

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

Report No.: PIDA5405

Project Name	Power Recovery Project (P144029)
Region	EUROPE AND CENTRAL ASIA
Country	Albania
Sector(s)	General energy sector (100%)
Theme(s)	Climate change (40%), Social risk mitigation (30%), Other economic management (30%)
Lending Instrument	Investment Project Financing
Project ID	P144029
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Energy and Industry
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	13-May-2014
Date PID Approved/Disclosed	20-May-2014
Estimated Date of Appraisal Completion	16-May-2014
Estimated Date of Board Approval	30-Jun-2014
Decision	

I. Project Context

Country Context

Albania's rapid but largely domestic-driven growth in the decade up to the 2008 has slackened due to the global financial crisis. Albania was propelled from being one of the continent's poorest countries in the 1990s to middle-income status by 2008 as annual growth averaged six percent in real terms, quintupling per capita GDP to over US\$4,000. This impressive growth decreased poverty in absolute terms from 25.4 percent in 2002 to 12.4 percent by 2008. However, the global financial crisis badly affected Albania, with remittances and other inflows sharply curtailed.

Although able to avoid recession, GDP growth slowed to an average of less than three percent between 2009 and 2012. With the sharp slowdown in growth, public debt has steadily surged while the power sector slipped deeper into crisis. Loose fiscal policy combined with depreciation of the Leke brought public debt levels to about 60 percent of GDP in 2011, the legal limit set in the 2008 Organic Budget Law. Recurrent energy shortages due to weather events and a persistently high level of power losses have necessitated government support to its generation and distribution companies to import power and cover operational deficits and avoid power shortages and systematic load shedding.

Clearly, the crisis in the power sector has macroeconomic and fiscal impact. Consequently, this proposed project is part of a program of support to the GoA, including an IMF program Extended Fund Facility arrangement (US\$ 300 million), and two DPOs under preparation (US\$ 200 million) including energy actions aimed at addressing structural issues in the sector. Based on the results of this proposed Sector Recovery Project, a follow up IPF project may be needed in the later years to deal with the financial restructuring of the sector.

Sectoral and institutional Context

In recent years, the power sector has been operating in crisis mode, without a clear pathway for recovery to sustainable operations. The pressure on the sector has mounted over time, with the country's limited hydro-reliant power supply exacerbated by its inherent vulnerability to weather volatility, weak sector governance, a flawed market model, and utility mismanagement. A persistent issue bedeviling the sector has been the enormous losses in distribution, mostly non-technical, varying from 35 percent in 2009 to 45 percent in 2013; in 2013, this equated to 3,222 GWh, about 40 percent of the country's total net demand and 174 percent of power imports that year, €200 million/year equivalent. The sale of the distribution company to a private concessionaire, in 2009 failed to remedy this problem. Resolution of the sector's issues have been thwarted by weak governance, resulting in weak enforcement of market rules, lack of payment discipline, poor collections, inappropriate tariff levels, and periodic impasses in decision making due to elections.

Given these conditions, the sector has been unable to extricate itself from a modus operandi of crisis management to sustainable operations. Albania's struggle to secure reliable power supplies is affected by regional and climatic dimensions, and the interplay between them. Albania's power supply challenge is further affected by the region's constrained transmission capacity and the tight supply for trade from neighboring countries. This situation, in the face of extreme climatic events, adversely affects not only Albania but its neighbors, compounding their net negative effect. In 2011, severe drought not only diminished domestic generation, but also that of its neighbors, decreasing the availability of imports to Albania and effectively pushing the country to the brink of a possible emergency as winter approached. Emergency was only averted by heavy rainfalls in the following winter months.

An additional 100 MW of generation capacity from the commissioning of the Vlore Thermal Power Plant (TPP) in late 2011 did not materialize when the off-shore facility experienced engineering failure in January 2012. Vlore TPP's re-commissioning is projected for 2015. Power distribution experienced a continuous decline in operational and financial performance despite the implementation of key reforms. Within three years of privatization, the distribution company became insolvent and in 2013, Government revoked its license due to non-compliance and pursued legal action. The Government assumed interim administrative and operational control of the company. In doing so, it also assumed responsibility—and thus the fiscal risk—for the power imports necessary to compensate for energy losses and rising consumer demand.

After a complete hiatus of action in 2013 due to general elections, in January 2014, the new Government resumed discussions to resolve the protracted legal dispute in the distribution sector, and has declared its commitment to stop the high level of losses and, within its limits, reverse the trend. It is expected that a final amicable resolution will be reached soon.

Precisely how the recovery is executed requires further work, but it is clear that once the legal dispute is settled, a 1st step in the recovery program is the implementation of an accelerated and effective loss reduction program, enhanced debt collection and enforcement of laws against theft of electricity.

II. Proposed Development Objectives

The project development objective is to improve reliability of supply and financial viability of the power sector.

III. Project Description

Component Name

Facility for securing short-term power imports

Comments (optional)

Component Name

Upgrading distribution infrastructure

Comments (optional)

Component Name

Upgrading Transmission meter/data center

Comments (optional)

Component Name

Supporting power sector reforms and project implementation

Comments (optional)

IV. Financing (*in USD Million*)

Total Project Cost:	150.00	Total Bank Financing:	150.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			150.00
Total			150.00

V. Implementation

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	

Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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