhancements in financial management and cost recovery. Third, it would support implementation of the updated National Water and Sanitation Strategy, which is expected to be completed by the end of 2010. Specific measures on the reform front would include strengthening the Performance Monitoring and Benchmarking Unit in its data collection systems and monitoring techniques; developing a national-level Water Demand Management Program to be piloted in Durres; and a number of other institution building measures being planned in coordination with the Government and other donors.

3. Preliminary description

As the second largest city of Albania, with a population that swells to twice its 200,000 residents during the summer months of July and August, Durres was the Government's priority location for piloting its institutional and policy reform agenda, coupled with critical investment financing.

The proposed project is expected to have a total cost of US\$65.5 million and would be comprised of the following three components:

1. Priority Water Supply Investments in the Durres Region
2. Water Demand Management Program
3. Project Implementation Support

To ensure simplicity of design and effective implementation, the entire project would be administered by the Project Implementation Unit established at the General Directorate for Water and Sanitation Services (GDWSS) at MPWT. The PIU is already in place, has implemented several Bank-financed and other investment projects, and is currently assigned to administer the US\$980,000 PHRD grant mobilized to prepare the proposed investment project.

Component 1: Priority Water Supply Investments in the Durres Region (approximately US\$55 million). One of the top priorities of the Government and the Durres Region is to improve water supply in the city and surrounding areas, particularly during the peak summer season when demand essentially doubles.

This component would finance two sub-components as follows:

- (i) *Durres Bulk Water Supply Pipeline.* This pipeline was identified by the Government as a top priority to address the acute shortages of water in Durres experienced, in particular, during peak season. The Prime Minister has set up a Commission to explore water supply options in the region and that Commission is headed by MPWT. Two options are currently under consideration. The first would be a pipeline from the south of about 40-45 km that would carry water from an existing reservoir. The second option would be to build a pipeline of approximately the same length from the well field at Fush Kuqe in the north. The latter would run alongside the existing bulk water pipeline to Durres and for that reason may be the better option. In addition to the pipeline, financing would also cover the cost of replacing local area infrastructure where the pipeline is laid, likely to include water as well as other infrastructure network connections and road resurfacing. A feasibility and design study for this investment has been announced for tender and would be financed under the existing PHRD grant.
- (ii) *Ancillary investments linking Durres area settlements to the water supply system.* These investments would range from network connections to some of the village/commune areas to potentially supply some or all with water tanks dedicated to each service area. These investments would take into account the optimal delivery and cost recovery arrangements, building on the recommendations of an institutional design option study to be financed under the existing PHRD grant.

Component 2: Water Sector Demand Management Program (approximately US\$10 million).

In addition to the investments noted above, this Component would support the Government's broad-based policy and reform agenda at the national level with specific interventions at the local level, focused on the Durres region on a pilot basis. These reforms would include design and implementation of a Water Demand Management Program that would be comprised of several elements. First, it would include a strategy for expanding metering in the Durres Region, including the provision of water meters at both the bulk pipeline and household connection points. Metering would be coupled with an effective meter monitoring and management arrangement through the agreed best institutional model. Second, it would include a public awareness campaign focusing on water conservation and improved water management targeting both residential and institutional users. Third, this Program would link metering expansion to improved data collection through follow on assistance provided to the Performance Monitoring and Benchmarking Unit of MPWT, which has already established itself as a credible unit with Bank support, but would require further enhancement of the data collection and monitoring dimensions of its work. Fourth, it would provide advisory support and technical assistance associated with implementing the chosen institutional option model for bulk water supply and utility distribution from the PHRD-financed study. This would include as one possibility support for structuring a national bulk-water carrier company, preparation of a business plan, providing support for preparation of a lease contract for the Bank-financed water supply pipeline, among other options.

Component 3: Project Implementation Support (approximately US\$0.5 million).

This component would support implementation of the project including salaries for PIU staff, the PIU operating costs, covering the cost of an annual audit of accounts, provision of needed equipment, supporting the monitoring, evaluation and reporting function. Some resources would also be devoted to supporting the broader Government and donor interest in establishing a joint PIU and reporting format that would cover all investments and technical assistance being provided across the sector. This was agreed as the first step of a programmatic approach in the sector and is part

of a 15 page, extensively vetted Donor Coordination Matrix for Technical Assistance and Capacity Building.

4. Safeguard policies that might apply

Environmental Safeguards

Although all of the proposed investments have not been identified as yet, one of the likely major investments will be a bulk water supply pipeline to Durres in the range of 40-50 km, either from a well field in the northern town of Fushe-Kuqe or from a reservoir in the south. In light of this and other investments identified for financing to date, the project will not likely include Category A sub-projects. The team therefore recommends triggering OP/BP 4.01 Category B on Environmental Assessment. Accordingly, during project preparation an Environmental Assessment will be carried out (financed by a PHRD grant) for the proposed Durres bulk water supply pipeline and for the various ancillary investments envisaged to assess any potential adverse impacts and provide guidance on appropriate mitigation measures.

The proposed investments would be situated close to the Adriatic Sea, which is an international waterway. The project proposes an investment to draw upon a currently accessed well field that will likely increase the quantity of wastewater discharged. However, completion of a wastewater treatment plant in Durres is anticipated by 2012, accompanied by an interceptor and effluent discharge from the city sewage network to the treatment plant (projected to be completed with EU funds by 2012). The treated wastewater would be discharged to the Adriatic Sea. Accordingly, OP 17.50 on Disclosure is triggered and the notification of riparians will be done through the Coordinating Unit for the Mediterranean Action Plan –Barcelona Convention. All safeguard documents required in advance of appraisal would comply with the need for consultation and in-country disclosure (at least once consultation will take place on the EMP and RAP), and sent to InfoShop of the World Bank prior to appraisal.

At this time, there is insufficient information to determine if OP/BP 4.36 on Forests, OP/BP 4.04 Natural Habitats, and OP/BP 4.11 on Physical Cultural Resources would be triggered. Although this is not likely to be the case, the team will collect further information, drawing on analysis and information from the proposed EA and suggest relevant actions if necessary during subsequent preparation missions.

Social Safeguards

The task team with counterparts has surveyed the water supply routing of the two proposed pipelines and either of these proposed options would likely trigger OP 4.12 on Involuntary Resettlement, with the former being much more favorable as it could be constructed in parallel to an existing pipeline and thus limit the need for resettlement and land acquisition. Key project features that are likely to necessitate permanent or temporary land acquisition are: temporary or permanent access to roads to sub-project sites, to quarries and disposal areas, and to internal road networks and adjacent private properties. A draft Resettlement Action Plan (RAP) would be prepared and disclosed prior to appraisal. Because land rights in Albania are sometimes uncertain, it was agreed that the project team would ensure careful screening to identify issues involving informal land usage or conflicting land claims. Specific institutional arrangements for implementation, monitoring and closure will be set out in the RAP.

Donor Coordination

A number of donors are active in the water and sanitation sector and there is a Sector Working Group headed up by MPWT supported by a Donor Coordination Committee headed by the Austrian Development Agency (ADA). The Government seeks to better integrate and rationalize its overall program in the sector and the engagement of the donors within it. These efforts are being built upon prior experience in the sector that has had mixed results, which has been at various junctures ad hoc, sporadic and uncoordinated. To that end, the Bank has been asked to support the update of the new Sector Water Strategy that would facilitate regular and substantive donor coordination on both the sector investment and reform agenda. As a complement to the Bank's support for sector strategy development, KFW is preparing a Masterplan for Capital Investments in the sector that will be coordinated among the two agencies. At the capacity building and technical assistance level, a detailed donor coordination matrix has been prepared by the Austrian Development Agency (ADA) in coordination with the Government and other donors and will serve as the basis for support over the coming several years.

Design Alternatives Considered

One project design option considered and discussed at a donor coordination meeting was a sector-wide approach. There is clearly interest on the part of the Government and the donors active in the sector to better coordinate actions, and efforts are being made within this project and with other donors to set the stage for a more consolidated, possibly SWAP-oriented approach in a next generation operation. However, consensus on the part of donors was that the Albania Water Sector is not ready for a full-fledged structured partnership, such as a SWAP, as yet given the heavy reliance on the Government to take the lead in organizing and mobilizing the sector. In addition, OPCS has strongly advised, based on extensive experience, that SWAPs should not be attempted where Government capacity is weak and without a guiding strategic framework. Another alternative design feature considered was private sector participation in the pipeline investment or possibly in the management of services on behalf of the utility, but prior poor experience with management contracting and concessions has not been successful and commercial interest is weak at this time. Consideration will be given to a lease contract for the pipeline, however, where water supply would be wholesaled to local utility retailers.

5. Tentative financing

Source:	(\$m.)
Borrower	5.5
International Bank for Reconstruction and Development	40.0
Other	20.0
Total	65.5

6. Contact point

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