

Document of  
The World Bank

Report No: 36188-AL

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 15.3 MILLION  
(US\$20 MILLION EQUIVALENT)

AND A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 3.4 MILLION  
(US\$5 MILLION EQUIVALENT)

TO

ALBANIA

FOR A

TRANSPORT PROJECT

January 23, 2007

Sustainable Development Department  
South East Europe Country Unit  
Europe and Central Asia Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2006)

Currency Unit	=	Albanian Lek (ALL)
ALL 96.85	=	US\$1
US\$ 1.485	=	SDR 1
US\$1.3137	=	EUR 1

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

AADT	Annual Average Daily Traffic
ANTP	Albanian National Transport Plan
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
DPA	Durres Port Authority
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
EU	European Union
EMP	Environmental Management Plan
FY	Fiscal Year
GDP	Gross Domestic Product
GoA	Government of Albania
GRD	General Road Directorate
HSH	Albanian Railways
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IFI	International Financial Institution
IRSC	Inter-Ministerial Road Safety Council
ISDS	Integrated Safeguards Data Sheet
LPP	Law on Public Procurement
LSMS	Living Standard Measurement Survey
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MLGD	Ministry of Local Government and Decentralization
MOI	Ministry of Interior
MOTT	Ministry of Transport and Telecommunications
MoF	Ministry of Finance

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MoTAT	Ministry of Territorial Adjustment and Tourism
MPWTT	Ministry of Public Works, Transport and Telecommunications
MTEF	Medium-Term Expenditure Framework
MTPT	Ministry of Territorial Planning and Tourism
NSSED	National Strategy for Social and Economic Development
NPV	Net Present Value
OPMC	Output- and Performance- Based Maintenance Contract
PAMECO	Police Assistance Mission of the European Community
PEIR	Public Expenditure and Institutional Review
PIP	Project Implementation Plan
PIT	Project Implementation Team
PIU	Project Implementation Unit
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
PVB	Present Value of Benefits
PVC	Present Value of Costs
RAP	Resettlement Action Plan
RMP	Road Maintenance Project
SEE	South Eastern Europe
SWAp	Sector-Wide Approach
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
USTDA	United States Trade and Development Agency
WBG	The World Bank Group

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Sector Manager :	Motoo Konishi
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**ALBANIA  
TRANSPORT PROJECT**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>A. STRATEGIC CONTEXT AND RATIONALE .....</b>	<b>1</b>
1. Country and Sector Issues.....	1
2. Rationale for Bank Involvement.....	7
3. Higher Level Objectives to which the Project Contributes .....	7
<b>B. PROJECT DESCRIPTION .....</b>	<b>9</b>
1. Lending Instrument.....	9
2. Project Development Objective and Key Indicators.....	9
3. Project Components .....	10
4. Lessons Learned and Reflected in the Project Design.....	12
5. Alternatives Considered and Reasons for Rejection.....	13
<b>C. IMPLEMENTATION .....</b>	<b>14</b>
1. Institutional and Implementation Arrangements .....	14
2. Partnership Arrangements.....	15
3. Monitoring and Evaluation of Outcomes/Results.....	16
4. Sustainability.....	16
5. Critical Risks and Possible Controversial Aspects .....	17
6. Loan/Credit Conditions and Covenants .....	18
<b>D. APPRAISAL SUMMARY .....</b>	<b>18</b>
1. Economic and Financial Analyses.....	18
2. Technical.....	19
3. Fiduciary .....	20
4. Social.....	20
5. Environment.....	21
6. Safeguard policies.....	22
7. Policy Exceptions and Readiness.....	22
<b>Annex 1: Country and Sector Background .....</b>	<b>23</b>
<b>Annex 2: Major Related Projects Financed by the Bank and/or other Agencies .....</b>	<b>31</b>

<b>Annex 3: Results Framework and Monitoring .....</b>	<b>34</b>
<b>Annex 4: Detailed Project Description.....</b>	<b>37</b>
<b>Annex 5: Project Costs and Disbursement Schedule.....</b>	<b>40</b>
<b>Annex 6: Implementation Arrangements .....</b>	<b>45</b>
<b>Annex 7: Financial Management and Disbursement Arrangements.....</b>	<b>46</b>
<b>Annex 8: Procurement Arrangements .....</b>	<b>52</b>
<b>Annex 9: Economic and Financial Analysis .....</b>	<b>57</b>
<b>Annex 10: Implementing the Governance Filter.....</b>	<b>66</b>
<b>Annex 11: Environmental Impact Assessment .....</b>	<b>72</b>
<b>Annex 12: Project Preparation and Supervision .....</b>	<b>80</b>
<b>Annex 13: Documents in the Project File .....</b>	<b>81</b>
<b>Annex 14: Statement of Loans and Credits.....</b>	<b>83</b>
<b>Annex 15: Country at a Glance .....</b>	<b>85</b>
<b>Annex 16: Map.....</b>	<b>87</b>

ALBANIA  
TRANSPORT PROJECT  
PROJECT APPRAISAL DOCUMENT  
EUROPE AND CENTRAL ASIA  
ECSIE

Date: January 23, 2007 Country Director: Orsalia Kalantzopoulos Sector Manager/Director: Motoo Konishi	Team Leader: Richard Martin Humphreys Sectors: Roads and highways (98%); Ports, waterways and shipping (1%); General transportation sector (1%) Themes: Infrastructure services for private sector development (P); Access to urban services and housing (S) Environmental screening category: Full Assessment
Project ID: P078949	
Lending Instrument: Specific Investment Loan	

**Project Financing Data**

[X] Loan [X] Credit [ ] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:

Total Bank financing (US\$m.): 25.00

Proposed terms: VSL with a 17- year term and a 4- year grace period for the IBRD component, and standard IDA credit with a 20- year term and a 10 year grace period

**Financing Plan (US\$m)**

Source	Local	Foreign	Total
BORROWER/RECIPIENT	16.00	0.00	16.00
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	0.00	20.00	20.00
INTERNATIONAL DEVELOPMENT ASSOCIATION	0.00	5.00	5.00
OPEC FUND	0.00	15.00	15.00
Total:	16.00	40.00	56.00

**Borrower:**

Albania

**Responsible Agency:**

General Roads Directorate

Sami Frasheri 33

Albania

Tel: 3554233711

<b>Estimated disbursements (Bank FY/US\$m)</b>									
FY	2007	2008	2009	2010	2011	0	0	0	0
Annual	4.00	10.00	7.00	2.50	1.50	0.00	0.00	0.00	0.00
Cumulative	4.00	14.00	21.00	23.50	25.00	25.00	25.00	25.00	25.00
Project implementation period: Start March 30, 2007 End: March 31, 2011									
Expected effectiveness date: March 30, 2007									
Expected closing date: June 30, 2011									
Does the project depart from the CAS in content or other significant respects? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>Ref. PAD A.3</i>									
Does the project require any exceptions from Bank policies? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>Ref. PAD D.7</i>									
Have these been approved by Bank management? <input type="checkbox"/> Yes <input type="checkbox"/> No									
Is approval for any policy exception sought from the Board? <input type="checkbox"/> Yes <input type="checkbox"/> No									
Does the project include any critical risks rated "substantial" or "high"? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD C.5</i>									
Does the project meet the Regional criteria for readiness for implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>Ref. PAD D.7</i>									
Project development objective <i>Ref. PAD B.2, Technical Annex 3</i> The Project Development Objective is to reduce user costs on the Milot - Rreshen section of the Durres - Milot - Morine corridor and improve access for the hinterland population, to introduce innovation in road maintenance on a pilot basis, and to contribute to the development of the institutional framework and implementation of road safety activities throughout Albania.									
Project description <i>Ref. PAD B.3.a, Technical Annex 4</i> The Project includes four components: (i) Construction of the 26 kilometer section between Milot and Rreshen; (ii) the introduction of output and performance based contracting in two pilot regions; (iii) the road safety component, involving a mix of technical assistance and equipment; and (iv) other necessary technical assistance and equipment.									
Which safeguard policies are triggered, if any? <i>Ref. PAD D.6, Technical Annex 10</i> The main activity supported by the Project concerns the construction of the road section between Milot and Rreshen. Accordingly, the two triggered safeguard policies are the Environment Assessment (OP. 4.01) policy and the Involuntary Resettlement (OP.4.12) policies. Whilst the safeguard policy on Cultural Property (OP.4.11) was not considered to be triggered, appropriate mitigation and monitoring measures have been included in the EMP in the event that the construction process reveals any sites of potential interest.									
Significant, non-standard conditions, <b>if any</b> , for: <i>Ref. PAD C.7</i> Board presentation: Not applicable  Loan/credit effectiveness: The Co-financing Agreement has been executed and delivered.									



Covenants applicable to project implementation:

(i) The Borrower commits to implement the strengthening of the flood protection works on the north side of the River Matit by June 30th 2007; (ii) The Borrower commits to implement the strengthening of the flood protection works on the south side of the River Matit by December 31st 2007; (iii) The Borrower will ensure that the Project is implemented in accordance with the Environmental Management Plan (EMP), Resettlement Action Plan (RAP) and Project Implementation Plan (PIP); (iv) The Borrower will commit to increase the allocation to road maintenance, over planned 2007 figures, by not less than 10 percent per year, in real terms, over the lifetime of the project; (v) The Borrower commits to adequately staff and resource the Project Implementation Team (PIT), or its successor, throughout the life of the project; (vi) The Borrower shall prepare and furnish to the Bank no later than one month after the end of each calendar quarter, Progress reports for the Project covering the said quarter, in a form and substance satisfactory to the Bank; (vii) The Borrower shall submit the proposed structure for GRD for the review and agreement of the World Bank by June 30, 2007; (viii) The Borrower commits to reform GRD in line with the agreed structure by June 30, 2008; (ix) The Borrower shall, by end October in each year during Project implementation, submit to the Bank for review and agreement, its Public Investment Program for the transport sector; (x) The Borrower shall ensure that adequate funds are allocated in the Borrower's annual budget to cover the Borrower's contribution to the financing of the project.



## A. STRATEGIC CONTEXT AND RATIONALE

### 1. Country and Sector Issues

#### A). COUNTRY BACKGROUND<sup>1</sup>

1. ***Albania's performance since it embarked on transition in the early 1990s has been impressive.*** The country has successfully built the foundations of a market-based economy, created democratic institutions and gradually built capacity in the public administration to cope with political and economic transformation. These efforts have resulted in a track record of macroeconomic stability, as well as the fastest rates of GDP growth in South Eastern Europe (SEE). However, Albania remains one of the poorest countries in Europe with a Gross National Income per capita (GNI) estimated at US\$ 2,150<sup>2</sup> in 2006, and widespread poverty, high unemployment, substantial regional disparities, and weak governance structures. The program of the present Government, which took office in September 2005, seeks to focus on improving governance and the rule of law, reducing corruption and breaking monopolies, improving the business environment, accelerating rural development, and fostering the development of human capital.

2. ***The Albanian population is also changing fast, but unemployment remains endemic.*** Although population growth and fertility rates have been falling, Albania still has one of the highest fertility rates and one of the youngest populations in Europe, although the portion of the population over 65 years of age is growing faster than the rest of the adult population.<sup>3</sup> The population remains predominantly rural, although the cities, particularly Tirana, have grown very rapidly over the past 15 years. The labor force now displays a growing preponderance of males, and it is mostly rural (65 percent). Unemployment remains widespread (officially estimated at 14.4 percent in 2004, down from 15 percent in 2003), especially in urban areas despite marked declines in registered unemployment in the last decade.<sup>4</sup>

3. ***Poverty remains a problem, despite recent improvements, and a decade of sustained GDP growth.*** About 25 percent of the Albanian population (780,000 individuals) had consumption levels below the poverty line in 2002, and although recent work suggests a significant reduction<sup>5</sup> in this number, it remains a problem. The distribution of consumption suggests that a large number of individuals are clustered around the poverty lines. But little extreme poverty - defined as the proportion of the population with a monthly income of no more than ALL 3,050 (the food poverty line) - exists. In 2002, only 5 percent of the population was estimated to be extremely poor.<sup>6</sup> A recent survey noted that most of the poor people are concentrated in the mountain region: Almost one-half of the population in this area is poor and one in five (20 percent) cannot meet basic food needs; and finally, within the individual

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<sup>1</sup> This section draws heavily on the recent Country Assistance Strategy for 2005 - 2009 (World Bank, 2006c).

<sup>2</sup> World Bank (2006a) *Albania: Trends in Poverty and Inequality*, Draft Paper.

<sup>3</sup> Albania's total population was estimated at 3.1 million in 2004 and is projected to increase to 3.7 million by 2025. An estimated 0.8 - 1.0 million Albanians currently live outside of Albania.

<sup>4</sup> Between 1993 and 2003, registered unemployment fell by 46 percent.

<sup>5</sup> World Bank (2006a) *Ibid* - suggests 235,000 have been lifted out of poverty since 2002.

<sup>6</sup> World Bank (2003) "*Albania Poverty Assessment*". Report No. 26213-AL; Human Development Sector Unit, Europe and Central Asia Region, the World Bank; 5 November 2003.

prefectures, Dibra, Kukes, Lezhe and Shkodra exhibit the highest levels of head count poverty, with more than one-third of their respective populations living below the poverty line.

4. *The recent Country Assistance Strategy*<sup>7</sup> noted that future growth will be increasingly reliant on higher investment levels on infrastructure. The business environment is plagued with considerable administrative barriers, weak governance, corruption, and ambiguities in property and land rights. In addition, the poor quality and high cost of infrastructure and utilities combines to inflate the cost of doing business, which together with limited access to credit and financial services, form significant barriers for business, despite improvements in entry/exit regulations.<sup>8</sup> The current poor state of infrastructure was also noted in the earlier Country Economic Memorandum<sup>9</sup> (CEM) "...to lower the marginal productivity of private capital in Albania, discouraging the involvement of the private sector." The more recent Global Competitiveness Report 2005-2006<sup>10</sup> ranked Albania 100<sup>th</sup> out of the 117 countries surveyed, with inadequate infrastructure one of the major issues raised.

#### **B). TRANSPORT SECTOR BACKGROUND**

##### **The Challenges facing the Transport Sector**

5. *Transport demand is growing rapidly, reflecting the structural changes in the economy and the realignment of trade flows in the region.* The NSSD Progress Report for 2004<sup>11</sup> notes that the demand for transport grew by 10.1 percent in 2004, with the majority occurring in the demand for road transport. Furthermore, actual growth is likely to be much higher in and around urban areas, particularly in the Tirana - Dures area, which witnessed a remarkable pick-up in economic activities. As one indicator, the number of registered vehicles has grown at an annual average rate of 14 percent for cars, (13 percent for all vehicles) since 1999.

6. *The institutional framework responsible for the regulation and execution of transport policy in Albania has changed recently.* At the national level, the merger in September 2005 of the old Ministry of Transport and Telecommunications (MOTT) with the Ministry of Territorial Adjustment and Tourism (MoTAT), established the Ministry of Public Works, Transport and Telecommunications (MPWTT). The MPWTT is responsible for the policy and regulatory framework, together with the technical standards for the road, railway, civil aviation and maritime transport sub-sectors. The national road network, comprising primary and secondary roads, is the responsibility of General Roads Directorate (GRD) under the MPWTT, whilst local roads are the responsibility of the road departments in the District Councils, under the Ministry of Interior (MOI) formerly the Ministry of Local Government and Decentralisation (MLGD). Similarly, the approximately 2,500 km of urban roads are maintained by the road departments in the different Municipalities, under the Ministry of Territorial Planning and Tourism (MTPT).

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<sup>7</sup> World Bank (2006c), Paragraph 31.

<sup>8</sup> World Bank/IFC (2005) "*Doing Business in 2005: Removing Obstacles to Growth*". A joint publication of the World Bank, International Financial Cooperation and Oxford University Press.

<sup>9</sup> World Bank (2004) "*Sustaining Growth Beyond the Transition*", ECA PREM.

<sup>10</sup> World Economic Forum, (2006) "*Global Competitiveness Report, 2005-2006*", Davos.

<sup>11</sup> Ministry of Finance, (2005) *NSSD Implementation Progress Report for 2004*, Tirana.

7. ***However, the performance of the institutions in the road sector remains poor.*** The GRD employed some 830 staff<sup>12</sup>; 155 at the main office in Tirana, with the remainder at the seven Regional Road Directorates. This equates to one employee for every 4 kilometers of road under the control of GRD, compared to 1 employee for every 300 kilometers of road in the most efficient organizations<sup>13</sup>. The Minister of Public Works, Transport and Telecommunications recently announced that the reform of this organization is a key priority for the Government, with the objective of establishing a small, centralized contracting unit<sup>14</sup>. The European Union is providing technical assistance to assist in the implementation of the reforms and help to establish a functioning asset management system for the primary and secondary road network.

8. ***The road infrastructure compares poorly to regional comparators.*** The road network in Albania totals about 14,500 km, comprising 3,136 km of national roads, of which 1,138 km are primary roads, and 2,274 km secondary road, together with about 4,411 km of district roads (of which 3,500 km are penetration roads, providing access to forestry and/or mines) and 4,980 km of communal roads (of which 3,000 km are gravel roads). The overall quality of the road network is poor compared to regional comparators, with only 39 percent of the road network paved in Albania, compared to 52 percent in Bosnia and Herzegovina and 62 percent in Macedonia. In 2002, only 10 percent of the national road network was found to be in good condition, with an additional 22 percent in fair condition, and the remaining 68 percent in poor condition<sup>15</sup>. By way of contrast, the comparative figures for Croatia, according to a recent survey, are 32 percent, 46 percent, and 22 percent respectively.

9. ***Insufficient maintenance expenditures and a lack of professional management of assets has contributed to the deterioration of the network and increased the costs of road users.*** The signs of inadequate maintenance can be readily seen, with even some new, or recently rehabilitated, roads and structures displaying premature signs of aging (e.g. bridge expansion joints on much of the network). One recent study<sup>16</sup> estimated the financial requirements for the normal maintenance of the national road network<sup>17</sup>, at ALL 2.8 billion (US\$ 29 million). By contrast, the level of recurrent expenditure in 2004 amounted to some ALL 2.2 billion<sup>18</sup> (US\$21 million) only, or 40 percent below the level required to maintain the network in a sustainable state. In addition, there is no operational asset management system in the road sector at present.

10. ***Mortality and morbidity from road traffic crashes is a serious and increasing public health issue.*** The rapid growth in vehicle ownership, poor observance of traffic signals and rules by drivers, particularly in and around urban areas, are contributing to an increase in the number of road traffic accidents, underlining the fact that road safety is becoming a significant social and economic issue in Albania. On average, recent research has estimated the costs to amount to between 1-2 percent of GDP. Whilst the annual fatality rate, based on official statistics, which reflect a considerable amount of under-reporting, has been slowly decreasing over the past six

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<sup>12</sup> This figure reflects the reduction of 120 staff employed at the regional offices.

<sup>13</sup> Heggie and Vickers, (1998).

<sup>14</sup> Donors Conference in the Transport Sector, Tirana, March 25, 2006.

<sup>15</sup> World Bank (2004b).

<sup>16</sup> Jenkins, Ian (2005).

<sup>17</sup> Including routine, periodic and winter maintenance for roads and structures.

<sup>18</sup> Assuming that asphalt repair and partial resurfacing are reclassified as maintenance expenditures.

years, the fatality rate per million vehicle-km in 2000 at 7.8 was still the highest in Central and Eastern Europe and about eight times the average rate in the EU15 countries (e.g. UK, 1.0, Sweden 0.8), as noted in the recent NSSD Annual Progress Report<sup>19</sup>.

**11. *Poor transport infrastructure is considered to be the main cause of difficulties for many.*** A qualitative survey<sup>20</sup> of both poverty, and its causes, noted that, after employment and income, many Albanians considered infrastructure problems to be the main cause of their difficulties and a significant factor in their low standard of living. 49 percent of rural producers stated that a lack of adequate transportation, primarily good roads, was their biggest marketing problem<sup>21</sup>. Rural inhabitants and leaders acknowledged that poor road access makes it difficult for farmers to reach markets, contributes to rural to urban migration, and affects the delivery of health and education services. One earlier study found that improved rural roads reduced transport costs by 80 percent and allowed farmers to increase their production by 50 percent<sup>22</sup>.

**12. *Reform in the maritime sector has started, but implementation, which is only partial, has been restricted to the Port of Durres at this time.*** Prior to 1991, the ports were centrally managed public enterprises which fulfilled all regulatory as well as operational functions. International trade was restricted, procedures outdated and port operations poorly performed. All the ports in Albania are now Joint Stock companies entirely owned by the state, and operated by the respective Port Authority. Durres Port is in the process of being transformed into a landlord port, where the Durres Port Authority (DPA) will retain ownership of the land, whilst most of the operations and services are contracted out to the private sector. However, despite the introduction of a new Maritime Code in July 2004, which enabled the establishment of the new Maritime Administration, neither the latter nor much of the secondary legislation/regulations, such as the Harbor Master Law, and the Safety Regulations, have been defined or introduced.

**13. *The currently limited role of the private sector needs to be increased.*** Albania has made considerable progress in privatizing and deregulating road transport, and the movement of all inter-city road freight and passenger transport has been successfully privatized, and the pilot privatization of 40 percent of the Urban Transport Enterprise (Tirana) took place in 1996. There has also been considerable progress in the use of the private sector to undertake capital investments in the road sector, with a robust private contracting industry developing. However, despite this, the use of private contractors, rather than force account, to undertake necessary routine and winter maintenance has been limited to the World Bank's Road Maintenance Project. This project has illustrated the success of this approach, and one recent study<sup>23</sup> found indications, albeit from a modest sample, that significant cost savings may be realized through more widespread adoption of this approach.

**14. *Multiple donors and multiple Project Implementation Units increase transaction costs and inhibit capacity development in the public sector.*** A further concern is that multiple projects from different donors, each with their different financial management, reporting and evaluation approaches, create excessive transaction costs for the responsible public sector bodies in the

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<sup>19</sup> Republic of Albania, Council of Ministers (2006) *2005 Annual Progress Report*, Tirana.

<sup>20</sup> World Bank (2002b).

<sup>21</sup> World Bank (2002b) Page 27.

<sup>22</sup> Evans, (1990).

<sup>23</sup> World Bank (2006) *Public Expenditure and Institutional Review – Volume 2*.

sector. Part of this concern relates to the establishment and use of 'self-standing' managerial modalities by different donors, in the form of Project Implementation Units (PIU), often supported with international consultants. A number of studies have revealed that these structures do little to develop domestic capacity in the planning or management of a particular sector. A final concern reflects the experience in Albania, and elsewhere, that parallel financing of adjacent projects is fraught with difficulties, with different evaluation, procurement, and supervision procedures leading to wide disparities and sometimes discontinuities in implementation of the physically adjacent projects.

### **The Response of the Government**

**15. *The Government of Albania has recently formally adopted the Albanian National Transport Plan (ANTP) as the Sector Policy and Strategy.*** The ANTP, prepared with support from the European Union CARDS program, provides the basis for an overarching framework for the development of the transport sector for the first time. The Government has formally approved this plan as the Strategy and Policy for the development of the Sector<sup>24</sup>. The key principles for all modes are: (i) to facilitate the development of the transport sector; (ii) to ensure the scarce use of economic resources; (iii) to ensure fair business practices; (iv) to ensure the long term viability of transport service providers; and (v) restrict public sector involvement to areas of justifiable market failure. The challenge moving forward is for the ANTP priorities to a) be fully reflected in the overall National Strategy for Socio-Economic Development; b) for appropriate assistance to be identified and provided to implement the changes; and c) to feed into the formulation of the Medium-Term Budget Program and annual budget in the sector following a rigorous prioritization of investments. This study has also been endorsed by a number of development partners.

**16. *The Durres – Milot - Morine corridor is the foremost priority of the Government of Albania, consistent with the new National Transport Plan, in the sector.*** The emphasis on this corridor reflects that it is the section of the national highway network in the poorest condition, on average, that it serves the area of the country with the lowest per capita income, and that it forms, potentially, a key strategic link to Kosovo and on towards Nis and Corridor X in Serbia. This road corridor also serves as the primary link between Kosovo and Durres port and will benefit the development of the port by increasing its "hinterland". A further benefit, which has not been quantified in commensurate terms, is the impact of improved access to a hinterland population approaching 110,000 people, in one of the poorest regions in Albania (as illustrated on the Map in Annex 16).

**17. *The remaining sections are to be constructed using the resources of the GoA, with support from a number of other IFIs.*** The middle section between Rreshen and Kalimash is to be constructed by an American-Turkish Consortium, and is expected to be financed from the GoA's own resources. The final section between Kalimash and the border station at Morine, is being constructed using GoA funds and co-financed with the Islamic Development Bank. The recent PEIR (World Bank, 2006d) estimated that the planned expenditures in the corridor, which total US\$612 million, risk opening a significant financing gap in the sector. The GoA has agreed to provide its financing plan for the entire corridor, before submission to the WB Board.

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<sup>24</sup> Approved by the Cabinet of Ministers on the 10<sup>th</sup> May 2006.

**18. *The Government is also committed to strengthen the institutions, practices and the financing of road maintenance in the sector.*** The Minister of Public Works, Transport and Telecommunications recently announced that the reform of the General Roads Directorate (GRD) is a key priority for the Government, consistent with the contracting out of all maintenance. The reform has commenced, and a new draft structure has been prepared by a Steering Committee, established within the MPWTT, but awaits formal approval. The European Union is providing, within a second phase of TA, support to implement the reform and to establish a functioning asset management system for the primary and secondary road networks with the reformed GRD. This project will also contribute to this process through the purchase of some traffic classifiers/counters and road condition measuring equipment. In addition, the Minister of Transport also announced<sup>25</sup> that the Government would increase routine and periodic maintenance expenditures for the national roads significantly in each of the next two years. This commitment has been reflected in a formal covenant in the project to increase the allocation to road maintenance expenditures on national roads by 10 percent in real terms over the lifetime of the project.

**19. *The Government is making serious efforts to improve road safety in Albania.*** The importance of the issue of road safety is recognized by the authorities and the recent meeting of the Inter-Ministerial Road Safety Council (IRSC) defined a Road Safety Action Plan, building on the successful work of the Road Safety consultant hired under the existing World Bank Project. The Secretariat to the IRSC have now defined a number of key activities for which external support is required: this includes a period of technical assistance to the secretariat to assist in the implementation of the recommendations of the Consultant, improving enforcement, education and raising awareness, whilst at the same time, facilitating the introduction of engineering solutions through the purchase of some additional essential road safety equipment, and undertaking a road safety audit on the Tirana – Durres road. The latter are to be financed in this project.

**20. *Initial steps are being taken to address the problem of multiple Project Implementation Units in the transport sector.*** The problem of multiple projects from different donors, each with their different financial management, reporting and evaluation approaches, has been explicitly recognized by the Government and the World Bank in Albania, and the new Country Assistance Strategy (CAS) for FY06-09 stated explicitly that from FY05 all new WB funded projects would be implemented through existing government structures<sup>26</sup>. The Government has, as a result, decided to consolidate responsibilities in the sector and to commence the harmonization of the four PIUs currently in the sector to reduce transaction costs and facilitate greater capacity building. The approach, as part of the ongoing reform of GRD, has resulted in the establishment of one consolidated Project Implementation Team (PIT), staffed initially by consultants to GRD, who will eventually be converted into full-time members of staff of a reformed General Roads Directorate. The project is supporting the plan by contributing to some of the costs of the PIT for a transitional period.

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<sup>25</sup> The Minister of Transport and Public Works at a Donor's Conference on the Transport Sector in Tirana, March 2006.

<sup>26</sup> World Bank/IFC (2006) Paragraph 46, Page 18.



**21. *Moves are being made towards an eventual SWAp type approach in the sector.*** The Government has also requested the World Bank to assess the potential benefits of introducing a Sector Wide Approach (SWAp) in future in the sector. The origin of these programs can be traced back to the mid-1990s, when there was increasing recognition on the part of the donor community that a lack of coherence and co-ordination was dissipating the potential benefits of projects, reducing both their sustainability and inhibiting the development of domestic capacity as project management was undertaken outside the structures of the domestic Government. There is a small TA component in the project to undertake a Sector Specific Fiduciary Assessment to commence the preparatory work.

**22. *Strengthening the framework for private finance, to facilitate investments in partnership with the public sector, is a priority for the Government.*** The World Bank, with financial support from the Public Private Infrastructure Advisory Facility (PPIAF), is currently providing technical assistance to the Government to this end in the highway sector. The Government has also recently signed a contractual agreement with the International Finance Corporation (IFC) to strengthen the Concession Law, and develop concessions in the energy and transport sectors.

## **2. Rationale for Bank Involvement**

**23. *The World Bank has a key role to play in the development of the transport sector in Albania.*** Albania has received substantial amounts of financial support for road construction and rehabilitation from the European community and from international and bilateral organizations, but much remains to be done before Albania's road network is considered to be contributing fully rather than impeding economic development. However, the majority of support from other donors has been concentrated on physical investment, with less emphasis on the substantive capacity building necessary to ensure sustainability of the investments. The resources available to the World Bank, the strong dialogue enjoyed with counterparts, and the ability to act as a catalyst in attracting other donor finance endows the World Bank with a key role in the continued development of the sector. Also, experience both with large infrastructure projects and supporting innovation in road maintenance, provides the World Bank with a comparative advantage in assisting with this particular project.

## **3. Higher Level Objectives to which the Project Contributes**

### **THE NATIONAL STRATEGY FOR SOCIAL AND ECONOMIC DEVELOPMENT (NSSED)**

**24. *The NSSED (Albania's PRSP), was adopted in 2001, and aims to bring Albania's living standards and income levels closer to the levels of its neighboring European countries.*** The NSSED was prepared by the Government, with a significant amount of public participation, and represents a significant effort to create the conditions that promote long-term growth and poverty reduction. It is based on three pillars: (i) improving governance, (ii) promoting private sector development, and (iii) fostering human resources development. The NSSED recognizes that weak governance and institutions are at the root of Albania's developmental problems, and acknowledges that economic growth will be the main instrument to reduce poverty, raise standards of living, and accelerate the attainment of the Millennium Development Goals (MDGs).

25. *The focus of the NSSED program for 2005-2006 is pro-poor growth.* Based on the pillars of improving governance and sustaining high economic growth—the NSSED program for the 2005 and 2006 focuses on economic growth to foster demand for labor as a key to broader participation in the benefits of economic growth. It underlines the need to promote private sector development by improving the investment climate and strengthening governance structures. It places considerable emphasis on the importance of infrastructure to address key non-income dimensions of poverty, and forming a sound basis for long-term growth and competitiveness.

#### THE WORLD BANK COUNTRY ASSISTANCE STRATEGY

26. *The new World Bank Country Assistance Strategy for FY06-FY09.* This fourth World Bank Group CAS for Albania (a joint CAS of IDA/IBRD and IFC), covering the period FY06-FY09, outlines a program of support including financing on modified IDA terms of up to US\$ 86 million as well as IBRD financing of up to US\$ 111 million. The CAS program seeks to support Albania's efforts in improving governance. The new CAS recognizes that more coherent efforts need to be made to address the challenge of poor governance in Albania, and introduces a 'Governance Filter' comprising of four core principles which will be used to ensure that governance considerations are mainstreamed into all of the Bank's interventions, and have been reflected in the design of this project. The program of interventions in the CAS is focused in two areas: (i) *Continuing Economic Growth through Support to Private Sector Development*; and (ii) *Improving Public Service Delivery, particularly in the Social Sectors*, and infrastructure improvement is central to the realization of outcomes in both pillars. The CAS is also explicit in its support for the provision and maintenance of efficient transport infrastructure<sup>27</sup>.

27. *The Governance Filter.* The centerpiece of the World Bank 2006 Country Assistance Strategy (CAS)<sup>28</sup> for Albania is an innovative attempt to tackle governance challenges in the country through the introduction of a 'Governance Filter' to guide all the Bank interventions in Albania. The 'Governance Filter' comprises four core principles which are to be used to ensure that governance considerations are mainstreamed into all of the activities supported by the World Bank. The four core principles are: (i) transparency in the use of public resources; (ii) increased autonomy and de-politicization of the public administration; (iii) supporting de-centralization; and (iv) strengthening mechanisms to encourage advocacy and voice amongst civil society in the sector. Further detail on the Governance Filter and its influence on the design of this particular project, together with key monitoring indicators, is provided in Annex 10.

#### THE ALBANIA NATIONAL TRANSPORT PLAN 2006-2023

28. *The GoA has recently formally adopted the National Transport Plan as the Strategy and Policy for the Development of the Sector.* The Albanian National Transport Plan was funded by the European Union, and completed in March 2005. This study represented the first comprehensive assessment of the physical and institutional state of the sector, together with the preparation of projections of current and forecast demand up to 2023, and a prioritized list of investments and an action plan, for the short, medium and long term. The Government has

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<sup>27</sup> World Bank (2006c), Paragraph 57.

<sup>28</sup> The CAS, approved on 10 January 2006, covers FY06-FY09. See <http://www.worldbank.org.al>.

recently formally adopted this plan as its strategy and policy for the development of the Transport Sector<sup>29</sup>. This study has also been endorsed by a number of development partners. The development of the Durres to Milot to Morine corridor is assumed constructed by the ANTP, and is included in the base case, reflecting the importance allocated to this project, by both the current and previous administration.

## **B. PROJECT DESCRIPTION**

### **1. Lending Instrument**

29. The lending instrument selected for this project is a Specific Investment Loan (SIL). The MPWTT selected a standard Credit, denominated in SDR, with a 20 year term, and a 10 year grace period for the IDA component, and a Euro Denominated Variable Spread Loan with a 17 year term, with a 4 year grace period, for the IBRD component.

### **2. Project Development Objective and Key Indicators**

30. The Project Development Objective is to reduce user costs on the Milot – Rreshen section of the Durres - Milot – Morine corridor and improve access for the hinterland population, to introduce innovation in road maintenance on a pilot basis, and to contribute to the development of the institutional framework and implementation of road safety activities throughout Albania.

31. The project proposes to achieve this objective through the following: (i) the construction of the 26 kilometer section of the Milot to Rreshen road, thereby contributing to a reduction in journey time for road users and an improvement in access to one of the poorest parts of Albania; (ii) the introduction of innovation in road maintenance on a pilot basis through the testing of output and performance based road maintenance contracts in two pilot regions; and (iii) institutional development and support to improving road safety in Albania. Progress towards the attainment of the Project Development Objective will be assessed through the following priority indicators.

**Reduced User Costs and Improved Access:**

- a) Vehicle journey time from Rreshen to Milot in free flowing conditions reduced by 25 percent; and
- b) Improved access measured by the increase in population within defined isochrone of Milot.

**Output and Performance-based Contracting:**

- c) Satisfactory piloting of output and performance based road maintenance in the two defined pilot regions in Albania.

**Institutional Development and Strengthening of Road Safety Activities:**

- d) Length of road in lane kilometers subject to road safety audit; and
- e) Purchase and operational use of a defined number of essential road safety equipment.

32. There are two higher level risks that are beyond the immediate responsibility of the project, and therefore do not require formal Monitoring and Evaluation. The first relates to the

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<sup>29</sup> The ANTP was formally approved by the Cabinet of Ministers on the 10<sup>th</sup> May 2006.

problem of unsolicited investment proposals, and the Government has agreed to revise the Law on Concessions and the Law on Public Procurement, and both are conditionalities within the prospective FY07 Development Policy Loan. The IFC are presently collaborating with the Government to revise the former. And the second relates to the risk of cost escalation on the Government funded sections of the Durres to Morine corridor. Unforeseen cost escalation, which is entirely possible given the scale and nature of this project, could threaten the viability of investments in the entire corridor, and ‘crowd out’ essential recurrent expenditures in the sector, and in other sectors. This concern has been formally expressed, and the GoA are appointing a team of strong project managers, together with Project Managerial and Technical Committees, to oversee the development of the section adjacent to the Bank financed section in mitigation.

### 3. Project Components

**33. Project cost and components.** The total cost of the Project is estimated at US\$55.8 million (EUR 42.5 million), net of all taxes, with US\$25 million (EUR 19.1 million) coming from a World Bank Credit/Loan (US\$5 million IDA, US\$20 million IBRD), US\$14.5 million (EUR11.0 million) to be provided by the OPEC Fund, and the remaining US\$16.3 million (EUR12.4 million) being provided by the Government in counterpart financing. The Project includes four components: (i) the construction of the 26 kilometer section of the Milot to Morine corridor, between Milot and Rreshen; (ii) the introduction of output and performance based contracting in two pilot regions; (iii) the road safety component, involving a mix of technical assistance and equipment; and (iv) other necessary technical assistance and equipment. A more detailed description of the individual components and their constituents is provided in Annex 4.

**34. Component 1: Construction of the Milot to Rreshen Road** [Estimated total cost – US\$37.4 million (EUR 28.47 million)], Bank financed US\$20.42 million (EUR15.55 million). This component involves the civil works and consultant supervision to undertake the construction of the three lots of the 26 kilometer Milot to Rreshen section of the Milot to Morine road corridor. The proposed road is located mostly within the Mirdite District which has a poverty incidence ranging between 20-40 percent of the population, and improving access to this impoverished area is a key policy objective of the Government. The proposed new road has been designed as a single carriageway road (7.5 meter two-lane, with a total width of 11.1 meters, with the paved width amounting to 9.3 meters), with a design speed of 80 km/hr. The World Bank will co-finance Lots 1 and 2 with the GoA, whilst Lot 3 will be financed by the OPEC Fund<sup>30</sup>.

**35. Component 2: Introduction of Output/Performance Based Maintenance Contracts** [Estimated total cost – US\$11.5 million (EUR 8.75 million), Bank financed US\$1.30 million (EUR 0.99 million)]. The second component involves the introduction on a pilot basis of output or performance based road maintenance contracts in two pilot regions, Tirana and Kukes, in Albania, together with necessary consultant supervision. This initiative follows the experience accumulated in the introduction of these approaches in an earlier World Bank project in Serbia where provisional indications suggest a significant reduction in unit operating costs for the same level of maintenance. The provisional expectation for the output of this component is that an

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<sup>30</sup> Formal approval for the co-financing was made at the meeting of the OPEC Fund board on the 19<sup>th</sup> December, 2006.

improved quality in maintenance can be achieved for a constant level of resource input, together with a robust assessment of the efficacy of these approaches in Albania.

**36. Component 3: Road Safety Component** [Estimated total cost – US\$ 1.2 million (EUR0.91 million), Bank financed US\$1.2 million (EUR0.91 million)]. The third component is a road safety component and will build on the recently completed road safety component in the Road Maintenance Project, and the recent Action Plan prepared by the National Road Safety Council. This will involve the provision of necessary technical assistance to assist the implementation of the National Action Plan, including assistance to implement changes in the primary and secondary legislation, drawing on best international practice, the analysis of statistics and extension of the Accident Information System, the undertaking of a road safety audit on the Tirana to Durres highway, which will result in an action plan for road safety improvements and will have a significant demonstration effect, and the provision and operational introduction of necessary goods, in the form of weight scale, speed guns and breathalyzers, for the Traffic Police under the Ministry of Interior.

**37. Component 4: Technical Assistance and Goods** [Estimated total cost – US\$ 2.08 million (EUR1.58 million), Bank financing US\$2.08 million (EUR1.58 million)]. The final component will involve the provision of necessary technical assistance to the Ministry of Public Works, Transportation and Telecommunication. This will include the following: (i) technical assistance to establish the maritime administration, implement the new port authority law, and prepare new maritime by-laws in conformity with EU standards; (ii) undertaking a sector specific fiduciary assessment to identify the necessary changes to undertake a SWAp type approach in the sector in future; (iii) technical assistance in best practice in highway engineering skills to the Project Implementation Team in GRD for a defined term; (iv) training; (v) limited office expenses for a transitional period; (vi) two vehicles for the PIT; (vii) road roughness measuring equipment to provide information for the asset management system; and (viii) equipment for counting/classifying motor vehicles on the network, to the same end.

**Table 1 : Project Components and Proportion of Bank Financing (US\$ Millions)**

Component	Indicative Costs (US\$M)	% of Total	Bank-Financing (US\$M)	% of Bank-financing
<b>1. CONSTRUCTION OF MILOT-RRESHEN ROAD</b>				
1a. Lot 1 Milot - Skuraj	12.3	22%	10.79	88%
1b. Lot 2 Skuraj – Rubik	10.7	19%	9.39	88%
1c. Lot 3 Rubik – Rreshen	13.2	24%	0.00	0%
1d. Consultant Supervision	1.2	2%	0.24	20%
<b>Sub-total</b>	<b>37.4</b>	<b>67%</b>	<b>20.42</b>	<b>55%</b>
<b>2. PERFORMANCE BASED ROAD MAINTENANCE CONTRACTS:</b>				
2a. Pilot OPMCs in two regions	10	18%	4.37	44%
2b. Consultant Supervision	1.5	3%	1.5	100%
<b>Sub-total</b>	<b>11.5</b>	<b>21%</b>	<b>5.87</b>	<b>51%</b>
<b>3. ROAD SAFETY:</b>				
3a. Technical Assistance	1	2%	1	100%
3b. Road Safety Equipment	0.2	0%	0.2	100%
<b>Sub-total</b>	<b>1.2</b>	<b>2%</b>	<b>1.2</b>	<b>100%</b>
<b>4. TECHNICAL ASSISTANCE AND GOODS:</b>				
4a. To establish the maritime administration;	1	2%	1	100%
4b. To undertake sector specific fiduciary assessment	0.1	0%	0.1	100%
4c. International TA to the PIT in GRD	0.25	0%	0.25	100%
4d. PIT staff and office expenses	0.25	0%	0.25	100%
4e. Vehicles for PIT	0.06	0%	0.06	100%
4f. Training	0.05	0%	0.05	100%
4g. Road Condition Equipment	0.01	0%	0.01	100%
4h. Traffic Counters/Classifiers	0.3	1%	0.3	100%
4i. To support institutional reform in GRD.	0.06	0%	0.06	100%
<b>Sub-total</b>	<b>2.08</b>	<b>4%</b>	<b>2.08</b>	<b>100%</b>
<b>Physical Contingencies</b>	<b>3.62</b>	<b>6%</b>	<b>0</b>	<b>0%</b>
<b>Total Project Costs</b>	<b>55.8</b>	<b>100%</b>	<b>25</b>	<b>45%</b>
<b>Total Financing Required</b>	<b>55.8</b>	<b>100%</b>	<b>25</b>	<b>45%</b>

All costs exclude VAT and local taxes.

#### **4. Lessons Learned and Reflected in the Project Design**

38. *The need to improve transport infrastructure.* The Country Economic Memorandum (World Bank, 2004) noted that “...the transport system is adequate in extent perhaps but not in condition. The poor state of the infrastructure represents a major constraint to trade, foreign direct investment, tourism, growth, and the provision of social services for the poor.” The report also noted the high cost of transit charges, and the impediment that they represented in the development of international trade. This concern about the suitability of the scale and scope of

transport infrastructure was echoed in the recent Public Expenditure and Institutional Review<sup>31</sup> which noted that despite substantial outlays in the transport sector over the past decade, the scope and quality of the road network was limited. The evidence from the BEEPs survey<sup>32</sup> reveals the perception of many businesses operating in Albania is that whilst there has been some improvement in the quality of infrastructure recently, it still compares poorly to other countries.

**39. *The need to implement all projects through existing public sector structures.*** The earlier section noted decision of the Government to to implement, as far as possible, all new projects inside existing government, or public sector, structures. One of the key changes introduced was that a Project Authorizing person from government (at level of Director, Director General or Deputy Minister) is now assigned to oversee the implementation of each project. Where necessary skills are considered to be lacking in the public sector, they will be contracted externally to assist in project implementation (e.g., highway engineering, financial management, procurement, etc). This project will be implemented by a Project Implementation Team (PIT) within the General Road Directorate (GRD), and the Director and staff will become permanent members of staff of the latter, as part of the ongoing reform process.

**40. *The need to reduce the transaction costs on counterparts.*** A further lesson reflected in the components of the project, is the concern that multiple projects from different donors, each with their different financial management, reporting and evaluation approaches, raise transaction costs for counterparts in the public sector, as they are having to respond to similar requests from external parties in numerous different ways. The potential advantage of a Sector Wide Approach was discussed with the Government, and initial steps to harmonize donor PIUs into the PIT were commenced. The project also includes a Sector Specific Fiduciary Assessment to prepare the foundations for an operation of this type at an opportune future time.

## **5. Alternatives Considered and Reasons for Rejection**

**41. *The Milot - Morine corridor remains the foremost priority for the Government of Albania in the sector.*** The selection of the first section of the Milot to Morine corridor between Milot and Rreshen for IDA/IBRD support is consistent with the explicit objectives of the government to improve the economic conditions in the northeast part of the country, and to enhance both national and regional integration of the ethnic Albanian population. The development of this corridor is seen as forming a key link to Kosovo and on towards Nis and the TEN Corridor X in Serbia, as well as enhancing the “hinterland” of Durres Port.

**42. *Within the broad corridor, the primary emphasis was then placed on the selection of the most appropriate alignment, followed by the identification of the design standard given traffic volumes and budget constraints.*** In respect of the former, three alternative alignments were studied in an earlier feasibility study with the assistance of international consultants:

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<sup>31</sup> World Bank (2006d).

<sup>32</sup> BEEPS (2005).

Alternative #1: From Milot north to near Shkodra on route #1 and then east on an east-west oriented route #5 to Morine on the Kosovo border (a total distance from Milot to Morine of 181 km);

Alternative #2: From Milot northeast about 52 km along route #30 to near Blinisht, then north on route #30 about 37 km to near Fushe-Arrez, then east on the east-west oriented route #5 as under Alternative #1 to the Kosovo border (a total distance from Milot to Morine of 157 km); and

Alternative #3: From Milot northeast along route #30 to near Blinisht, then mostly on a new road alignment -- including 6 km of tunnel -- for about 33 km to near Kolshi, then east on the east- west oriented route #5 as under Alternative #1 to the Kosovo border (a total distance from Milot to Morine of 106 km).

Alternative #1 was not selected as much of the north-south corridor has already been or will soon be upgraded, and much of the east-west oriented route #5 has very difficult horizontal and vertical alignments. Alternative #2 was found to demonstrate a better rate of return, but the preferred option was Alternative #3, which was found to be the alternative returning the highest rate of return, at feasibility stage<sup>33</sup>, with an estimated Economic Internal Rate of Return (EIRR) of 20.1 percent, based on a capital cost of US\$ 300 million in 2003 prices.

**43. Alternatives Considered for the Milot - Rreshen Section in the Transport Project.** In the earlier dialogue with the Government, the World Bank agreed to support the construction of the first section of 26 kilometers of Alternative 3, between Milot and Rreshen. On this specific segment, three further alternative alignments were considered during the preparation stages of the project. **Alternative A** would follow the existing national road SH.30 from Milot through Rubik to Rreshen. **Alternative B** would leave the national road SH.1 approximately 1.5 km south of the new River Matit Bridge and follow the existing national road SH.6 from Milot to Skuraj junction, then a rural road parallel to the abandoned railway on the east side of the Fan river valley. Then north of Rubik this alternative joins the alignment of Alternative 1 to Rreshen (SH.30). **Alternative C** would leave the national road SH.1 approximately 2.2 km south of the new River Mat Bridge to Milot. Then from Milot the alternative follows the alignment of the abandoned railway to Rreshen. This section was selected as the preferred alignment for the construction, based on a comparative assessment of economic viability, as it precluded the need for extensive and expensive flood protection works.

## C. IMPLEMENTATION

### 1. Institutional and Implementation Arrangements

**44. The harmonization of the existing PIUs in the sector.** The MPWTT, with the full support of the World Bank, has decided to consolidate responsibilities in the sector and to commence the harmonization of the four PIUs currently established in the sector to reduce transaction costs and facilitate greater capacity building. The approach, as part of the ongoing reform of GRD, is to establish one consolidated Project Implementation Team (PIT), which will be staffed initially by consultants to GRD, and eventually entirely by full-time members of staff

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<sup>33</sup> Tecnic/Mott McDonald, (2003) *Durres – Morine Road Feasibility Study*.



as part of a reformed General Roads Directorate. The reform of the latter institution has commenced, and a new draft structure has been prepared by a Steering Committee, established within the MPWTT. This structure needs formal approval, and then the process and necessary capacity building will be defined, prior to actual implementation of the reform (The project includes a small technical assistance component to assist and complement the more substantial EU support in this process).

**45. As a first step, the existing Project Implementation Unit (PIU), established to implement the ongoing Road Maintenance Project (Credit 3683-ALB), has been transformed into the core of the new Project Implementation Team (PIT) within GRD.** A Director was appointed formally on the 24<sup>th</sup> April, 2006 to head the new PIT. The latter will have the overall responsibility for project implementation, drawing both on members of the wider PIT, and relevant experts from the various departments of the GRD as necessary (one example being environmental monitoring). The broader Project Implementation Team (PIT) will be responsible for the implementation of all foreign-financed transport and road maintenance projects. The PIT will be responsible for the day-to-day management of the Project including procurement, financial management, and liaison with the Bank. The PIT has a settled nucleus of core staff with all the required skills in financial management and procurement. Since the formal status of the staff of the RMP PIU was consultants to GRD, they are now consultants to the PIT within GRD. They will become formalized as members of staff of the new GRD as the reform progresses. It has been agreed with counterparts that the Transport Project will contribute to the operational costs of the PIT for the transition period from loan effectiveness (up to the end of June 2008). These arrangements have been further defined in the Project Implementation Plan, which has been reviewed and discussed with the borrower.

**46. *Environmental Monitoring within the Project.*** An Environmental Unit was established within the GRD in early 2004. The Unit comprises two members selected from core GRD staff, based on their experience and training. The head of the unit has an academic background in geology, hydrology, geography, air and noise pollution and paleontology. The second team member is an Environmental Specialist with a degree in geography. Since the formation of the Unit, it has become increasingly active, and is now entirely responsible for providing all GRD's input regarding environmental issues for road projects currently being prepared by external consultants. This unit was central to the preparation of the Environmental Impact Assessment, the Environmental Management Plan and the Resettlement Action Plan for this project. The PIT will draw on the expertise of this unit during project implementation.

## **2. Partnership Arrangements**

47. At the request of the Ministry of Public Works, Transport and Telecommunications, this project is being co-financed with the OPEC Fund. The OPEC Fund will contribute US\$15 million to co-finance the civil works for Lot 3 of the Milot – Rreshen road section, and will comply fully with World Bank Safeguards and Procurement Standards.

### **3. Monitoring and Evaluation of Outcomes/Results**

48. Project monitoring will be undertaken by PIT staff, with the assistance and guidance from key experts within the GRD, under the close supervision of the MPWTT, both during the course of Project implementation and after the completion of the Project. It will entail a review of procurement, implementation progress, and the monitoring of the defined Project Indicators for the duration of the Project. All information for project indicators is either readily available to the PIT staff, or will be provided to them by Quarterly Reports from Supervision Consultants. Project progress reports, including the Monitoring Indicators, will be prepared by the PIT on a quarterly basis and submitted for Bank review.

### **4. Sustainability**

49. The strong commitment of the Government to the sector and the project is reflected in the actions taken in the first year of the new Government, as detailed in the earlier section. The sustainability of the project will also depend on two further factors: (i) the degree of Government commitment to provide adequate future financing for road maintenance; and (ii) the commitment to introduce the necessary institutional reform to GRD to facilitate the management of the assets of the road sector in a professional manner. In respect of the first, the Government is aware of the need, and the Minister<sup>34</sup> recently announced a plan to significantly increase maintenance expenditures in future years. As a sign of this commitment, the GoA has also agreed to the inclusion of a covenant in this project to increase maintenance expenditures by not less than 10 percent each year, in real terms, from a baseline of planned 2007 expenditures, over the lifetime of the project.

50. In respect of the second point, the restructuring of the GRD is a priority for the GoA, and at a recent donor conference, the Minister articulated a vision of a small efficient contracting unit. A Steering Committee has been established within the MPWTT, comprising stakeholders from both the Ministry and GRD, and a draft structure has been defined, although yet to be approved. The European Union is also continuing its support to the sector with technical assistance, and is expected to assist the MPWTT in implementing the agreed reform of GRD and strengthen the capacities of the latter institution.

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<sup>34</sup> The Minister of Transport and Public Works at a Donor's Conference on the Transport Sector in Tirana, March 2006.

## 5. Critical Risks and Possible Controversial Aspects

Risk	Risk Rating	Risk Mitigation Measure
<b>From Outputs to Objective</b>		
Government may not allocate sufficient resources to road maintenance, undermining the sustainability of the investment.	S	The Government's strong commitment to improve road maintenance is revealed in the formal loan condition to increase the allocation to maintenance by 10 percent per year in real terms and the public statements of the Minister of the MPWTT.
<b>From Components to Outputs</b>		
Government counterpart funds may not be made available on a timely basis.	N	The Project is a key priority for GoA, and there is a formal loan condition to provide counterpart funds on a timely basis into the Project Account.
Inadequate interest on the part of international and local contractors to provide competitive bidding atmosphere.	N	Works packaging has been carefully monitored by the Bank team. In the procurement for the initial lot, there has been considerable interest from both local and international contractors. The contractor market is increasingly healthy in Albania, with considerable competition from neighboring countries.
Inadequate interest on the part of international and local contractors to undertake output and performance based road maintenance contracts.	N	Careful design of the bidding documentation, together with a dialogue with interested stakeholders, together with experience garnered within the Road Maintenance Project suggests that this risk is low.
Institutional reform within GRD may stall, and the application of appropriate maintenance regimes to the new road may be delayed undermining the sustainability of the investment.	S	The Government has made a clear statement of commitment to the reform of GRD, with the support of the World Bank and the European Union. There is also an ongoing TA component, funded by the EU, which is due to start the second phase to facilitate this process.
PIT/GRD Staff may not be competent to oversee the implementation of the construction, or the output and performance based road maintenance contracts.	M	The use of foreign consultants to assist the PIT/GRD, which will also have an international technical assistance to enhance capacity development, will reduce this risk. Training under previous projects also provides assurance that adequate staff will be available. There is a formal condition to ensure that the PIT is adequately staffed and resourced throughout the lifetime of the project.
<b>Overall Risk Rating</b>	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

## **6. Loan/Credit Conditions and Covenants**

**51. Retroactive financing** will be allowed for expenditures incurred after the 1<sup>st</sup> October 2006, for an amount up to 20 percent of the Credit and 20 percent of the Loan respectively, for: (i) initial and interim payments to contractors for civil works on the first two lots of the Milot to Rreshen section, consistent with the proportion of the component to be financed by the World Bank; and (ii) Initial and interim payments to consultants supervising the civil works on the Milot to Rreshen section, consistent with the proportion of the component to be financed by the World Bank.

**52. Conditions of Effectiveness:** (i) the project is subject to the standard cross-effectiveness condition between the Loan Agreement and the Financing Agreement; and (ii) the Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing and the Loan Agreement) have been fulfilled.

**53. Project Covenants:** (i) The Borrower commits to implement the strengthening of the flood protection works on the north side of the River Matit by June 30<sup>th</sup> 2007; (ii) The Borrower commits to implement the strengthening of the flood protection works on the south side of the River Matit by December 31<sup>st</sup> 2007; (iii) The Borrower will ensure that the Project is implemented in accordance with the Environmental Management Plan (EMP), Resettlement Action Plan (RAP) and Project Implementation Plan (PIP); (iv) The Borrower will commit to increase the allocation to road maintenance, over planned 2007 figures, by not less than 10 percent per year, in real terms, over the lifetime of the project; (v) The Borrower commits to adequately staff and resource the Project Implementation Team (PIT), or its successor, throughout the life of the project; (vi) The Borrower shall prepare and furnish to the Bank no later than one month after the end of each calendar quarter, Progress reports for the Project covering the said quarter, in a form and substance satisfactory to the Bank; (vii) The Borrower shall submit the proposed structure for GRD for the review and agreement of the World Bank by June 30, 2007; (viii) The Borrower commits to reform GRD in line with the agreed structure by June 30, 2008; (ix) The Borrower shall, by end October in each year during Project implementation, submit to the Bank for review and agreement, its Public Investment Program for the transport sector; and (x) The Borrower shall ensure that adequate funds are allocated in the Borrower's annual budget to cover the Borrower's contribution to the financing of the project.

**54. Financial Covenants:** The Borrower will maintain a financial management system acceptable to the Bank. The project's financial statements will be audited by independent auditors acceptable to the Bank, and on terms of reference acceptable to the Bank commencing with the accounts for the year ending December 31, 2007. The annual audited project financial statements will be provided to the Bank within six months of the end of each fiscal year. The audits will need to be conducted in accordance with International Standards on Auditing (ISA) as issued by the IFAC and on terms of reference acceptable to the Bank.

## **D. APPRAISAL SUMMARY**

### **1. Economic and Financial Analyses**

55. ***The Economic Analysis of the Bank Financed Section.*** The economic evaluation has been undertaken for the main component within the project; the construction of 26 kilometers of new national highway between Milot and Rreshen. This section has been appraised both independently, and as part of the economic analysis of the entire corridor. The economic analysis was undertaken using the HDM-4 model, using the conventional approach of comparing the reductions in vehicle operating costs and time expenditures in the ‘do-something’ scenario, when the new section is constructed, with a proposed maintenance regime, against the ‘do-minimum’ scenario, when nothing is done to the road (s), except the continuation of the current maintenance regime.

56. This component accounts for approximately 75 percent of total project costs and the Net Present Value (NPV), using a 12 percent discount rate, has been estimated at US\$26.2 million with an Economic Internal Rate of Return (EIRR) of 19.6 percent. This is below the average return on Bank financed projects in the transport sector<sup>35</sup>, but it is regarded as a conservative estimate as it omits the benefits resulting from both the reduction in accident costs due to the paucity of reliable data at this time, and those resulting from the generated traffic, both diverted and induced, expected to result when the road is constructed along the entire corridor. Appropriate sensitivity analyses were undertaken, predicating a 20 percent increase/decrease in construction costs and/or a 20 percent increase/decrease in forecast traffic growth: The results suggest that the economic analysis is robust, with the defined changes in the key parameters having little impact on the viability of the section financed within the Bank project.

57. ***The Economic Analysis of the entire corridor.*** The economic analysis of the construction of the road along the entire Milot to Morine corridor was also undertaken using the HDM-4 model, using the conventional approach of comparing the reductions in vehicle operating costs and time expenditures in the ‘do-something’ scenario, when all the new sections are constructed, with a proposed maintenance regime, against the ‘do-minimum’ scenario, when nothing is done to the road (s), except the continuation of the current maintenance regime. The results indicate that the planned investments are economically viable, returning a Net Present Value of US\$115.9 million and an Economic Internal Rate of Return (EIRR) of 13.6 percent, at the level of the entire corridor. Appropriate sensitivity analyses were undertaken, predicating a 20 percent increase/decrease in construction costs: The results suggest that the risk of cost escalation is real, and underlines the need for robust project management on the non-Bank financed sections. The detailed results are presented in Annex 9.

## 2. Technical

58. The proposed project consists primarily of constructing a section of a new national highway between Milot and Rreshen. Whilst the proposed route follows a broad river valley, at the west end, it narrows considerably at the east end, requiring an important trade off between improving the horizontal and vertical road alignments in order to minimize operating costs and travel time of motorists and the counter interest of minimizing investment costs. Contemporary Design Standards for Bridges and Roads are currently being prepared, with the assistance of

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<sup>35</sup> World Bank, (2006) *Infrastructure, Lessons from the Last Two Decades of World Bank Experience*, Table 2 reports the average return, at appraisal, for highway projects between FY00 and FY03 to be 39.4 percent, although this is skewed by rehabilitation works which generally provide a higher return.

consultants funded by the European Union. All technical designs within the project are consistent with international best practice, and reflect the United Kingdom Design Manual for Bridges and Roads.

### **3. Fiduciary**

59. The financial management functions of the project will be handled by the Project Implementation Team (PIT), and the PIT will be responsible for the flow of funds, accounting, reporting, and auditing. Assessments of the financial management arrangements of the implementing agency for the project were undertaken. The financial management arrangements of the implementing agency for the project are acceptable to the Bank. The overall financial management risk for the project is substantial, although the agreed mitigation measures, reduces the financial management residual risk to moderate.

60. The borrower is, currently, in full compliance with its audit covenants of existing Bank-financed projects. The annual audited project financial statements will be provided to the Bank within six months of the end of each fiscal year and also at the closing of the project. The latest Country Fiduciary Assessment (CFA-August 2006); Draft Public Expenditure and Institutional Review (PEIR – July 2006) and Draft Public Expenditure and Financial Accountability (PEFA – July 2006) confirm that improvement is required to increase efficiency and accountability in public spending by improving the planning, budgeting, and execution of public investment projects; strengthening lines of accountability, including enabling better access to information by all stakeholders; building stronger monitoring and evaluation systems; and establishing competitive and transparent frameworks for government purchases.

61. For procurement activities, the new PIT intends to appoint two additional procurement officers, to join the procurement capacity established under the former RMP PIU. This would create a strengthened Procurement Unit of three procurement officers, under an experienced Chief Procurement Officer, with considerable accumulated experience of procurement under Bank's Guidelines. This Procurement Unit will be supported by the international Technical Assistance, and will also be able to draw on the resources of the current and reformed GRD, as required. Therefore, the PIT procurement capacity is considered to be sufficient, after adequate training for the additional procurement staff. However, the complex country environment characterized by endemic governance issues, and the risk of interference in the procurement process, are likely to remain significant concerns during the life of the project.

### **4. Social**

62. Development projects that displace people involuntarily can generally give rise to economic, social and environmental problems. Involuntary resettlement may cause severe long-term hardship, impoverishment, and environmental damage unless appropriate measures to mitigate these impacts are applied. The Resettlement Action Plan (RAP) provides details on the likely impacts resulting from this intervention and the mitigation measures that will be put in place to address these adverse impacts. The Resettlement Action Plan (RAP) for this project was prepared by the Environment Department of the General Roads Directorate, in consultation with the World Bank. The RAP has been prepared according to national laws and regulations and the

World Bank Policy on Involuntary Resettlement (Operational Policy 4.12). The final version of the RAP for the Milot-Rreshen area was supplied to the Bank on the 11<sup>th</sup> May 2006 and formally approved. It was subsequently translated and disclosed publicly on the 4<sup>th</sup> June 2006, with an announcement appearing in the “Rilindja Demokratike” newspaper, thus meeting the formal requirements of the World Bank. Formal confirmation has been received that compensation is being made available to all parties identified in the RAP as affected in Lots 1, 2 and 3.

## **5. Environment**

63. The project is in full compliance with all environmental regulations, policies and procedures of the Government of Albania and the World Bank. The Project was categorized as Category A, in accordance with World Bank safeguard policies and procedures for Environmental Assessment (EA) (OP/BP/GP 4.01), which required the preparation of a detailed EA document (see OP 4.01 Annex B, “*Content of an Environmental Assessment Report for a Category A Project*”). The detailed preparation of this document is described in Annex 11, and the resulting document: (a) fully complies with World Bank EA policies and procedures; and (b) reflects the findings of this new round of public consultation, as detailed below. It has also been cleared by the regional Environmental Agency of Lezha Prefecture (it includes the Milot, Rubik and Rreshen districts), and was approved by the Ministry of Environment High Commission on October 30, 2006.

64. The chief potential environmental issues associated with the project include soil erosion (construction and during use), health effects to construction workers from existing contaminated land (construction), land disturbance (construction), water pollution (construction and accidental spillage during use), noise (primarily during construction), and the perception of increased flooding risk to residential areas in or near the village of Fushe-Milot, raised during the second public consultation by concerned residents. All environmental issues can be readily mitigated with good engineering design and construction practices. The perceived risk of increased flooding will be mitigated by proper design of the highway to allow floodwaters to readily pass through the elevated road structure, and reinforcement of the existing bunds on both sides of the River Matit to reduce the risk of flooding. The reinforcement of the latter are formal loan conditions. Further detail on the preparation of the EIA and a summary of the Environmental Management Plan (EMP) are provided in Annex 11.

## 6. Safeguard policies

<b>Safeguard Policies Triggered by the Project</b>	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[X]	[ ]
Natural Habitats (OP/BP 4.04)	[ ]	[X]
Pest Management (OP 4.09)	[ ]	[X]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[ ]	[X]
Involuntary Resettlement (OP/BP 4.12)	[X]	[ ]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[ ]	[X]
Forests (OP/BP 4.36)	[ ]	[X]
Safety of Dams (OP/BP 4.37)	[ ]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[ ]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[X]

65. The main activity supported by the Project concerns the construction of the road section between Milot and Rreshen. Accordingly, the two triggered safeguard policies are the Environment Assessment (OP. 4.01) policy and the Involuntary Resettlement (OP.4.12) policies. Whilst the safeguard policy on Cultural Property (OP.4.11) was not considered to be triggered, appropriate mitigation and monitoring measures have been included in the EMP in the event that the construction process reveals any sites of potential interest. The detailed requirements to identify and address issues that arise were discussed in the previous paragraphs.

## 7. Policy Exceptions and Readiness

66. The Project complies with all applicable Bank policies. The engineering design documents for Lots 1 and 2 of the first component were complete at Appraisal. The procurement documentation for Lot 1 was ready at Appraisal, and the procurement process for the supervising consultant has been completed. The procurement documentation for Lot 2 is close to completion.

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\* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.



## Annex 1: Country and Sector Background

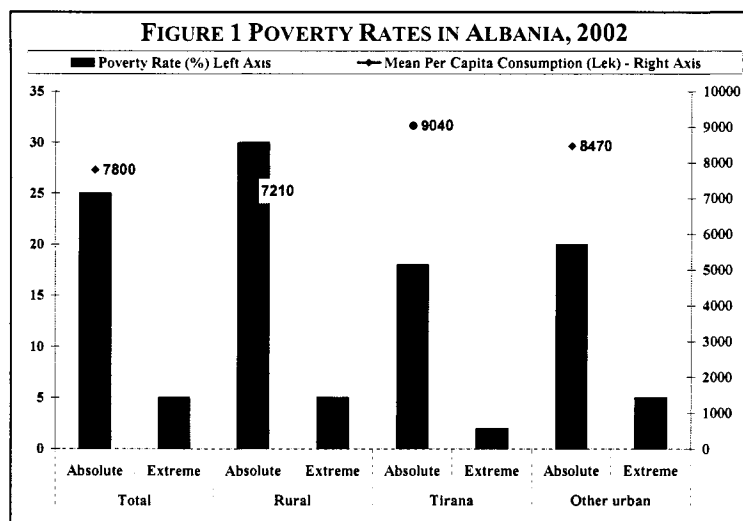
### ALBANIA: TRANSPORT

#### A. COUNTRY BACKGROUND

67. *Albania's record since it embarked on its transition in the early 1990s has been impressive.* The country has successfully built the foundations of market-based economy, created democratic institutions and gradually built capacity in the public administration to cope with political and economic transformation. These efforts have resulted in a track record of macroeconomic stability, as well as the fastest rates of GDP growth in South Eastern Europe (SEE). However, Albania remains one of the poorest countries in Europe with a Gross National Income per capita (GNI) estimated at US\$ 2,150<sup>36</sup> in 2006, widespread poverty, high unemployment, substantial regional disparities, and weak governance structures. The program of the new Government, which took office in September 2005, focuses on improving governance and the rule of law, reducing corruption and breaking monopolies, improving the business environment, accelerating rural development and fostering human capital development.

68. *The Albanian population is also changing fast.* Though population growth and fertility rates have been falling, Albania still has one of the highest fertility rates and the youngest population in Europe, although the portion of the population over 65 years of age is growing faster than the rest of the adult population.<sup>37</sup> The population remains predominantly rural, although the cities, particularly Tirana, have grown very rapidly over the past 15 years. The labor force is now displaying a growing preponderance of males, and it is mostly rural (65 percent). Unemployment remains widespread (officially estimated at 14.4 percent in 2004, down from 15 percent in 2003) especially in urban areas despite marked declines in registered unemployment in the last decade.<sup>38</sup>

69. *Poverty is still widespread despite more than a decade of sustained GDP growth.* About 25 percent of the Albanian population (780,000 individuals) had consumption levels below the poverty line in 2002 (Figure 1), although recent work suggests a marked reduction<sup>39</sup>. The distribution of consumption suggests that a large number of individuals are clustered around the poverty lines. However, little extreme poverty - defined as the proportion of the population with a



<sup>36</sup> World Bank (2006) *Albania: Trends in Poverty and Inequality*, Draft Paper.

<sup>37</sup> Albania's total population is estimated at 3.1 million in 2004 and is projected to increase to 3.7 million by 2025. An estimated 0.8 – 1.0 million Albanians currently live outside of Albania.

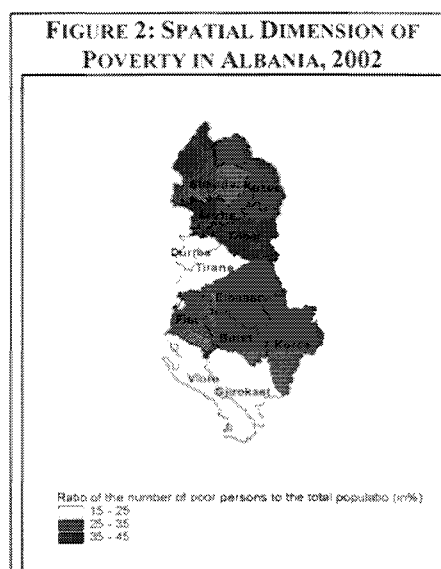
<sup>38</sup> Between 1993 and 2003, registered unemployment fell by 46 percent.

<sup>39</sup> World Bank (2006) *Ibid.*

monthly income of no more than ALL 3,050 (the food poverty line) - exists. In 2002, only 5 percent of the population was estimated to be extremely poor. Inequality in Albania is also modest - an observation confirmed by a moderate Gini coefficient of 0.28 and a ratio of 90<sup>th</sup> to 10<sup>th</sup> percentile consumption of 3.6.<sup>40</sup>

**70. Most of the poor people are concentrated in the mountain region.** The 2002 Living Standard Measurement Survey (LSMS) and detailed poverty mapping, using the Population and Housing Census of 2001, lead to three conclusions regarding the spatial dimensions of poverty. First, rural poverty is significantly higher than urban poverty, by a factor of at least 10 percentage points. Rural residents comprise more than two-thirds of the two poorest consumption quintiles. Second, the mountain region (the North and the North-east agro-ecological area) has the worst poverty outcomes of four well-defined regions (Tirana, coastal, central and mountain). Almost one-half of the population in this area is poor and one in five (20 percent) cannot meet basic food needs (Figure 2). Finally, within prefectures, Dibra, Kukes, Lezhe and Shkodra exhibit the highest levels of head count poverty, with more than one-third of the population living below the poverty line in these areas.

**71. Unemployment and low level of education attainments are the main factors driving poverty.** While household size is a strong indicator of poverty, employment status and education attainment are important determinants of poverty in Albania. Households with unemployed heads of household have poverty rates that are twice as high as in those in which the head of the household is employed. In Tirana, 32 percent of the unemployed heads of households are poor, compared to 16 percent among employed heads of households. In rural areas the corresponding figures are 51 percent and 28 percent respectively. Among the poor, only 20 percent of children enroll in secondary education compared to 50 percent among the non-poor. Individuals employed in agriculture had significantly higher poverty rates (29 percent), compared to the self-employed and wage earners (11 percent and 14 percent respectively). Poverty affects women more than men and is widespread among small minorities in Albania.



**72. Non-income dimensions of poverty are also pervasive.** There are significant differences in access and quality of basic social and infrastructure services. In rural and mountain region areas, both basic coverage and quality of services, such as education, health care, transportation, running water and sanitation, are low. Less than 50 percent of rural households have running water or toilets. While coverage of these services is nearly universal in urban areas, there is evidence of quality failures, especially in peri-urban areas where families moving from deprived regions have overcrowded already inadequate school systems and health facilities.

<sup>40</sup> World Bank (2003) "Albania Poverty Assessment". Report No. 26213-AL; Human Development Sector Unit, Europe and Central Asia Region, the World Bank; 5 November 2003.

73. *The recent Country Assistance Strategy*<sup>41</sup> noted that future growth will be increasingly reliant on higher investment levels in infrastructure. The business environment is plagued with considerable administrative barriers, weak governance, corruption, ambiguities in property and land rights, poor quality and high cost of infrastructure and utilities combine to increase the cost of doing business and limit access to credit and financial services. These constraints represent major barriers for firms to grow despite improvements in entry/exit regulations.<sup>42</sup> The current poor state of infrastructure was noted in the recent CEM to lower the marginal productivity of private capital in Albania, discouraging the involvement of the private sector.

## B. TRANSPORT SECTOR BACKGROUND

74. *Transport demand has changed radically since 1991, reflecting the structural changes in the economy and the realignment of trade flows in the region.* The NSSD Progress Report for 2004<sup>43</sup> notes that the demand for transport grew by 10.1 percent in 2004, with the majority of this growth resulting from the continued growth of road transport. Furthermore, this is an average figure with actual growth likely to be much higher in and around urban areas, particular in the Tirana-Durres area, which witnessed remarkable pick-up in economic activities. As one indicator, the number of registered vehicles has grown at an annual average rate of 14 percent for cars, (13 percent for all vehicles) since 1999. On the other modes, the activity in the port sector was reported to have grown by 5.9 percent in 2004, and the aviation sector, in terms of passenger numbers, by approximately 16 percent in the same year. The one exception is the railways, where total railway traffic declined by 24.2 percent in total, with a 15 percent decline in the value of passenger traffic and a 19.3 percent decline in goods traffic.

75. *Poor transport infrastructure is considered to be the main cause of difficulties for many.* A qualitative survey<sup>44</sup> of both poverty, and its causes, noted that, after employment and income, many Albanians considered infrastructure problems to be the main cause of their difficulties and a significant factor in their low standard of living. 49 percent of rural producers stated that a lack of adequate transportation, primarily good roads, was their biggest marketing problem<sup>45</sup>. Rural inhabitants and leaders acknowledged that poor road access makes it difficult for farmers to reach markets, contributes to rural to urban migration, and affects the delivery of health and education services. One earlier study found that improved rural roads reduced transport costs by 80 percent and allowed farmers to increase their production by 50 percent<sup>46</sup>. These are significant potential benefits for a country, where 26 percent of Gross Domestic Product (GDP) is generated by the agricultural sector, mainly small scale producers<sup>47</sup>. More recent studies have supported these findings, but also note positive differences in school

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<sup>41</sup> World Bank (2006), Paragraph 31.

<sup>42</sup> World Bank/IFC (2005) "Doing Business in 2005: Removing Obstacles to Growth". A Co-publication of the World Bank, International Financial Cooperation and Oxford University Press.

<sup>43</sup> Ministry of Finance, (2005) *NSSD Implementation Progress Report for 2004*, Tirana.

<sup>44</sup> World Bank (2002b).

<sup>45</sup> World Bank (2002b) Page 27.

<sup>46</sup> Evans, (1990).

<sup>47</sup> World Bank (2004c) *op cit*.

enrollment, and frequency in use of health services, between areas with and without all weather roads<sup>48</sup>.

### **The Challenges Facing the Transport Sector**

**76. *There are many institutional actors responsible for the regulation and execution of transport policy in Albania.*** At the national level, the merger in September 2005 of the old Ministry of Transport and Telecommunications (MOTT) with the Ministry of Territorial Adjustment and Tourism (MoTAT), established the Ministry of Public Works, Transport and Telecommunications (MPWTT). The MPWTT is responsible for the policy and regulatory framework, together with the technical standards for the road, railway, civil aviation and maritime transport sub-sectors. The national road network is the responsibility of General Roads Directorate (GRD), whilst the local roads are maintained by District road departments on behalf of the Ministry of Interior (MOI), formerly Ministry of Local Government and Decentralisation (MLGD). In addition, there are about 2,500 km of urban roads, which are maintained by the Municipal road departments on behalf of the Ministry of Territorial Planning and Tourism (MTPT).

**77. *Despite recent reforms, the institutional structure and delineation of responsibilities in the road sector remains complicated.*** The road network in Albania totals about 14,500 km, comprising 3,136 km of national roads, which 1,138 km of primary roads, and 2,274 km of secondary road, about 4,411 km of district roads, of which 3,500 km are penetration, or access, roads and 4,980 km of communal roads, of which 3,000 km are gravel roads. The General Roads Directorate (GRD) employs some 950 staff; 155 at the main office in Tirana, and the remainder at the seven Regional Road Directorates. This translates to one employee for every 3 kilometers of road, compared to the most efficient organizations where the ratio nears 1 employee for every 300 kilometers of road<sup>49</sup>. The Minister of Transport recently announced that the reform of this organization is a key priority for the Government, and articulated a vision of a small, centralized contracting unit<sup>50</sup>. The European Union are continuing their provision of technical assistance to assist in the reform of the General Roads Directorate.

**78. *The Government of Albania has prepared a National Transport Plan based on the Albanian National Transport Plan (ANTP) to guide the development of the sector.*** For the first time, and with the support of the European Union CARDS project, the ANTP provides the basis for an overarching framework for the development of the sector. The Government has recently formally approved this plan as the Strategy and Policy for the development of the Sector<sup>51</sup>. The challenge moving forward is for the ANTP priorities to a) be fully reflected in the overall National Strategy for Socio-Economic Development; and b) guide the formulation of the Medium-Term Budget Program and annual budget in the sector following a rigorous prioritization of investments. In addition, processes need to be developed and introduced to update this plan as necessary without similar levels of external support.

**79. *Primary emphasis in the road sector is on rehabilitating the existing road network.***

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<sup>48</sup> World Bank (2006).

<sup>49</sup> Heggie and Vickers, (1998).

<sup>50</sup> Donors Conference in the Transport Sector, Tirana, March 25<sup>th</sup> 2006.

<sup>51</sup> Approved by the Cabinet of Ministers on the 10<sup>th</sup> May 2006.

The recommendations in the road sector within the ANTP, the proposed National Road Program, forecasts the capital expenditure needs on the national road network to be ALL 56 billion in total by 2023<sup>52</sup>. The projected annual investment, in each of the next five years is ALL 3.9 billion (US\$ 40 million). The emphasis is on the existing main road network, involving rehabilitation, upgrading by adding a second lane, paving and strengthening existing roads. The study took committed projects as a given in its assessment, so included the Milot - Morine road in its base network, so the costs of constructing this road are additional to the above figures.

**80. *The road infrastructure compares poorly to regional comparators in extent and quality.***

The road network in Albania totals about 14,500 km, comprising 3,136 km of national roads, which 1,138 km of primary roads, and 2,274 km of secondary road, together with about 4,411 km of district roads (of which 3,500 km are penetration roads, providing access to forestry and/or mines) and 4,980 km of communal roads (of which 3,000 km are gravel roads). Albania has an average road network density of 0.62 km of road per square kilometer, compared to Macedonia 0.34 km per sq. km or Serbia and Montenegro 0.49km per sq. km. However, the quality of the network is poor compared to regional comparators, with only 39 percent of the road network paved in Albania, compared to 52 percent in Bosnia and Herzegovina and 62 percent in Macedonia, and 92 percent in Greece. In 2002, only 10 percent of the national road network was found to be in good condition, with an additional 22 percent in fair condition, and the remaining 68 percent in poor condition,<sup>53</sup> primarily due to inadequate or insufficient maintenance. By way of contrast, the comparative figures for Croatia, according to a recent survey, are 32 percent, 46 percent, and 22 percent respectively.

**81. *The earlier road investments, mostly donor financed, focused on the main north-south and east-west corridors.***

These investments were initially concentrated on the main East-West corridor (TEN Corridor VIII) running between Tirana and the Macedonia border, and on the main North-South corridor from Durres and Tirana through Shkodra to the Montenegro border. The road sections on those corridors are under preparation, construction, or have been completed. The main priority of the GoA, consistent with the new National Transport Plan, is now the development of the road corridor to Kosovo. The emphasis on this corridor reflects the fact that it is the section of the national highway network which is in poorest condition, on average, it serves the area of the nation with the lowest per capita income as established by the recent NSSD and Poverty Assessment study, and it forms, potentially, a key link to Kosovo and on towards Nis and Corridor X in Serbia. This road corridor also serves as a primary link between Kosovo and the Durres port and therefore would benefit the development of the port by increasing its "hinterland." Within this corridor, the project is financing the construction/upgrading of a section 26.4 kilometers between the towns of Milot and Rreshen at the west end of the corridor, and links with the main North-South Highway.

**82. *Insufficient maintenance expenditures and a lack of professional management of assets has increased the rate of deterioration of the network and increased the costs of road users.***

The signs of inadequate maintenance can be readily seen, with even some new, or recently rehabilitated, roads displaying premature signs of aging in the form of potholes and

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<sup>52</sup> The proposed investments are categorized by the short-term (2005-2008), Medium-Term (2009-2013) and Long - Term (2014-2023) to reflect demand growth along the corridors.

<sup>53</sup> World Bank (2004) *A Framework for the Development of the Transport Sector in South East Europe*, Washington DC.

cracking (e.g. the Durres – Tirana highway). The majority of expenditures by the General Road Directorate (GRD) have been on capital investment, with recurrent expenditures averaging only 26 percent of total expenditures over the period 2000-2004. One recent study<sup>54</sup> estimated the financial requirements for the normal maintenance of the entire road network<sup>55</sup>, at ALL 6.3 billion (US\$ 61 million). By contrast, the level of recurrent expenditure on the national road network in 2004 amounted to some ALL 2.2 billion<sup>56</sup> (US\$21 million) only, or 40 percent below the level required to maintain the network in a sustainable state. In addition, there is little regular monitoring of the condition of the assets at present, there is no road and structure inventory database, and the little information that is gathered on traffic volumes and axle loads is done in a less than systematic and robust manner. These deficiencies impede the introduction of a professional approach to asset management in the sector.

**83. *Mortality and morbidity from road traffic crashes is a serious and increasing public health issue.*** The rapid growth in vehicle ownership, poor observance of traffic signals and rules by drivers, particularly in and around urban areas, is contributing to an increase in the number of road traffic accidents, underlining the fact that road safety is becoming a significant social and economic issue in Albania. On average, recent research has estimated the costs to amount to between 1-2 percent of GDP. Whilst the annual fatality rate, based on official statistics, which reflect a considerable amount of under-reporting, has been slowly decreasing over the past six years, the fatality rate per million vehicle-km in 2000 at 7.8 was still the highest in Central and Eastern Europe and about eight times the average rate in the EU15 countries (e.g. UK, 1.0, Sweden 0.8).

**84. *The operating and financial position of Albanian Railways (HSH) remains parlous.*** Albanian Railways (HSH) operates a small network of some 447 kilometers of track, of which some 421 kilometers is currently operational. The entire network is now in very poor condition with widespread operational speed limits of between 20 and 40 km per hour, and a limited manually operated signaling system on much of the network. Rail traffic fell by 24 percent in 2004<sup>57</sup>, in contrast to increased demand for transport on other modes. With the exception of UNMIK Railways in Kosovo, HSH carries the lowest amount of freight and passenger traffic in the region. The result is poor utilization of locomotives (one sixth of the level of the Western European railways and one third of the level of some regional neighbors), and extremely low labor productivity, at 60 thousand traffic units per employee, compared to 123 thousand in Serbia and 262 thousand in Croatia<sup>58</sup>. Possibly not surprisingly, HSH is a loss making company, with total operating revenues of ALL 605 million (US\$ 5.1 million) in 2003 covering less than 30 percent of total operating expenditure.

**85. *Reform in the maritime sector has started, but implementation, which is only partial, has been restricted to the Port of Durres at this time.*** Prior to 1991, the ports were centrally managed public enterprises which fulfilled all regulatory as well as operational functions. International trade was restricted, procedures outdated and port operations poorly performed. All the ports in Albania are now Joint Stock companies entirely owned by the state, and operated by

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<sup>54</sup> Jenkins, (2005).

<sup>55</sup> Both national and local, including normal maintenance of bridges and tunnels.

<sup>56</sup> Assuming that asphalt repair and partial resurfacing are reclassified as maintenance expenditures.

<sup>57</sup> Although some of the decline can be attributed to the exceptional closure of a bridge on the Tirana- Durres Line.

<sup>58</sup> Although these estimates do not reflect the recent decision to make some 700 HSH staff redundant.

the respective Port Authority. Durres Port is in the process of being transformed into a landlord port, where the Durres Port Authority (DPA) will retain ownership of the land, whilst most of the operations and services are contracted out to the private sector. There are already two private stevedoring companies in the port. The new Port Authority Law provided the DPA with the authority to grant long-term leases within the port boundaries, receive loans and use them for port development, and retain the revenues generated by the port. However, despite the introduction of a new Maritime Code in July 2004, which will enable the establishment of the new Maritime Transport Agency, much of the secondary legislation/regulations, such as the Harbor Master law, and the Safety Regulations, await definition and introduction. Only the most urgent needs have been addressed under different donor-financed initiatives, and the seaport and basin areas remain restricted, encumbered by the remains of old activities. Further investments are necessary in the rehabilitation of other berths, storage areas and warehouses, and dredging, some of which can be done by the private sector. Despite this, the volumes moved through the ports of Albania, on average, have been increasing year on year, with a growth in port activity of 5.4 percent in 2004.

**86. *The currently limited role of the private sector needs to be increased.*** Albania has made considerable progress in privatizing and deregulating road transport operations, and the movement of all inter-city road freight and passenger transport has been successfully privatized, and the pilot privatization of 40 percent of the Urban Transport Enterprise (Tirana) took place in 1996. There has also been considerable progress in the use of the private sector to undertake capital investments in the road sector, with a robust private contracting industry developing. However, despite this, the use of private contractors, rather than own force account, to undertake the necessary routine and winter maintenance has been limited to the World Bank's Road Maintenance Project. This project has illustrated the success of this approach, and research undertaken for this study suggests that significant cost savings may be realized through this approach. The contracting out of all routine and periodic maintenance works to the private sector should be a priority objective. This will have the added advantage of realizing considerable savings in resource needs, both within GRD and in the regional directorates.

**87. *The involvement of private finance, in partnerships with the public sector, in the development of the transport sector has been limited up to this point, despite interest from both sides in developing potential opportunities.*** However, experience elsewhere in the region shows clearly that taking forward PPPs within a weak institutional framework, results in a significant failure rate, even amongst those that reach the financing stage<sup>59</sup>. A PPP should be considered as one procurement method, on a spectrum, between pure public procurement, and pure privatization, and should only be taken forward if the approach offers a clear advantage over the other approaches. Pre-requisites for the development of good PPPs are considered to be a strong institutional framework, including the primary and secondary legislation, appropriate capacity within the MoF and the MPWTT, in this case, to evaluate proposals and assess the potential implicit and explicit contingent liabilities, and a strong sectoral policy and strategy. Weaknesses in any of these areas are likely to disadvantage the authorities in any discussions, and lead to increased costs, unrealistic conditions (an example of the latter might be the restriction on Kukes airport in the concession agreement for Mother Teresa Airport), or a lack of interest (witness recent attempts to concession the bulk terminal in the Port of Durres).

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<sup>59</sup> See Brenck *et al* (2005) for a fuller discussion.

**88. *Multiple donors and multiple Project Implementation Units increase transactions costs and inhibit capacity development in the public sector bodies.*** A further concern is that multiple projects from different donors, each with their different financial management, reporting and evaluation approaches, create excessive transaction costs for the responsible public sector bodies. Part of this concern relates to the establishment and use of ‘self-standing’ managerial modalities by different donors, in the form of Project Implementation Units (PIU), often supported with international consultants. A number of studies have revealed that these structures do little to develop domestic capacity in the planning or management of a particular sector. A final concern reflects the experience in Albania, and elsewhere, that parallel financing of adjacent projects is fraught with difficulties, with different evaluation, procurement, and supervision procedures leading to wide disparities and sometimes discontinuities in implementation of the physically adjacent projects. This problem has been explicitly recognized by the World Bank in Albania and the new CAS for FY06-09 stated explicitly that from FY05 all new WB funded projects would be implemented through existing government structures<sup>60</sup>.

**89. *A move towards a SWAp type approach in the sector.*** The Government has also requested the World Bank to assess the potential benefits of introducing a Sector Wide Approach (SWAp) in future in the sector. The origin of the SWAP Approach programs can be traced back to the mid-1990s, when there was increasing recognition on the part of the donor community that a lack of coherence and co-ordination was dissipating the potential benefits of projects, reducing both their sustainability and inhibiting the development of domestic capacity as project management was undertaken outside the structures of the domestic Government. There is a small TA component in the project to undertake a Sector Specific Fiduciary Assessment to commence the preparatory work.

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<sup>60</sup> World Bank/IFC (2006) Paragraph 46, Page 18.



## Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

### ALBANIA: TRANSPORT

90. During the last 15 years, the Bank and other Donors/IFIs activity in the transport sector in Albania has focused on:

- Road sub-sector – Rehabilitation and reconstruction of major national corridors, North – South and West – East;
- Port and Maritime sub-sector – Improving the physical infrastructure of the Albania main ports, Durres Vlora and Saranda;
- Civil Aviation sub-sector – Implementation of the air traffic control, improving the airport infrastructure and construction of new facilities; and
- Railway sub-sector – limited investment in improving the infrastructure, and railway sector studies.

91. The total financing over this period has amounted to EURO 440 million and US\$ 144 million. The following Table provides a breakdown of support from the different donors:

**Table 2 : Donor Support to the Transport Sector in Albania 1990-2005**

Donor	Currency	Amount of Financing
European Union	EURO	126.4
The World Bank	US\$	109.2
EBRD	EURO	84.0
EIB	EURO	111.5
Government of Italy	EURO	105.1
Islamic Development Bank	US\$	8.2
OPEC	US\$	7.5
UEA	US\$	5
CEI	EURO	10.0
US Government	US\$	12.0
Government of Japan	US\$	1.9

#### *European Union Financed Projects:*

92. The projects financed by the Phare Program in the transport sector have all been completed, while current activities under the CARDS Program remain under implementation. Support from the EU has been concentrated in the road sub-sector (see the table below). Additional grant financing was provided to cover design and supervision costs of the EIB/EBRD financed works.

**Table 3 : EU support to the Transport Sector in Albania 1990 - 2005**

Project Name	Financing (EURO million)	Status
West-East Road Corridor:	56.8	Satisfactory implemented
Vore-Sukth	15.0	completed in 2002
Durres Rrogozhine	20.5	completed in 2001
Korce- Kapshtice	21.3	completed in 2002
North – South Road Corridor	37.9	Satisfactory implemented
Rrogozhinë-Lushnje	19.4	completed in 2002
Kakavije-Gjirokaster	13.0	completed in 2002
Gjirokaster-Tepelene	5.5	to be completed in 2007
Border Crossing points with Greece	3.8	Satisfactory implemented - Completed in 2002
Durres Ferry Terminal Quay	4.5	Satisfactory implemented - completed in 2002
Design/Supervision of Road Works/TA to the Project Management Unit	23.4	Satisfactory implemented

*World Bank Transport Financed Projects:*

93. The World Bank has financed several transport projects during the last 15 years. Most of them were focused on the road sub-sector - about US\$ 87.71million or 80 percent of the total financing, followed by Ports with US\$ 21.5 million or 20 percent. No separate projects have been financed for the railway and aviation sub-sector (see the table below).

**Table 4 : World Bank support to the Transport Sector in Albania 1990 - 2005**

Project Name	Financing (US\$ million)	Status
National Roads Project:		
Librazhd-Qukes road (W-E)	15.8	Satisfactory implemented
Milot-Lezhe Road (N-S)	4,3	Completed in 2003
Emergency Road Repair Project	14.5	Satisfactory implemented Completed in 2003
TTFSE Project	12.3	Satisfactory implemented Completed in 2005
Durres Port Project	17.0	Satisfactory implemented Completed in 2004
Road Maintenance Project	30.0	Satisfactory implemented To be completed in 2007

*European Investment Bank Transport Financed Projects:*

94. The EIB is involved mostly in the roads and maritime sub-sector (civil works) with some of the works already completed.

**Table 5 : EIB support to the Transport Sector in Albania 1990 - 2005**

Project Name	Financing (EURO million)	Status
West-East Road Corridor:	46.0	Satisfactory implemented
Sukth-Durres	22.0	- Completed in 2003
Rrogozhine-Elbasan	24.0	- completed in 2004
North-South Road Corridor:		
Fier-Tepelene	35.0	- Under procurement
Gjirokaster-Tepelene	13.5	- To be completed in 2007
Infrastructure Development in Durres Port		Satisfactory implemented To be completed in 2007

*European Bank for Reconstruction and Development Transport Financed Projects:*

95. The EBRD is involved with all the modes in Albania, with a number of projects either in the pipeline or starting.

**Table 6 : EBRD support to the Transport Sector in Albania 1990 - 2005**

Project Name	Financing (EURO million)	Status
West-East Road Corridor: Elbasan – Librazhd	17.0	Satisfactory implemented Completed in 2005
North – South Road Corridor	49.5	
Fier- Tepelene	35.0	Under procurement
Gjirokaster-Tepelene	13.5	To be completed in 2007
Reconstruction of Rinas Airport Runway and construction of Terminal building	21.0	Under implementation
Durres Ferry Terminal building	11.0	Not started

*Italian Government Transport Financed Projects:*

**Table 7 : Italian Delegation support to the Transport Sector in Albania 1990 - 2005**

Project Name	Financing (EURO million)	Status
West-East Road Corridor: Elbasan – Librazhd	3.8	Satisfactory implemented Completed in 2005
North – South Road Corridor		
Lushnje-Fier	35.0	Satisfactory implemented To be completed in 2008
Fushe Kruje-Tapize and two major bridges	13.5	Completed in 2004
Railway equipment, rail infrastructure and rolling stock	1.4	Completed in 2002
Studies/Design/TA/ Supervision	29.0	Satisfactory implemented

### Annex 3: Results Framework and Monitoring

#### ALBANIA: TRANSPORT

##### Results Framework

<b>PDO</b>	<b>Project Outcome Indicators</b>	<b>Use of Project Outcome Information</b>
<p>The Project Development Objective is to reduce user costs, on the Milot to Rreshen section of the Milot to Morine corridor and improve access for the hinterland population, to introduce innovation in road maintenance on a pilot basis, and contribute to the development of the institutional framework and implementation of road safety activities throughout Albania.</p>	<p>Vehicle journey time between Milot and Rreshen, in free flowing conditions, reduced by 25 percent.</p> <p>Increase in the population living in defined isochrone of the Milot to Rreshen road section.</p> <p>Satisfactory piloting of output and performance based contracts in two regions.</p> <p>Road Safety Audit and action plan prepared for the Tirana – Durres road corridor.</p>	<p>Will be used by GRD to monitor the outputs and attainment of the project development objective.</p>
<b>Intermediate Outcomes</b>	<b>Intermediate Outcome Indicators</b>	<b>Use of Intermediate Outcome Monitoring</b>
<p><b>Component One:</b> Construct 26 kilometers of highway between Milot and Rreshen.</p>	<p><b>Component One:</b> Number of km of road constructed between Milot and Rreshen.</p>	<p><b>Component One:</b> Information will be used by GRD PIT and the MPWTT to monitor implementation progress.</p>
<p><b>Component Two:</b> Introduction of innovation in road maintenance in two Pilot Regions.</p>	<p><b>Component Two :</b> Procurement of hybrid output and performance based contracts in two pilot regions.</p> <p>Evidence of satisfactory maintenance regime in the two pilot regions by cumulative improvement in road roughness.</p>	<p><b>Component Two:</b> Information will be used by GRD PIT and the MPWTT to monitor implementation progress.</p>
<p><b>Component Three:</b> Technical Assistance and goods to improve road safety in Albania.</p>	<p><b>Component Three:</b> Length in lane km of road subjected to road safety audit and action plan produced.</p> <p>Number of pieces of essential equipment procured according to Procurement Plan and introduced into operation.</p>	<p><b>Component Three:</b> Information will be used by GRD PIT and the MPWTT to monitor implementation progress.</p>
<p><b>Component Four:</b> Technical Assistance, Goods and Services</p>	<p><b>Component Four:</b> Procured according to Procurement Plan and introduced into operation.</p>	<p><b>Component Four:</b> Information will be used by GRD PIT and the MPWTT to monitor implementation progress.</p>

### Arrangements for results monitoring

Project Outcome Indicators	Baseline	Target Values					YR5	Frequency and Reports	Data Collection and Reporting		Responsibility for Data Collection
		YR1	YR2	YR3	YR4	YR5			Data Collection Instruments		
Defined reduction in journey time (in minutes) for road users, by car, between Milot and Rreshen (Baseline journey time 43 minutes).	0	0	0	20	20	20	Every year	Moving Car Method		GRD/PIT	
Proportional increase in population living in defined isochrone of Milot – Rreshen (percentage change in population within 20 minute isochrone).	0	0	0	Tbc	Tbc	Tbc	Every year	Social Indicators GIS Database		GRD/PIT	
Satisfactory piloting of output and performance based contracts in the two pilot regions.	No experience with approach						Every year	Quarterly/Technical Reports		GRD/PIT	
Road Safety Audit and action plan prepared, for the Tirana – Durres road corridor.	Not prepared						By end of project	Quarterly/Technical Reports		GRD/PIT	
<b>Intermediate Outcome Indicators</b>											
<b>Component One :</b>											
Number of km of highway constructed between the towns of Milot and Rreshen	0	5	10	26	26	26	Up to year 3	Quarterly/Technical Reports		GRD/PIT	
<b>Component Two :</b>											
Contracts issued to private contractors in two pilot regions	0	0	2	2	2	2	Up to year 3	Quarterly/Technical Reports		GRD/PIT	
Cumulative improvement in average road condition in pilot areas (measured in % improvement from original roughness reading on the IRI	0	0	0	5%	7.5%	10%	Every year	Quarterly/Technical Reports		GRD/PIT	

scale)								
<b>Component Three:</b>								
Length of road in lane km covered by road safety audit	0	0	30	60	120	Every year	Quarterly/Technical Reports	GRD/PIT
Number of pieces of road safety equipment procured and introduced into service	0	0	10	15	20	Every year	Quarterly/Technical Reports	GRD/PIT
<b>Component Four:</b>								
Establishment of Maritime Administration	Not established				Established	Every year	Quarterly/Technical Reports	MPWTT
Traffic counters/classifiers procured and operational	0	0	3	3	6	Every Year	Quarterly/Technical Reports	GRD/PIT

## **Annex 4: Detailed Project Description**

### **ALBANIA: TRANSPORT**

By Component (including contingencies):

**Component 1 - Milot to Rreshen Section of the Milot-Kukes-Morine Road [Estimated total cost – US\$37.4 million (EUR28.47 million), Bank financed US\$20.42 million (EUR15.55 million)].**

96. The proposed road starts from its intersection point with the SH.1 national road with the provision of a T-junction approximately 2.2km south of the new River Mat Bridge. The road then heads north-eastwards passing to the south of the village of Fushë-Milot across flat terrain which is subject to flooding from the River Mat. Afterwards the route of the road enters the southern edge of the River Mat floodplain before crossing above the existing railway and former national road SH.1 to the west of Milot. From this point the road descends in height to meet the route of the disused railway.

97. Following the abandoned railway, the road passes the town of Milot on the north western edge of the settlement heading in a north-easterly direction along the edge of the River Mat valley. After approximately 2.5 km the railway alignment passes around a headland and is very close to the river. As a result a short section of the road will have to be constructed within the southern edge of the River Mat floodplain. The road continues to follow the railway alignment heading eastwards until approximately km 10. At this location, a junction (Skuraj junction) will be provided to connect the proposed road with the existing national road SH.6, which connects to Burreli, Klos and Bulqiza.

98. After the junction the route turns towards a more northerly direction and crosses over the River Mat with a multi-span bridge. Following the disused railway alignment, the proposed road continues along the eastern side of the River Fan valley, passing through a small settlement (Fangu village), followed by the abandoned Rubik Station and marshalling yard area until the route meets up with the existing national road SH.30 at approximately km 19 opposite Rubik. From this point the proposed road maintains the alignment of the abandoned railway but it also needs to incorporate the existing road for approximately 1km.

99. Approaching km 20 the proposed road will divert from the existing road and cross the River Fan before turning eastwards along the northern edge of the river valley. The route passes close to the villages of Munazi and Vau i Shkježës, crossing agricultural land and vineyards along the edge of the valley. The road continues to follow the alignment of the disused railway crossing over two watercourses flowing into the River Fan. Approaching Km 26 the route crosses over the River Fan to the southern side of the valley. From this location, the Government of Albania is proposing to continue with the following “Rreshen to Kalimash” section.

100. The proposed new road has been designed as a single carriageway road (7.5 meter two-lane, with a total width of 11.1 meters, 9.3 meters on the paved area), with a design speed 80 km/hr, a minimum radius 300/250m and a maximum gradient 5 (7)%. The road will be constructed with an asphalt layer of 20 cm ( 4cm wearing course, 6cm binder layer, and 10cm bituminous conglomerate course), and 50cm sub-base (20cm fine crushed stone stabilizer, and

30cm crushed stone with cement). It will also require the construction and strengthening of a number of large and small structures, of which the former are: (i) a bridge over the high waters channel 3x18 m; Milot Overpass, 4x29m; Skuraj Bridge, 4x30m; Bridge at km 17.7, 1x30m; Munazi Bridge 7x30m; Shkjezi Bridge, 2x30; Bridge at Km 20.9, 1x30m; and Fani Bridge, 9x23m.

**Component 2 – Output and Performance Based Road Maintenance in two Pilot Regions [Estimated total cost – US\$11.5 million (EUR 8.75 million), Bank financed US\$1.30 million (EUR 0.99 million)].**

101. The MPWTT are planning to introduce output and performance based contracting for national roads in two pilot regions, Tirana and Kukes, in Albania. It is the intention that these contracts will be ‘hybrid’ contracts, covering winter and routine maintenance, and will last for a period of two to three years. GRD has commenced the preparation of the bidding documents and the Terms of Reference for the Supervising Consultant and these will be sent to the Bank for review in June 2007.

**Component 3 - Road Safety Component [Estimated Cost US\$ 1.2 million (EUR 0.91 million) – US\$ 1.2 million Bank financed (EUR0.91 million)]**

102. The third component is a road safety component and will build on the recently completed road safety component in the Road Maintenance Project, and the recent Action Plan prepared by the National Road Safety Council. Albania has one of the worst road safety records in the region, with a rate that is almost twice as bad as most neighboring countries. The state of the road network, driver behavior and limited education, poor or non existent enforcement, all coupled with the growth in demand, have contributed to a relatively high and increasing level of road traffic accident fatalities and serious injuries (318 and nearly 900 respectively in 2005). Despite relatively low levels of both vehicle ownership and motorization, both of which are growing fast, suggests that the road safety is unlikely to improve unless there is a comprehensive and robust response across all stakeholder sectors.

103. The importance of this issue is recognized by the authorities and the recent meeting of the Inter-Ministerial Road Safety Council (IRSC) defined a Road Safety Action Plan, building on the work done under the RMP, i.e.: (i) establishment of Accident Information Database within the Ministry of Interior (ii) initiating the IRSC and establishment of its secretariat, increasing the respective capacities within the Road Traffic Police (MoI), the Department of Traffic Safety (MPWTT) and the GRD. The Secretariat to the IRSC, which is at the same time the Department of Road Safety in the MPWTT, has now defined the key activities follow up activities, some of them to be assisted by the international TA: (i) the implementation of the recommendations of the road safety consultant, hired under RMP; (ii) the improvement of enforcement by amending the existing Road Code and producing the secondary related legislation; (iii) the education and raising awareness; (iv) the introduction of engineering solutions through the purchase of some additional essential road safety equipment; and (v) the introduction of a road safety audit in Tirana – Durres Highway.



**Component 4 – Technical Assistance and Goods Component [Estimated Cost US\$ 2.08 million (EUR 1.58 million) – US\$ 2.08 million Bank financed (EUR 1.58 million)]**

104. The technical assistance component of the project provides support, primarily, to the Ministry of Public Works, Transportation and Telecommunications (MPWTT) and to the General Road Directorate (GRD):

- a) ***The Provision of Technical Assistance to GRD.*** The first area involves the provision of technical support to GRD and includes the following: (i) the supervision of the civil works and the performance based contracts; (ii) the funding of the PIT, including staff salaries, for a transitional period until GRD reform is complete; (iii) the provision of office supplies for the transition period; (iv) two vehicles for PIT staff; (v) technical assistance to the PIT (with the mandate of the harmonized PIU, and the nucleus of the future reformed GRD) for the implementation of the foreign financed projects; (vi) fixed and mobile traffic counters; and (vii) Road condition survey equipment, in the form of a Bump Integrator.
- b) ***The Provision of Technical Assistance to the MPWTT.*** This includes the following: (i) the provision of technical assistance to assess capacity gaps in sector safeguards systems that would impede a move to a Sector Wide Approach; (ii) to provide short term support for the reform of GRD; (iii) developing and undertaking of appropriate staff training; (iv) to support the establishment of the maritime agency and the implementation of the new port authority law.

## Annex 5: Project Costs and Disbursement Schedule

### ALBANIA: TRANSPORT

#### Project Costs in US\$ Millions

Project Cost By Component and/or Activity	Local US \$million	Foreign US \$million	Total US \$million
Component 1:			
Milot – Rreshen Road	2.82	33.38	36.2
Milot-Skuraj (Lot1)	1.53	10.79	12.32
Skuraj-Rrubik (Lot 2)	1.29	9.39	10.68
Rrubik-Rreshen (Lot 3)	0	13.2	13.2
Consultant Supervision	0.48	0.72	1.2
Component 2:			
Output and Performance Based Contracts	9	1	10
Consultant Supervision	1.2	0.3	1.5
Component 3:			
TA in Road Safety	0	1	1
Road Safety Equipment	0	0.2	0.2
Component 4:			
Services	0	1.71	1.71
Goods	0	0.37	0.37
<b>Total Baseline Cost</b>	<b>13.5</b>	<b>38.68</b>	<b>52.18</b>
Physical Contingencies	2.3	1.32	3.62
Price Contingencies	0	0	0
<b>Total Project Costs<sup>1</sup></b>	<b>15.8</b>	<b>40</b>	<b>55.8</b>
Interest during construction	0	0	0
Front-end Fee (waived for FY07)	0	0	0
<b>Total Financing Required</b>	<b>15.8</b>	<b>40</b>	<b>55.8</b>

<sup>1</sup>Identifiable taxes and duties are US\$0.00m, and the total project cost, net of taxes, is US\$55.8m. Therefore, the share of project cost net of taxes is 44.5 percent.

**Project Costs in EUR Millions**

Project Cost By Component and/or Activity	Local € million	Foreign € million	Total € million
Component 1:			
Milot – Rreshen Road	2.15	25.41	27.56
Milot-Skuraj (Lot1)	1.16	8.21	9.38
Skuraj-Rrubik (Lot 2)	0.98	7.15	8.13
Rrubik-Rreshen (Lot 3)	0	10.05	10.05
Consultant Supervision	0.37	0.55	0.91
Component 2:			
Output and Performance Based Contracts	6.85	0.76	7.61
Consultant Supervision	0.91	0.23	1.14
Component 3:			
TA in Road Safety	0	0.76	0.76
Road Safety Equipment	0	0.15	0.15
Component 4:			
Services	0	1.30	1.30
Goods	0	0.28	0.28
<b>Total Baseline Cost</b>	<b>10.28</b>	<b>29.44</b>	<b>39.72</b>
Physical Contingencies	2	1.00	2.76
Price Contingencies	0	0	0
<b>Total Project Costs1</b>	<b>12.03</b>	<b>30.45</b>	<b>42.48</b>
Interest during construction	0	0	0
Front-end Fee (waived for FY07)	0	0	0
<b>Total Financing Required</b>	<b>12.03</b>	<b>30.45</b>	<b>42.48</b>

Type	Description	Cost (Mill US\$)	Cost (Mill €)	% Bank Financing	Bank Financing (Mill US\$)	Bank Financing (Mill €)	Recipient
All costs exclude VAT and Customs Duties							
<b>Component 1: Civil Works required for the construction of Milot - Rreshen Road</b>							
	Lot 1 Milot - Skuraj	12.3	9.4	87.8%	10.79	8.22	GRD/MPWTT
	Lot 2 Skuraj - Rubik	10.7	8.1	87.8%	9.39	7.15	GRD/MPWTT
	Lot 3 Rubik - Rreshen	13.2	10.0	0.0%	0.00	0.00	GRD/MPWTT
	<b>Sub-Total Civil Works</b>	<b>36.2</b>	<b>27.6</b>		<b>20.18</b>	<b>15.36</b>	
	Consultant Supervision	1.20	0.9	20.0%	0.24	0.18	GRD/MPWTT
	<b>Sub-Total Services</b>	<b>1.20</b>	<b>0.91</b>		<b>0.24</b>	<b>0.18</b>	
	<b>Total for Component 1</b>	<b>37.40</b>	<b>28.47</b>	54.6%	<b>20.42</b>	<b>15.55</b>	
<b>Component 2: Output and Performance Based Road Maintenance Contracts</b>							
	OPRC Contracts in two pilot regions	10.00	7.6	10.0%	1.00	0.76	GRD/MPWTT
	<b>Sub-Total Civil Works</b>	<b>10.00</b>	<b>7.61</b>		<b>1.00</b>	<b>0.76</b>	
	Consultant Supervision	1.50	1.1	20.0%	0.30	0.23	GRD/MPWTT
	<b>Sub-Total Services</b>	<b>1.50</b>	<b>1.14</b>		<b>0.30</b>	<b>0.23</b>	
	<b>Total for Component 2</b>	<b>11.50</b>	<b>8.75</b>		<b>1.30</b>	<b>0.99</b>	
<b>Component 3: Road Safety Component</b>							
	Technical Assistance	1.00	0.8	100.0%	1.00	0.76	GRD/MPWTT
	<b>Sub-Total Services</b>	<b>1.00</b>	<b>0.76</b>		<b>1.00</b>	<b>0.76</b>	
	Road Safety Equipment	0.20	0.2	100.0%	0.20	0.15	MPWTT
	<b>Sub-Total Goods</b>	<b>0.20</b>	<b>0.15</b>		<b>0.20</b>	<b>0.15</b>	
	<b>Total for Component 3</b>	<b>1.20</b>	<b>0.91</b>		<b>1.20</b>	<b>0.91</b>	
<b>Component 4: Technical Assistance and Goods</b>							
	TA to establish Maritime Administration	1.00	0.76	100.0%	1.00	0.76	MPWTT
	TA to undertake Sector Specific Fiduciary Assessment	0.10	0.08	100.0%	0.10	0.08	MPWTT
	TA - International Expert for the PIT in GRD	0.25	0.19	100.0%	0.25	0.19	GRD/MPWTT
	PIT Staff and Office Expenses	0.25	0.19	100.0%	0.25	0.19	GRD/MPWTT
	TA to support Institutional Reform in GRD	0.06	0.05	100.0%	0.06	0.05	GRD/MPWTT
	Training	0.05	0.04	100.0%	0.05	0.04	GRD/MPWTT
	<b>Sub-Total Services</b>	<b>1.71</b>	<b>1.30</b>		<b>1.71</b>	<b>1.30</b>	
	Road Condition Equipment - Bump Integrator	0.01	0.01	100.0%	0.01	0.01	GRD/MPWTT
	Traffic Counters/Classifiers	0.30	0.23	100.0%	0.30	0.23	GRD/MPWTT
	Vehicles for the PIT	0.06	0.05	100.0%	0.06	0.05	GRD/MPWTT
	<b>Sub-Total Goods</b>	<b>0.37</b>	<b>0.28</b>		<b>0.37</b>	<b>0.28</b>	
	<b>Total for Component 4</b>	<b>2.08</b>	<b>1.58</b>		<b>2.08</b>	<b>1.59</b>	
	<b>Front End Fee (Waived for FY07 Operations)</b>	<b>0.00</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	
	<b>Total Base line Costs for all Components</b>	<b>52.18</b>	<b>39.72</b>	48.0%	<b>25.00</b>	<b>19.03</b>	
	Physical Contingences	3.62	2.76	0%	0.00	0.00	
	<b>Total Financing for All Components</b>	<b>55.80</b>	<b>42.48</b>	44.5%	<b>25.00</b>	<b>19.03</b>	

## Disbursement Plan

### Disbursement Plan in US\$ Millions

Project Cost By Component and/or Activity	Local	Foreign	Total	2007	Disbursement Plan		
	US\$	US\$	US\$		US\$ million		
	million	million	million		2008	2009	2010
<b>Component 1:</b>							
Milot – Rreshen Road Construction (cont incl)	5.12	34.7	39.82	15.8	18.83	5.19	0
Milot-Skuraj (Lot 1)	1.53	10.79	12.32	8	4.32	0	0
Skuraj-Rrubik (Lot2)	1.29	9.39	10.68	4.5	5.2	0.98	0
Rrubik-Rreshen (Lot3)	0	13.2	13.2	3.3	7.5	2.4	
Contingencies	2.3	1.32	3.62	0	1.81	1.81	0
Consultant Supervision	0.48	0.72	1.2	0.35	0.7	0.15	0
<b>Component 2:</b>							
Output and Performance Based Contracts	9	1.0	10	0.5	4	4	1.5
Consultant Supervision	1.2	0.3	1.5	0.22	0.52	0.52	0.22
<b>Component 3:</b>							
TA in Road Safety	0	1	1	0.35	0.65	0	0
Road Safety Equipment	0	0.2	0.2	0.2	0	0	0
<b>Component 4:</b>							
Services	0	1.71	1.71	0.79	0.9	0.02	0
Goods	0	0.37	0.37	0.37	0	0	0
<b>Total Financing Required</b>	<b>15.8</b>	<b>40</b>	<b>55.8</b>	<b>18.6</b>	<b>25.6</b>	<b>9.88</b>	<b>1.7</b>

### Disbursement Plan in EUR Millions

Project Cost By Component and/or Activity	Local	Foreign	Total	2007	Disbursement Plan		
	€	€	€		€ million		
	million	million	million		2008	2009	2010
<b>Component 1:</b>							
Milot – Rreshen Road Construction (cont. incl.)	3.90	26.41	30.31	12.03	14.33	3.95	0.00
Milot-Skuraj (Lot 1)	1.16	8.21	9.38	6.09	3.29	0.00	0.00
Skuraj-Rrubik (Lot2)	0.98	7.15	8.13	3.43	3.96	0.75	0.00
Rrubik-Rreshen (Lot3)	0.00	10.05	10.05	2.51	5.71	1.83	0.00
Contingencies	1.75	1.00	2.76	0.00	1.38	1.38	0.00
Consultant Supervision	0	0.55	0.91	0.27	0.53	0.11	0
<b>Component 2:</b>							
Output and Performance Based Contracts	6.85	0.76	7.61	0.38	3.04	3.04	1.14
Consultant Supervision	1	0.23	1.14	0.17	0.40	0.40	0.17
<b>Component 3:</b>							
TA in Road Safety	0	0.76	0.76	0.27	0.49	0	0
Road Safety Equipment	0	0.15	0.15	0.15	0.00	0	0
<b>Component 4:</b>							
Services	0	1.30	1.30	0.60	0.69	0	0
Goods	0	0.28	0.28	0.28	0	0	0
<b>Total Financing Required</b>	<b>12.03</b>	<b>30.45</b>	<b>42.48</b>	<b>14.14</b>	<b>19.49</b>	<b>7.52</b>	<b>1.31</b>

The Disbursement Plan includes all disbursements within the project, including those related to the potential OPEC Fund financing.

## **Annex 6: Implementation Arrangements**

### **ALBANIA: TRANSPORT**

**105. *The Implementing Entity for the Project.*** The MPWTT, with the full support of the World Bank, has decided to consolidate responsibilities in the sector and to commence the harmonization of the four PIUs currently established in the sector to reduce transaction costs and facilitate greater capacity building. The approach, as part of the ongoing reform of GRD, is to establish one consolidated Project Implementation Team (PIT), which will be staffed initially by consultants to GRD, and eventually entirely by full-time members of staff as part of a reformed General Roads Directorate. The reform of the latter institution has commenced, and a new draft structure has been prepared by a Steering Committee, established within the MPWTT. This structure needs formal approval, and then the process and necessary capacity building will be defined, prior to actual implementation of the reforms (The project includes a small technical assistance component to assist in this process).

106. As a first step in this process, the Project Implementation Unit (PIU), established to implement the ongoing Road Maintenance Project (Credit 3683-ALB), has been transformed into the core of the new PIT within GRD. A Director was appointed formally on the 24<sup>th</sup> April, 2006 to head the new Project Implementation Team. The latter will have the overall responsibility for project implementation, drawing both on members of the PIT, and relevant experts from the various departments of the GRD as necessary (one example being environmental monitoring). The PIT will be responsible for the day-to-day management of the Project including procurement, financial management, and liaison with the Bank. The PIT has a settled nucleus of core staff with all the required skills in financial management and procurement. Since the formal status of the staff of the RMP PIU was consultants to GRD, they are now consultants to the PIT within GRD. They will become formalized as members of staff of the new GRD as the reform progresses, at a salary commensurate with market rates. It has been agreed with counterparts that the Transport Project will support the costs of the operation of the PIT for the transition period of eighteen months (up to the end of Dec 2008). These arrangements have been further defined in the Project Implementation Plan, which has been prepared by the Borrower.

**107. *Environmental Monitoring within the Project.*** An Environmental Unit was established within the GRD in early 2004. The Unit comprises two members selected from core GRD staff, based on their experience and training. The head of the unit has an academic background in geology, hydrology, geography, air and noise pollution and palaeontology. The second team member is an Environmental Specialist with a degree in geography. Since the formation of the Environmental Unit in 2004, it has become increasingly active, and is now fully responsible for providing the GRD's input regarding environmental issues for road projects which are currently being prepared by external consultants. This unit was central to the preparation of the Environmental Impact Assessment, the Environmental Management Plan and the Resettlement Action Plan for this project. The PIT will draw on their expertise in monitoring environmental issues during project implementation.

**Annex 7: Financial Management and Disbursement Arrangements**  
**ALBANIA: TRANSPORT**

***Country Issues***

108. The latest Country Fiduciary Assessment (CFA-August 2006); draft Public Expenditure and Institutional Review (PEIR – July 2006) and draft Public Expenditure and Financial Accountability Report (PEFA – July 2006) confirm that improvement is required to increase efficiency and accountability in public spending by improving the planning, budgeting, and execution of public investment projects; strengthening lines of accountability, including enabling better access to information by all stakeholders; building stronger monitoring and evaluation systems; and establishing competitive and transparent frameworks for government purchases. Improvements are also needed in the public procurement law and implementation regulations to improve transparency, economy and efficiency aspects of the procurement process. The Procurement Agency supported by EU technical assistance is amending the laws and regulations.

109. The assessment of the country financial management arrangements concluded that the public financial management has improved significantly during the last few years in areas such as budgeting, internal control, internal and external audit, though from a relatively weak base. Internal audit is currently being fully developed to improve the government’s internal control environment and the internal audit should also be utilized to monitor the implementation of the project. A Public Internal Financial Control framework based on EU principles is being implemented. The supreme audit institution is also being strengthened through EU support.

***Risk Analysis and Conditions***

110. The overall financial management risk for the project is substantial, however, with adequate mitigation measures, the financial management residual risk is rated moderate. Although the project will be implemented in an environment of high perceived corruption, adequate mitigation measures [see below] are in place to ensure that the residual risk is acceptable. The following table summarizes the financial management assessment and risk ratings of this project:

<b><i>Risk</i></b>	<b><i>FM Risk</i></b>	<b><i>Risk Mitigating Measures</i></b>	<b><i>Residual Risk</i></b>
<b>INHERENT RISKS</b>			
<b><i>Country level. High corruption risk, though public financial management are improving. Weak institutions (additional information is included in country issues)</i></b>	H	Appropriate corruption mitigation measures are to be implemented. PIT is to maintain independent financial management system, use of private auditors, and use of Central Bank for designated accounts.	S
<b><i>Entity Level. Risk of political interference in entity’s management.</i></b>	S	Any changes to the structure and key staffing in the PIT will require agreement with the Bank	M
<b><i>Project Level. Project is small sized, and not complex</i></b>	M	Please see below	M



<i>Risk</i>	<i>FM Risk</i>	<i>Risk Mitigating Measures</i>	<i>Residual Risk</i>
<b>Overall Inherent Risk</b>	S		S
<b>CONTROL RISKS</b>			
<b>Budget.</b> <i>Adequate budget may not be available in a timely manner.</i>	M	The implementing entity will ensure that appropriate budget for the project will be provided during the life of the project	M
<b>Accounting.</b> <i>Inexperienced FM staff and use of localized treasury system.</i>	M	PIT has considerable experience in implementation of Bank-financed projects in the past.	M
<b>Internal Controls.</b> <i>Internal controls for the project to ensure that funds are disbursed for goods or services delivered.</i>	S	PIT is to update its existing project financial manual to include key controls for the project, including monitoring of output based contracts and road component.	M
<b>Funds flow.</b>	M	Project funds will flow from: (i) the Bank, either via two single Designated Accounts opened in the Bank of Albania for PIT from which the funds will be transferred to commercial bank accounts; or (ii) the Government, via the Treasury at the Ministry of Finance	M
<b>Financial Reporting.</b>	M	PIT has demonstrated in its previous projects that it is able to report on project expenditures with this system.	M
<b>Auditing.</b> <i>Past global audit reports (including 2005 audits) were not received on time</i>	S	The audit will be carried out by independent auditors acceptable to the Bank. The global audit arrangements would be streamlined to ensure timely appointment of auditors.	M
<b>OVERALL CONTROL RISK</b>	S		M
<b>PROJECT FM RISK</b>	S		M

111. Corruption remains a serious and widespread problem in Albania, and risk of corruption is considered high (around 60% of businesses surveyed consider corruption as a problem doing business) according to the 2005 BEEPs report and also in the Transparency International (TI) report. Adequate mitigation measures are incorporated in the project which can be summarized as follows: (a) appropriate complaints handling mechanism; (b) the size of procurement packages and the frequency of the Bank's prior review will be determined in a way that allows an appropriate level of control while attempting to avoid unnecessary reviews which could cause delays; (c) enhanced disclosure and transparency of project-related information; (d) enhanced use of financial reporting and external audit, (e) enhanced internal controls, (f) engagement of independent firm of supervising engineers to monitor the project implementation, verify the results, and certify work for payment, (g) some reliance on the regular audits of the investment activities by country's supreme audit institution (SA); and (h) intensive Bank supervision.

### ***Strengths***

112. The strengths that provide a basis of reliance on the project financial management system include the (i) significant experience of the PITs management and FM staff in implementing Bank-financed projects for past several years; and (ii) adequate accounting software utilized by the PIT provides an additional basis of reliance to the project financial management system.

### ***Weaknesses and Action Plan***

113. As noted earlier, the financial management arrangements of the project are adequate. There are no identified weaknesses.

### ***Implementing Entity***

114. The MPWTT, with the full support of the World Bank, has decided to consolidate responsibilities in the sector and to commence the harmonization of the four PIUs currently established in the sector to reduce transaction costs and facilitate greater capacity building. The approach, as part of the ongoing reform of GRD, is to establish one consolidated Project Implementation Team (PIT), which will be staffed initially by consultants to GRD, and eventually entirely by full-time members of staff as part of a reformed General Roads Directorate. The reform of the latter institution has commenced, and a new draft structure has been prepared by a Steering Committee, established within the MPWTT. As a first step in this process, the Project Implementation Unit (PIU), established to implement the ongoing Road Maintenance Project (Credit 3683-ALB), has been transformed into the core of the new PIT within GRD. The PIT has a settled nucleus of core staff with all the required skills in financial management and procurement. All financial management activities will be carried out by the PIT.

### ***Budgeting***

115. The PIT has been preparing annual budgets for the existing Road Maintenance project based on the procurement plan and in line with the Project Implementation Plan. These budgets form the basis for allocating funds to project activities and for requesting funds from the government for counterpart contribution and for payments via Treasury system as appropriate. These budgets are prepared in accordance with the IFR format (disbursement categories, components and activities, financiers, and broken down by quarter). The approved annual budget is then entered into the accounting system and used for periodic comparison with actual results as part of the interim reporting. The process of compiling budget data and approval will continue in the same manner, with detailed budget for the full year of project implementation being broken down by quarter. The risk associated with planning and budgeting before mitigation measures is assessed as moderate.

## ***Accounting***

### ***Accounting Staffing***

116. The existing FMS staffing in the PIT is considered adequate to implement this new project. The project director will perform the authorization and the control of payments. In addition, the project director will work closely with the finance staff to ensure that quarterly interim un-audited financial reports (previously called Financial Monitoring Reports, FMRs), annual financial statements and other progress reports are submitted timely to the Bank reflecting the implementation status of the project.

### ***Accounting system***

117. The accounting system for the existing Road Maintenance project has been fully computerized, adopting locally developed software that is able to produce the reports required by the Bank (IFRs). The Transport Project will have a separate set of accounts in the PIT accounting records.

### ***Accounting Policies and Procedures.***

118. The accounting books and records are maintained on a cash basis and project financial statements are presented in United States dollars. PIT has instituted a set of appropriate accounting procedures and internal controls including authorization and segregation of duties. Accounting policies and procedures of the project are reflected in the project Financial Manual in part which relates to project specific procedures, which is to be the part of Project Operational Manual.

119. Additional accounting policies to be applied on the project (besides standard accounting policies used for Budget Implementing entities) will include the following major assumptions:

- reporting should be done in US dollars (reporting currency);
- consolidated IFRs should be prepared for all components, including all donors funds
- all counterpart funds should be reflected in the financial reports;

The risk associated with accounting before mitigation measures is considered moderate.

### ***Internal controls and Internal Auditing.***

120. PIT has documented in its Financial Management Manual (FMM) the internal control mechanisms to be followed in the application and use of funds and the implementation of the project. The Financial Management Manual deals with financial management and administrative procedures. The Financial Management Manual reflects the structure of the entity, administrative arrangements, internal control procedures, including procedures for authorization of expenditures, maintenance of records, safeguard of assets (including cash), segregation of duties to avoid conflict of interest, regular reconciliation of bank account statements, bank signing mandate (to include at least two signatories), regular reporting to ensure close monitoring of project activities, as well as the flow of funds to support project activities. The existing FMM will be revised for the inclusion of new activities of this project before negotiations. The project expenditures and contracts will be approved by the project director and the accountant, based on PIT regular procedure. Signed minutes (by procurement manager, final user and supplier) on

acceptance and delivery of goods purchased in accordance with technical specifications under a contract are attached to the invoices. In addition, for output and performance based road maintenance contracts the projects will use independent supervisory consultant to monitor and certify work for payment of these contracts. As the capacity of the internal audit is generally still low no specific reliance on the internal audit is planned for this project. The risk associated with internal controls and internal audit before mitigation measures is considered as substantial.

**Financial Reporting**

121. The PIT produces all financial reports for the Bank with the project accounting software. The PIT has demonstrated in its previous projects that it is able to report on project expenditures with this system. Project management-oriented Interim Un-audited Financial Reports (IFRs) – previously known as Financial Monitoring Reports (FMRs) - will be used for project monitoring and supervision and the indicative formats of these are included in the PIT accounting manual. PIT will prepare a full set of IFRs/FMRs every three months throughout the life of the project. Draft formats of these IFRs/FMRs were agreed upon during the negotiations. The implementing entities will produce a full set of IFRs every three months throughout the life of the project. The IFRs include the following tables: (a) Project Sources and Uses of Funds; (b) Uses of Funds per Project Component and or Activity; (c) Designated Account reconciliation; and (d) Procurement process monitoring; and (e) Contract expenditures report. The accounting for the project will be cash based with additional information provided on contractual commitments. The risk associated with financial reporting is assessed as moderate.

**External Auditing.**

122. The auditor will be appointed by the Ministry of Finance as part of an overall arrangement/agreement for the audit of the non-revenue earning Bank-financed portfolio in Albania. Specific terms of reference are used for the projects covered by this agreement. However, the previous global audit reports (including 2005 audits) were not received timely due to late appointment of auditors. The global audit arrangements should be streamlined to ensure timely appointment of auditors. Despite the MOF’s arrangements, the PIT is responsible for delivering to the Bank, within six months of the closing of each fiscal year, the audited financial statements. The annual cost of the audits will be covered by the GoA as part of the portfolio audit. The following chart identifies the audit reports that will be required to be submitted by the project implementation agency together with the due date for submission.

<i>Audit Report</i>	<i>Due Date</i>
Entity financial statements	N/A
Project financial statements (PFS), including SOEs and Special/designated account. The PFSs include sources and uses of funds by category, by components and by financing source; SOE statements, Statement of designated account, notes to financial statements, and reconciliation statement.	Within six months of the end of each fiscal year, starting from June 2008 and also at the closing of the project

In addition the country’s supreme audit institution performs ad hoc external audits of the PIT. The risk associated with external audit is considered substantial.

### ***Flow of Funds and Disbursement Arrangements.***

123. The project funds will flow from the IDA and IBRD via two foreign currency-denominated designated accounts (previously called special account) in Bank of Albania (BOA) from which the funds will be transferred to a commercial bank account. Counterpart funds are transferred through the Treasury system directly to the suppliers. Project funds will flow from: (i) the Bank, either via a single Designated Account which will be replenished on the basis of SOEs or by direct payment on the basis of direct payment withdrawal applications; or (ii) the Government, via the Treasury at the Ministry of Finance (MOF) on the basis of payment requests approved by the Treasury Department of the MOF directly to the local supplier for VAT and other taxes.

124. Supporting documentation for SOE, including completion reports and certificates, will be retained by the Borrower and made available to the Bank during project supervision. Disbursements for expenditures above the SOE thresholds will be made against presentation of full documentation relating to those expenditures.

125. The transaction based disbursement method will be used for the Project. The Authorized Allocation for the IDA Designated Account would be USD 500,000 and for IBRD Designated Account would be USD 4,000,000. Applications for replenishment of the Designated Accounts will be submitted monthly or when one-third of the amount has been withdrawn, whichever occurs earlier. Documentation requirements for replenishment would follow standard Bank procedures as described in the Disbursement Handbook. Monthly bank statements of the Designated Accounts, which have been reconciled, would accompany all replenishment requests.

126. Counterpart-funding will be executed through treasury accounts. There is no plan to move to report based disbursement during the project implementation. The risk associated with funds flow and disbursement is considered as Moderate.

### ***Supervision Plan.***

127. During project implementation, the Bank will allocate up to 3 staff weeks for the financial management supervision. The Bank will supervise the project's financial management arrangements in two main ways: (i) review the project's quarterly interim un-audited financial reports as well as the project's annual audited financial statements and auditor's management letter; and (ii) during the Bank's supervision missions, review the project's financial management and disbursement arrangements (including interim reports (IFR) and movements on the Designated Account) to ensure compliance with the Bank's minimum requirements. As required, a Bank-accredited Financial Management Specialist will assist in the supervision process.

## **Annex 8: Procurement Arrangements**

### **ALBANIA: TRANSPORT**

#### **A. General**

128. Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Financing and Credit Agreements. The general description of various items under the expenditure categories is provided below. For each contract to be financed by the Credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank project team in the Procurement Plan. The Procurement Plan will be updated at least annually, or as required, to reflect the actual project implementation needs and improvements in institutional capacity.

129. **Procurement of Works:** Works procured under this project, would include but not be limited to: Construction of a new National road between Milot and Rreshen (approximate length 26 kilometers in three sections), and road maintenance works in the regions of Tirana and Kukes. Works estimated to cost more than US\$2.0 million shall be procured using International Competitive Bidding (ICB). Works estimated to cost less than US\$2.0 million may be procured using National Competitive Bidding (NCB). The procurement will be done using the Bank's Standard Bidding Documents (SBD) for International Competitive Bidding (ICB) and the national SBD will be prepared by GRD and will be reviewed and agreed with the Bank prior to their issue to bidders. This SBD will follow open tendering procedure of the Law on Public Procurement (LPP) of Albania and will ensure compliance with the following list of additional conditions:

130. National procurement procedures may be used, which as a minimum will comply with the conditions listed below (these apply to procurement of goods under NCB as well):

- a) "Open Tendering" procedures as defined in Public Procurement Law of Albania shall apply to all contracts;
- b) Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process. Government-owned enterprises in Albania shall be permitted to bid only if they can establish that they are legally, managerially and financially autonomous, operate under commercial law of the Borrower and are not dependent agencies of the Borrower or sub-Borrower;
- c) Procuring entities shall use sample bidding documents approved by the Bank;
- d) In case of higher bid prices compared to the official estimate, all bids shall not be rejected without the prior concurrence of the Bank;
- e) A single-envelope procedure shall be used for the submission of bids;
- f) Post-qualification shall be conducted only on the lowest evaluated bidder; no bid shall be rejected at the time of bid opening on qualification grounds;
- g) Bidders who contract as a joint venture shall be held jointly and severally liable;

- h) Contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform in accordance with pre-defined and pre-disclosed evaluation criteria;
- i) Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders; and
- j) Contracts of long duration (more than 18 months) shall contain appropriate price and adjustment provisions.

**131. Procurement of Goods:** Goods procured under this project would include but not be limited to equipment for General Road Directorate (GRD) for monitoring and managing road conditions and road safety. Procurement will be done using the Bank's SBD for all ICB. Contracts for goods which cannot be grouped into larger bidding packages and are estimated to cost less than US\$ 100,000 per contract may be procured using shopping procedures based on a model request for quotations satisfactory to the Bank. In case of direct invitation (not publicly advertised), the list of firms to be invited should be determined by a committee of three members. Direct contracting of goods will be allowed under the circumstances described in paragraph 3.6 of the Procurement Guidelines.

**132. Selection of Consultants:** Except as otherwise provided, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-Based Selection. Consulting services under this project will be contracted in the following main areas of expertise: Supervision of road construction works, Technical assistance to the Ministry of Transport and Telecommunication, GRD Training in PMS and Road Safety. Short lists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

**B. Assessment of the Agency's Capacity to Implement Procurement**  
***Implementing Entity***

133. The MPWTT, with the full support of the World Bank, has decided to consolidate responsibilities in the sector and to commence the harmonization of the four PIUs currently established in the sector to reduce transaction costs and facilitate greater capacity building. The approach, as part of the ongoing reform of GRD, is to establish one consolidated Project Implementation Team (PIT), which will be staffed initially by consultants to GRD, and eventually entirely by full-time members of staff as part of a reformed General Roads Directorate. The reform of the latter institution has commenced, and a new draft structure has been prepared by a Steering Committee, established within the MPWTT. As a first step in this process, the Project Implementation Unit (PIU), established to implement the ongoing Road Maintenance Project (Credit 3683-ALB), has been transformed into the core of the new PIT within GRD. The PIT has a settled nucleus of core staff with all the required skills in financial management and procurement. For procurement activities, the new PIT intends to appoint two additional procurement officers, to join the procurement capacity established under the former RMP PIU. This would create a strengthened Procurement Unit of three procurement officers, under an experienced Chief Procurement Officer, with considerable accumulated experience of procurement under Bank's Guidelines. This Procurement Unit will be supported by the

international Technical Assistance, and will also be able to draw on the resources of the current and reformed GRD, as required. Therefore, the PIT procurement capacity is considered to be sufficient, after adequate training for the additional procurement staff. However, the complex country environment characterized by endemic governance issues, and the risk of interference in the procurement process, are likely to remain significant concerns during the life of the project.

134. Procurement activities will be carried out by the Project Implementation Team (PIT) within GRD. The main functions of PIT would be: (i) responsible for the project implementation; and (ii) serve as a liaison between the Bank from one side and the Borrower and the implementing agency, GRD. These functions include, but are not limited to, planning and implementation of procurement, monitoring, supervision of contracts on behalf of the Client, financial management of contracts and reporting. The PIT, which is currently managing the ongoing Road Maintenance Project, is staffed by eight staff and procurement within the unit is undertaken by one experienced procurement officer and a procurement assistant. However, the additional demands of the Output and Performance Based Road Maintenance Contracts will necessitate additional capacity to be added from within GRD. The extent of the additional requirements will be assessed at appraisal and agreed with the borrower.

135. An assessment of the capacity of the existing PIU to implement procurement actions for the project was undertaken by Ahmet Gokce on March 22, 2006, which has been updated by Salim Benouniche during the appraisal mission on November 30, 2006, to take into account the recent changes and foreseen harmonization with transformation of PIU into PIT. The assessment reviewed the organizational structure for implementing the project and the interaction between the project's staff responsible for procurement and the Ministry's relevant central unit for administration and finance. This project will be the fourth World Bank financed project carried out by the former PIU, now PIT, with the same procurement staff.

136. Most of the issues/ risks concerning the procurement component for implementation of the project have been identified and include (i) the risk of administrative interference in the procurement process, (ii) the complex country environment characterized by endemic governance issues, (iii) a specific risk linked to the funding from loan and credit proceeds of the PIT staff operating costs only for the first 18 months. The corrective measures which have been agreed are: (i) training of staff directly involved in procurement at GRD; (ii) dissemination of Bank's procurement practices to administrative staff related to the Project; (iii) continuing the practice of training contractors attending pre-bidding conferences; (iv) observing and promoting anti corruption safeguards in Bank financed projects' procurement particularly the transparency provisions of the Bank Guidelines; (v) the procurement file containing up to date Bank procurement documents (guidelines, manuals, templates for procurement notices, standard bidding documents for works and goods, standard request for proposals documents for consulting services, evaluation report formats, etc.) shall be given to GRD for use; and (vi) PIT representatives are encouraged to visit the Bank's web-site frequently to ensure the use of the most up to date procurement documents.

137. Although the PIT is, with the former staff of PIU, qualified to carry out procurement, given the above described circumstances and the procurement environment in the country, the overall project risk for procurement is assessed as "High".



### **C. Procurement Plan**

138. The Borrower provided, at appraisal, a Procurement Plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on November 30, 2006 and is available at PIT office located in GRD. It will also be available in the Project database and on the Bank's website (probably without the estimated costs column). The Procurement Plan will be updated in agreement with the PIT annually, or as required to reflect the actual project implementation needs and improvements in institutional capacity.

### **D. Frequency of Procurement Supervision**

139. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended at least two supervision missions to visit the field in order to carry out post review of procurement actions.

### **E. Details of the Procurement Arrangements Involving International Competition**

#### **1. Goods and Works and Non Consulting Services**

(a) List of contract Packages which will be procured following ICB and Shopping:

1	2	3	4	5	6	7	8	9	10
Ref. No.	Contract (Description)	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Invitation to Bid	Expected Bid Opening	Contract Award	Contract Completion
W/2006/1	Construction of Milot – Skuraj Road	ICB	No	No	Prior	08/14/06	09/25/06	Dec-06	Dec-08
W/2006/2	Construction of Skuraj – Rubik Road	ICB	No	No	Prior	Dec-06	Feb-07	Mar-07	Sep-08
W/2006/3	Construction of Rubik-Rreshen Road	ICB	No	No	Prior	Jan-07	Mar-07	Apr-07	Oct-08
W/2007/1	Maintenance of Roads in Tirana Region	ICB	No	No	Prior	Nov-07	Dec-07	Jan-08	Jun-10
W/2007/2	Maintenance of Roads in Kukes Region	ICB	No	No	Prior	Nov-07	Dec-07	Jan-08	Jun-10
G/2007/3	Fixed and Mobile Traffic Counters	ICB	No	No	Prior	Mar-07	May-07	Jun-07	Sep-07
G/RS/1	Road Safety Equipment 1	S	No	No	Post	Mar-07	May-07	Jun-07	Sep-07
G/RS/2	Road Safety Equipment 2	S	No	No	Post	Sep-07	Nov-07	Dec-07	Mar-08
G/RS/3	Road Safety Equipment 3	S	No	No	Post	Dec-07	Feb-08	Mar-08	Jun-08
G/RCE	Road Condition Measuring Equipment	S	No	No	Post	Mar-07	May-07	Jun-07	Sep-07
G/PV	Project Vehicles for PIT	S	No	No	Post	Jan-07	Feb-07	Feb-07	Mar-07

(\* Estimated costs between brackets include 20%VAT)

(b) All ICB Contracts for goods and works, first two NCB contracts for goods and all NCB contracts for goods estimated to cost more than \$200,000, the first two NCB

contracts for works and NCB contracts for works estimated to cost more than \$ 1.0 million, and all Direct Contracting will be subject to prior review by the Bank.

- (c) **Other special procurement arrangements:** Retroactive financing up to 20% of the credit/loan amount is foreseen under the project (would encompass the road construction works contracts).

## 2. Consulting Services

- (a) List of Consulting Assignments with short-list of international firms

1	2	3	4	5	6	7	8
Ref No.	Description of Assignment	Selection Method	Review by Bank (Prior / Post)	Expected Proposal Invitation	Expected Proposals Submission Date	Expected Contract Award	Expected Contract Completion
CS1	Supervision of Road Construction	QCBS	Prior	Jun-06	Aug-06	Dec-06	Jan-09
CS2	Supervision of OPBC contracts	QCBS	Prior	May-07	Jul-07	Sep-07	Aug-10
CS3	Establishment of Maritime Administration	QCBS	Prior	Mar-07	Jun-07	Jul-07	Dec-09
CS4	Sector Specific Fiduciary Assessment	QCBS	Prior	Jul-07	Sep-07	Oct-07	Jan-08
CS5	Road Safety TA	QCBS	Prior	Mar-07	Jun-07	Jul-07	Dec-08
CS6	GRD Institutional Reform	ICS	Post	Dec-06	Jan-07	Jan-07	Apr-07
CS7	Technical Assistance to PIT	ICS	Prior	Dec-06	Jan-07	Jan-07	Jun-08

- (b) Consultancy services estimated to cost more than US\$100,000 per contract (firms), Selection of individual consultants for assignments estimated to cost more than US\$60,000, and all single source contracts will be subject to **prior review** by the Bank.

- (c) **Short lists composed entirely of national consultants:** Short lists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

- (d) **Other special selection arrangements:** Retroactive financing up to 20% of the credit/loan amount is foreseen under the project (would encompass the supervision consultancy services contracts).

## Annex 9: Economic and Financial Analysis

### ALBANIA: TRANSPORT

140. The economic analysis of the project has been undertaken employing a standard cost-benefit approach, identifying all the costs and benefits, where feasible, quantifying them in commensurate terms, and discounting them back over the defined appraisal period at the recommended discount rate of 12 percent. A summary of the results of the economic appraisal for the Bank financed Milot to Rreshen road section, and the entire corridor from Milot to Morine, is presented in the following table:

**Table 8 : Summary of Economic Analysis (All Figures in 2006 US\$ Million, unless otherwise indicated)**

	Milot - Rreshen Road	Milot – Morine Corridor
<b>Present Value of Benefits (PVB)</b>	52.5	774.3
<b>Present Value of Costs (PVC)</b>	26.4	658.3
<b>Net Benefits (PVB-PVC)</b>	26.1	115.9

#### **Summary of Benefits and Costs**

141. The economic evaluation of the project has been conducted both on the primary project component; the first section of 26 kilometers between Milot and Rreshen, and on the remainder of the strategic corridor between the Port of Durres and the border with Kosovo at Morine in the north-west of the country. Only the former is to be financed under this project, accounting for approximately 75 percent of total project costs. The Net Present Value (NPV) has been estimated at US\$26.1 million with an Economic Internal Rate of Return (EIRR) of approximately 20 percent for the first section alone, as reported in the above table. The economic analysis of the corridor resulted in an estimated NPV of US\$115.9 and an EIRR of 13.6%.

#### **The Economic Analysis of the Milot – Rreshen Road Section**

142. The economic analysis for the first component in the project, the 26 kilometer section of the Milot to Morine road, between Milot and Rreshen, has been undertaken using the Highway Development and Management Model 4, Version 1.3. The methodology employed is the conventional one of comparing the reductions in vehicle operating costs and time expenditures in a ‘do-something’ scenario, when the new sections are constructed, with a defined maintenance regime, against a ‘do-minimum’ scenario, when nothing is done to the road (s), excepting the continuation of the current maintenance regime. The economic analysis assumes a starting year of 2006 for construction, and an appraisal period of 25 years.

143. An examination of previous traffic flows on the road, together with growth in traffic volumes elsewhere on the national road network led to the assumption of 7 percent forecast traffic growth for the period 2003-2008, with a 6 percent growth rate in subsequent years. This was regarded as a conservative assumption of future traffic growth, reflecting the fact that GDP has been growing at an average rate of 6.3 percent in real terms over the period 1999-2005 (World Bank, 2006), and is forecast to grow by 6 percent and 7 percent, again in real terms, in 2006 and 2007 respectively. Traffic from the old alignment is also assumed to divert almost

entirely to the new alignment, excepting approximately 10 percent (194 AADT) which is assumed to remain on the old alignment providing access to residential properties on the left side of the River Matit, on the first section alone. The following table provides a summary of AADT by section in the base year, current year, and opening year on both the existing roads and the new alignment.

**Table 9 : Actual and Estimated AADT in base year, current year and opening year by road segment**

Road Segment	Chainage	Base Year (2003) AADT	Current Year (2006) AADT	Opening Year (2008) AADT
Fush Junction – Milot (old alignment)	0 – 4 km	3971	4865	-
Fush Junction – Milot (new alignment)	0 – 4 km	-	-	5517
Milot - Skuraj Junction (old alignment)	4 -10 km	1000	1311	-
Milot – Rreshen (old alignment)	4 – 26 km	1700	2083	194
Milot to Rreshen (new alignment)	4 – 26 km	-	-	2600

144. The maintenance schedule in both the 'do-nothing' and the 'do-something' comprises a responsive regime of 100 percent patching, whenever the damaged area exceeds five percent per kilometer of road, 100 percent crack sealing, whenever the extent of transverse thermal cracks exceeds fifteen per kilometer, or wide structural cracking exceeds 10 percent of the pavement, and an overlay of 50mm of asphalt concrete, whenever the measure of roughness (IRI) exceeded a pre-determined level.

145. Time savings in highway projects can comprise up to 80-90 percent of the benefits, and the scale of the reduction in journey time, particularly at the corridor level, is expected to result in substantial benefits for road users. The journey time from Durres to Morine is estimated to decline from 6 hours and 10 minutes currently, to 2 hours 10 minutes when the entire corridor is opened. The assumed values of time for passenger working and non-working time, and the value of cargo time in the economic appraisal, where applicable, are US\$1.35 per hour, US\$0.40 per hour, and US\$0.13 per hour respectively. These figures reflect an average public and private sector wage of approximately ALL 25,000 per month<sup>61</sup>, and could be considered conservative<sup>62</sup>.

### **The Results of the Economic Analysis**

146. The NPV was calculated, using the orthodox 12 percent discount rate, along with the EIRR and the NPV/CAP, where CAP represents the present value of the agency capital costs. The PVB was estimated to be US\$ 52.5 million, the PVC were estimated to be US\$ 26.4, and the NPV was estimated at US\$ 31.7 million, as reported above. The NPV/CAP was estimated to be 1.4, with the orthodox interpretation if the ratio exceeds unity, the project should proceed.

<sup>61</sup> See World Bank (2005) *Labor Market Assessment*.

<sup>62</sup> One recent study assumed values of US\$6.3 per hour, US\$ 1.5 per hour, and US\$ 7 per hour, respectively, estimated from recent European Union research (UNITE, 2001), and converted on a Purchasing Power Parity basis.

147. Whilst this is below the average return to Bank financed projects in the Transport Sector<sup>63</sup>, this is regarded as a conservative estimate of the benefits, as the economic analysis overlooks both the potential benefits in terms of generated traffic, for the reasons mentioned above, the benefits that will be realized in terms of the reduction in road traffic crashes, and the corresponding decline in mortality and morbidity, the improvement in journey time reliability, and only includes a conservative assessment of the benefit of time savings, as mentioned in the previous section.

### Sensitivity Analysis

148. Sensitivity analysis has been undertaken for the project for the main component, testing the impact on the economic analysis of variation in the two key parameters of the project. In this case, the key parameters of interest have been defined as construction costs and forecast traffic growth. The results of the sensitivity analysis are presented in the following table:

**Table 10 : Sensitivity Analysis of Milot to Rreshen Section (All US\$ Figures are 2006)**

Key Parameters	NPV (US\$ Million)	EIRR (%)
<b>Capital Costs - Base</b>	26.2	19.6
Capital Costs -20%	31.7	23
Capital Costs + 20%	20.5	17.1
<b>Traffic Growth – Base</b>		
Traffic Growth - -20%	3.9	13.6
Traffic Growth - +20%	32.1	24
+20% Capital Costs/-20% Traffic Growth	(1.6)	11.5

149. The results suggest that the result of the economic analysis for the Bank financed section is robust, with the defined changes in key parameters having little impact on the viability of the project. The one exception is the scenario whereby traffic growth is 20 percent below forecast, and capital costs are 20 percent estimate. However, even in this case, the section only becomes marginal, and the omitted benefits from generated traffic and the reduction in road traffic accidents, would normally be expected to ensure that the project was viable.

### **The Economic Analysis of the Milot – Morine Corridor**

150. The economic analysis for the entire Milot to Morine corridor was also undertaken using the Highway Development and Management Model 4, Version 1.3. The methodology employed is the conventional one of comparing the reductions in vehicle operating costs and time expenditures in a ‘do-something’ scenario, when the new sections are constructed along the entire 110 kilometers between Milot and Morine, with a defined maintenance regime, against a ‘do-minimum’ scenario, when the traffic would continue to use the existing roads. The following table provides a summary of AADT by section in the base year, current year, and opening year on both the existing roads and the new alignment, for existing, and induced traffic. The assumptions in respect of the latter reflects the increased diversion from neighboring corridors attracted by the improved competitiveness of the entire corridor, and an increment of

<sup>63</sup> World Bank, (2006e), Table 2 reports average return, at appraisal, for transport projects between FY00 and FY03 to be 39.4 percent.

20 percent to reflect 'pure' induced traffic, which for a scheme of this size can be considered conservative.

**Table 11 : Actual and Estimated AADT in base year, current year and opening year by road segment**

Road Segment	Base Year (2003) AADT	Current Year (2006) AADT	Opening Year (2009) AADT
Fush Junction to Milot	3971	4865	6600
Milot to Rreshen	1700	2083	3300
Rreshen to Blinish	1176	1457	2644
Blinish to Kolshi	-	-	1657
Kolshi to Kukes	490	609	1333
Kukes to Morine	519	645	1372

151. The economic analysis for the corridor assumes a starting year of 2006 for construction, with an opening year of 2009, a capital cost of US\$ 612 million for the entire corridor (an average unit cost per kilometer of US\$5.6 million) and an appraisal period of 25 years, together with the same assumptions on maintenance, GDP growth, and values of time as above.

### **The Results of the Economic Analysis at a Corridor Level**

152. The NPV was calculated, using the orthodox 12 percent discount rate, along with the EIRR. The PVB was estimated to be US\$ 774.3 million, the PVC were estimated to be US\$ 658.3, and the NPV was estimated at US\$ 115.9 million, as reported above, with an EIRR of 13.6%. However, the same indicator as discussed above, NPV/CAP is 0.4, less than the threshold of 1.

### **Sensitivity Analysis**

153. Sensitivity analysis has been undertaken for the entire investment at the corridor level only on the key risk to the viability of the Bank financed section that is the impact of cost escalation. The results of the sensitivity analysis are presented in the following table:

**Table 12 : Sensitivity Analysis at Corridor Level (All US\$ Figures are 2006)**

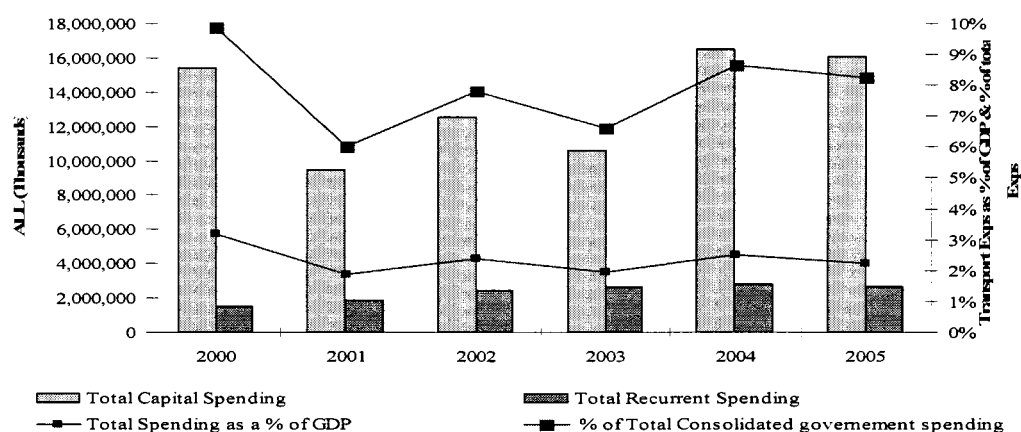
Key Parameters	NPV (US\$ Million)	EIRR (%)
Capital Costs - Base	115.9	13.6
Capital Costs -20%	247.6	16.0
Capital Costs + 20%	15.7	11.8

154. The results suggest that cost escalation at the level of the corridor greater than 20 percentage points of the original estimate would threaten the viability of the entire corridor. This result underlines the importance of the robust project management on the non-bank financed sections to ensure that the risk of cost escalation is minimized on those sections.

## The Financial Analysis of the Road Sector<sup>64</sup>

**155. The transport sector<sup>65</sup> accounts for a significant proportion of total public investment and total public expenditure.** Figure 1 presents a summary of total expenditures on transport at all levels of central and local government, for the period 2000 - 2005 in nominal terms. Total outlays on transport have been volatile, but the trend as a proportion of GDP is downward. By contrast, the trend in total recurrent expenditure displays a modest increase over the same period, excepting 2005. Over the period 2002-2005, the transport sector share of total public expenditures average around 8 percent or 2.36 percent of GDP, and absorbed on average 37 percent, the largest portion, of total budgetary public investment. Total outlays in the sector peaked in 2004 reaching 2.51 percent of GDP as a result of the allocation of the largest part of the Savings Bank's privatization proceeds to the sector, ranking it fifth behind Social Insurance, Defense and Public Order, Education, and Health.

**Figure 1 : Total Capital and Recurrent Spending on Transport 2000-2005 (ALL 000 and % of GDP)**



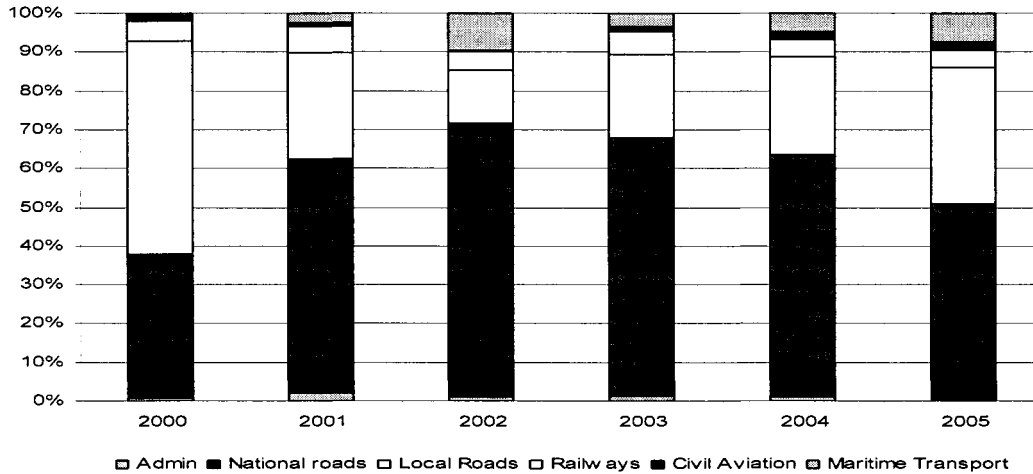
Sources: MOF/ MLGD/MOTT

**156. The roads sub-sector consumed the largest share of budgeted public expenditure with an increasing share spent on local roads,** Expenditures on roads averaged 2.1 % of GDP, or 88 percent of total transport expenditures over the period 2000-2005. Since 2002, and with the onset of decentralization, the share of spending on national roads has been declining in parallel to increased spending on local roads.

<sup>64</sup> This section draws heavily on the Transport Chapter in the recent Public Expenditure and Institutional Review (World Bank, 2006d).

<sup>65</sup> Total transport expenditures include Central government and reported data on local government spending on transport from their own revenues.

**Fig 2: Functional Composition of Transport Spending by Type (in % of total Transport Spending)**



**157. External financing represents a significant, but declining, share of capital expenditure.** External financing represented 46 percent of total expenditure in 2002 (55 per cent of total capital expenditure in the sector), declining to 17 percent of total expenditure in 2005 (20 percent of total capital expenditure). Much of this external financing has been used to rehabilitate, reconstruct or develop the national road network, amounting to ALL 12.9 billion (US\$ 129 million), or 36 percent of all capital expenditures on the national roads.

**158. There has been an imbalance in total expenditures on the national road network, with priority accorded to capital investment.** Table 1 reveals that the majority of expenditures by the General Road Directorate (GRD) have been on capital expenditures, with recurrent expenditures averaging only 26% of total expenditures over the period 2000-2004. One recent study<sup>66</sup> estimated the financial requirements for the normal maintenance of the entire road network<sup>67</sup>, at ALL 6.3 billion (US\$ 61 million). By contrast, the level of recurrent expenditure on the national road network in 2004 amounted to some ALL 2.2 billion<sup>68</sup> (US\$21 million) only, or 40% below the level required to maintain the network in a sustainable state.

**159. The Government is committed to rebalance expenditure between the categories of capital and recurrent expenditure.** In addition, the Minister of Transport announced at a recent conference<sup>69</sup> that the Government would increase maintenance expenditures significantly in each of the next two years. This commitment has been reflected in a covenant in the project to increase the allocation to road maintenance expenditures, by 10 percent per year in real terms over the lifetime of the project.

<sup>66</sup> Jenkins, (2005).

<sup>67</sup> Both national and local, including normal maintenance of bridges and tunnels.

<sup>68</sup> Assuming that asphalt repair and partial resurfacing are reclassified as maintenance expenditures.

<sup>69</sup> The Minister of Transport and Public Works at a Donor's Conference on the Transport Sector in Tirana, March 2006.



**Table 2 : A Breakdown of GRD Expenditures 2000-2004 (Lek Millions)**

Item	2000	2001	2002	2003	2004	% of 2004
<b>Construction</b>						
Road construction	462.6	1,513.40	1,205.40	1,764.50	4,753.20	51%
Asphalt repair	91.4	450	633.3	638.8	1,100.70	12%
Partial resurfacing	877.9	506.7	279.1	194.5	13.3	0%
Bridge construction	227.2	404.7	72.1	104.5	92.2	1%
Acquisition of offices	11	9.2	5	16.5	1.9	0%
Culvert construction	33.9	75.5	186.8	129.8	115.8	1%
Design studies	44	95.5	87.1	70	153	2%
Equipment	5	5.2	7	1.9	0	0%
Supervision	2.3	42.4	67.2	75.7	124.3	1%
Warranty payments	0	0	0	55.1	124.5	1%
Sub-total	<b>1756</b>	<b>3103.1</b>	<b>2543.3</b>	<b>3051.5</b>	<b>6479.3</b>	<b>70%</b>
<b>Internationally-financed projects</b>						
Local contribution	433.1	671.4	426	288.9	419.6	5%
VAT	1708.8	1938.4	810	539.6	622.2	7%
Expropriation	1410	328.3	574	559.9	654.2	7%
Sub-total	<b>3552</b>	<b>2938.2</b>	<b>1810</b>	<b>1388.5</b>	<b>1696.1</b>	<b>18%</b>
<b>Maintenance</b>						
Operating expenses	508.8	732.2	863.7	763.8	832.8	9%
Social insurance	56.4	68.6	64.4	59.1	63.1	1%
Wages	192.2	221.2	215.2	217.9	228.2	2%
Sub-total	757.5	1022.1	1143.4	1040.8	1124.1	12%
<b>Total</b>	<b>6065</b>	<b>7063.4</b>	<b>5496.7</b>	<b>5480.9</b>	<b>9299.6</b>	<b>100%</b>

Source: GRD Expenditure data

### *The Revenues from the Road Sub-Sector*

**160. The structure of road user charges in Albania is complex but follows international practice through a combination of fuel taxes and vehicle ownership charges.** There are 10 different taxes and charges imposed on road users and vehicle owners in Albania at present, following the replacement of the Durres-Kukes special tax with a circulation tax. Total revenues from the sector amounted to ALL 21.1 billion (US\$ 207 million) in 2005. In 2004, fuel tax revenues amounted to 24 percent of total state revenues that year<sup>70</sup>, third highest out of 90 surveyed countries. Revenues from taxes and charges exceeded total spending in the sector in 2005.

<sup>70</sup> GTZ, (2005).

**Table 3 : Revenues from Road User Charges 2000-2005 (ALL Millions)**

<b>Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Fuel Charges</b>		6,094.89	5,729.06	7,808.49	9,693.93	11,781.23
		<i>Diesel</i>				
		<i>Gasoline</i>				
Carbon Tax on Fuel				396.164	443.536	464.163
Durres-Kukes Road Tax				3352.67	43.969	2988.291
<b>Sub-Total</b>	<b>0.00</b>	<b>6094.89</b>	<b>5729.06</b>	<b>11557.33</b>	<b>10181.44</b>	<b>15233.68</b>
<b>Vehicle Taxes</b>						
<i>Vehicle Registration Tax</i>	369.18	462.29	533.68	534.43	561.20	573.33
<i>Annual Vehicle Tax per Axle</i>	850.00	1,080.46	1,079.89	1,178.65	1,214.06	15.81
<i>Road Circulation Tax</i>					1,425.18	2,988.29
<b>Sub-Total</b>	<b>1,219.18</b>	<b>1,542.75</b>	<b>1,613.57</b>	<b>1,713.08</b>	<b>3,200.45</b>	<b>3,577.44</b>
<b>Other Revenues</b>						
<i>Foreign Vehicle Circulation Tax</i>	317.28	251.24	279.84	278.30	435.59	550.01
<i>Change of Vehicle Ownership Tax</i>		84.46	159.10	185.95	247.09	164.02
<i>Import Tax on Used Vehicles</i>	775.95	725.47	1,188.33	1,556.35	1,500.40	1,485.17
<i>Transport Licences</i>		3.13	27.62	45.36	57.19	26.72
<b>Sub-Total</b>	<b>1,093.23</b>	<b>1,064.31</b>	<b>1,654.90</b>	<b>2,065.96</b>	<b>2,240.26</b>	<b>2,225.92</b>
<b>TOTAL Revenue From Road Users</b>	<b>2,312.41</b>	<b>8,701.95</b>	<b>8,997.52</b>	<b>15,336.37</b>	<b>15,622.15</b>	<b>21,037.03</b>
<i>% of total expenditures on roads</i>	14.86%	88.55%	71.25%	130.70%	92.44%	131.39%

Source: Ministry of Finance.

**161. The current scale and structure of some of the road user charges do not provide the right incentives to users.** The charges on heavy good vehicles (HGV) provide users in some classes with the wrong incentive. HGV ownership charges vary with vehicle weight but do not reflect the number of axles – for a given weight of vehicle, a truck with three axles will incur less damage to the pavement than a truck with two axles. Ideally, a separate charge should be defined according to axle configuration and axle load, although the former MOTT made steps to correct this anomaly, with the abolition of the axle tax in 2005. This tax increased the charge for multiple axle trucks, thereby providing an explicit disincentive to the use of less damaging vehicles.

**162. An international comparison of the retail price of diesel and super gasoline suggests that the opportunities for further revenue gains from the sector are limited.** One recent study (Jenkins, 2005) estimated that an increase of ALL 10 in the price of fuel sold (between 8-10% of the current price), would provide ALL 5.9 billion (US\$ 57 million), more than enough to finance the outlays required to maintain the network and address the backlog maintenance. However, the retail price of diesel and petrol, and the levels of fuel duty and tax on each, are towards the upper end of the levels in neighboring and comparator countries. Such an option is likely to prove politically and socially difficult.

## ***The Financial Requirements of the Road Sector***

**163. The expenditure needs of the road sector are large, and need to cater for three categories of expenditures in the future:**

- a) The annualized expenditure requirement necessary to clear the current maintenance backlog and return a network, of size commensurate with current and projected demand, to good condition;
- b) The recurrent expenditure needs in terms of routine, winter and periodic maintenance necessary to ensure that the assets are kept in operational condition; and
- c) The development needs of the network – in terms of either the level of additional capital expenditure necessary to provide a road network of similar density and condition as key comparator countries, or the current development plans in the sector.

**164. The level of expenditure required to address backlog maintenance is significant and will increase without immediate attention.** The annual expenditures necessary to address the backlog of maintenance expenditures over the period 2005-2009 and bring the entire existing road network assets to good condition have been estimated at ALL 4.5 billion (US\$ 45 million) per year<sup>71</sup>, which includes ALL 2.9 billion (US\$ 29 million) for the national roads alone.

**165. One recent study<sup>72</sup> estimated the financial requirements for the normal maintenance of the entire road network.** The estimate of recurrent expenditure required to ensure that the entire road network is maintained in a ‘steady state’ amounts to ALL 6.4 billion (US\$ 64 million), including ALL 3.0 billion (US\$ 30 million) for routine and winter maintenance. The sum required for the national road network alone (excluding local roads) was reported as ALL 2.8 billion (US\$28 million) for road maintenance, including ALL 1.09 billion (US\$10 million) for routine and winter maintenance. In recognition of these problems, the Government recently announced<sup>73</sup> that they would significantly increase maintenance expenditures in each of the next two years.

**166. In addition, the GoA’s plans to develop the remainder of the corridor risks opening a significant financing gap in the medium term.** Revenues from the charges imposed on vehicle owners and road users in Albania amounted to ALL 21.02 billion (US\$210 million) in 2005, which was sufficient to cover the expenditure needs of the sector. With a conservative assumption that revenues will grow at 3 percent in real terms each year over the period, and that all the revenues raised from the sector are expended therein, there will be a significant financing gap in 2007 and 2008, amounting to ALL 78 million and ALL 71 million respectively. The planned expenditures in the corridor, which total US\$612 million, risk opening a significant financing gap in the sector. The GoA needs to ensure that they will not crowd out planned or necessary priority expenditures in both this sector and other priority sectors. The GoA has agreed to provide its financing plan for the corridor, before submission to the WB Board.

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<sup>71</sup> Although, there is an element of double counting as some of the rehabilitation included in Road Development Plan, is also included here.

<sup>72</sup> Jenkins, (2005).

<sup>73</sup> Minister Basha at a Donor’s Conference on the Transport Sector in Tirana, March 2006.

**Annex 10: Implementing the Governance Filter**  
**ALBANIA: TRANSPORT**

167. The centerpiece of the World Bank 2006 Country Assistance Strategy (CAS)<sup>74</sup> for Albania is an innovative attempt to tackle governance challenges in the country through the introduction of a ‘Governance Filter’ to guide all the Bank interventions in Albania. The 2006 CAS program seeks to support Albania’s efforts in improving governance. It recognizes that more coherent efforts need to be made to address the challenge of poor governance and introduces a ‘Governance Filter’ comprising four core principles which will be used to ensure that governance considerations are mainstreamed into all of the activities supported by the World Bank:

Principle I: Seek greater transparency in the use of public resources;

Principle II: Support increased autonomy and de-politicization of key public sector counterpart organizations;

Principle III: Analyze the formal (and likely future) roles of local governments, and develop capacity -- and local mechanisms of accountability -- to enable local governments to effectively take on these roles; and

Principle IV: Strengthen mechanisms for advocacy and increased involvement of citizens (including nongovernmental stakeholders) to encourage improved performance of public service delivery and policy-making bodies.

168. The filter is intended to underpin the design of the projects, the substance of Analytical and Advisory work (AAA) support, the reform agenda in the Development Policy Loan (DPL) series, policy dialogue, and the supervision, monitoring and implementation of projects.

**169. The Objectives of the Four Guiding Principles of the Governance Filter**

The World Bank recently produced some guidelines on the implementation of the Governance Filter in Albania<sup>75</sup>. The Guidelines stress the need for all Bank interventions to mainstream governance considerations and improve governance outcomes through a number of identified modalities. The selection of the particular tools and modalities for any particular project or sector is left to the discretion of the team. However, the Guidelines offer the following objectives of the four guiding principles of the Governance Filter:

**A. *TRANSPARENCY IN THE USE OF PUBLIC RESOURCES***

- Implementation of transparent integrated planning and budgeting processes with improvements in alignment of the annual and medium-term budget allocations with the NSSD/IPS priorities;

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<sup>74</sup> The CAS, approved on 10 January 2006, covers FY06-FY09. See <http://www.worldbank.org.al>.

<sup>75</sup> The World Bank (2006f).

- Increasing transparency in the allocations and use of resources and project selection, improving anti-corruption measures and institutions and strengthening lines of accountability;
- Fostering wider participation in resource allocation and enabling better access to information; and
- Strengthening of internal capacity and effective oversight bodies for public finance, audit and procurement and transparent financial reporting.

***B. INCREASED AUTONOMY AND DE-POLITICIZATION OF THE PUBLIC ADMINISTRATION***

- Support the delineation (as well as checks and balances) between the political and administrative function and the creation of a professional, merit-based, public administration; and
- Expansion of the merit-based bureaucracy to all line ministries and in local government;
- Building capacity in public administration through implementation of all projects by relevant government structures rather than reliance on Project Implementation Units (PIUs).

***C. SUPPORTING DECENTRALIZATION***

- Enhance role of local government in service delivery by building capacity and strengthen accountability mechanisms at local levels; and,
- Solid understanding of the constraints faced at local government level.

***D. STRENGTHENING MECHANISM OF ADVOCACY AND CITIZEN PARTICIPATION***

- Mechanisms of voice to be harnessed and strengthened, especially in delivery of services;
- Empowering communities to the extent practicable, especially in service areas such as the management of schools and service delivery by hospitals; and,
- Strengthened stakeholder involvement is required as a corollary to decentralization.

**The Main Governance Issues in the Transport Sector**

170. The main governance concerns within the transport sector were summarized earlier in this Project Appraisal Document, and were detailed in the recent Public Expenditure and Institutional Review<sup>76</sup>. Those considered most pertinent relate to the first two of the four pillars of the Governance Filter, as discussed below:

**Pillar A - Transparency in the Use of Public Resources**

***171. The planning and budgetary process in the sector is weak, with a number of deficiencies that undermine the efficiency of expenditures within the sector. These deficiencies include, *inter alia*, the following:***

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<sup>76</sup> World Bank (2006d).

- The absence of a process that contributes to the formulation and revision of a robust sector policy and strategy;
- Weaknesses in project identification, assessment, and prioritization within the MTBP process;
- Poor budgetary control; and
- A lack of a robust asset management system in the road sector.

**172. While the Albania National Transport Plan provides guidance to the resource allocation in the sector, the link to the overall strategic planning framework needs to be strengthened further.** For the first time, and with the support of the EU CARDS project, the ANTP provides the basis for an overarching framework for the development of the sector. The formal adoption of the ANTP by the GoA has been welcomed by the donor community. The challenge moving forward is for the ANTP priorities: (i) to be fully reflected in the overall National Strategy for Socio-Economic Development; and (ii) to guide the formulation of the Medium-Term Budget Program and the annual budget in the sector following a rigorous prioritization of investments. Moreover, capacity and processes need to be introduced and developed to update this plan as necessary in future without similar levels of external support.

**173. At a project level, the limited use of formal techniques of economic appraisal in project identification and prioritization is one of the main weaknesses in the budgetary process.** The current process of project identification and prioritization in the sector is not optimal. Projects are currently proposed reflecting a technical assessment, with little objective assessment of the potential benefits undertaken, or used to identify or prioritize those projects submitted by the sector for inclusion within the MTBP process.

**174. The execution of the budget in the sector is inefficient, with indications of poor management, insufficient use of the private sector, and rent seeking behavior in contract administration.** There are a significant number of within year transfers indicating frequent changes and considerable deviation between planned and actual expenditures at the program level. Moreover, a detailed analysis of road sector contracts funded from all sources in GRD, undertaken for the PEIR, indicated the existence of considerable differentials in unit costs for similar activities across the country. One finding was a differential (20 percent) between more expensive locally funded and internationally funded contracts. This could be interpreted as being indicative of poor supervision, weak contract management, or rent seeking behavior on the part of some of the stakeholders in the sector. Another significant factor is that despite the emergence of a vibrant private contracting industry, the use of private contractors, rather than own force account, to undertake the necessary routine and winter maintenance has been limited on the national road network to the World Bank's Road Maintenance Project.

**175. Finally, professional management of assets in the sector is lacking.** In the road sector, there is little regular monitoring of the condition of the assets, there is no road and structure inventory database, and the little information that is gathered on traffic volumes and axle loads is carried out in a less than systematic and robust manner. Setting up a road and structures database is a prerequisite to a professional approach to asset management. The general approach involves the introduction of robust data collection systems on the condition and the use of the assets, which are stored in a database. The identification of priorities for maintenance expenditures in

the sector can then be made on a sound assessment of economic viability given the available budgetary envelope, using the Highway Development and Management Model. Addressing this weakness and introducing a robust asset management system is a priority for the Government in the sector, in conjunction with the reform and strengthening of the General Roads Directorate.

### **Pillar B - Increased Autonomy and De-politicization of the Public Administration**

**176. Despite recent improvements, a number of the existing institutions remain unequal to these tasks and there are also considerable gaps in the policy/regulatory framework.** Several institutional actors are responsible for the regulation and execution of transport policy in Albania. At the national level, the merger in September 2005 of the Ministry of Transport and Telecommunications (MoTT) with the Ministry of Territorial Adjustment and Tourism (MoTAT), established the Ministry of Public Works, Transport and Telecommunications (MoPWTT).<sup>77</sup> The MoPWTT is responsible for the policy and regulatory framework, together with the technical standards for the road, railway, civil aviation and maritime transport sub-sectors. Further institutional reform or strengthening to enhance autonomy is necessary in all the sectors including, *inter alia*, the establishment of the maritime administration, the completion of some of the secondary legislation in the sector, and the separation of infrastructure from operations in the railway sector.

**177. One area in particular need of institutional autonomy, reform and strengthened capacity is the General Road Directorate (GRD).** The road network in Albania totals about 14,500 km, and is classified into three categories: national roads, district roads, and communal roads. The General Roads Directorate (GRD) is the executive agency, under the MPWTT, responsible for the national road network. The responsibility for the management of the district and communal roads was decentralized to the respective commune and town councils, or *baskia*.<sup>78</sup> Municipal roads and urban public transport remain the responsibility of the relevant municipal bodies. A reformed GRD if it is to function efficiently, needs to be free to manage the assets, and its human resources in a professional manner, free from political interference.

**178. The institutional framework for road safety needs considerable strengthening to improve cross-ministerial co-operation and improve effectiveness.** Albania has one of the worst road safety records in the region, with a rate that is almost twice as bad as most neighboring countries<sup>79</sup>. The state of the road network, driver behavior and limited education, poor or non-existent enforcement, all coupled with the growth in demand, have contributed to a relatively high and increasing level of road traffic accident fatalities and injuries (318 and nearly 900, respectively in 2005). Despite relatively low levels of both vehicle ownership and motorization, both of which are growing fast, which suggests that road safety is unlikely to improve unless there is a comprehensive and robust response across all stakeholder sectors.

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<sup>77</sup> MoTAT was previously in charge of the allocation of conditional transfers to urban roads, while the MoTT, and its affiliated General Road Directorate (GRD) was responsible for investment and maintenance of national roads.

<sup>78</sup> Formerly the Ministry of Local Government and Decentralization (MoLGD).

<sup>79</sup> It should be noted that the definition of a road accident fatality in Albania differs from the others, lowering the indicator considerably.

## **The Application of the Governance Filter in the Project.**

179. This project has been designed to reflect the principles of the Governance filter: In the case of the first pillar, the project will provide direct assistance to achieve the following objectives:

- a) Introducing the use of output based maintenance methods on a pilot basis;
- b) Increase the allocation of total transport spending to recurrent expenditures on roads in order to maintain the asset and to address backlog maintenance; and
- c) Strengthening data collection for the asset management system.

180. In addition, the project will support indirectly, as part of the normal policy dialogue, the strengthening of the professional management of assets with particular attention to the establishment of an Asset Management System, in both the GRD and the MoPWTT to improve the management of assets in the sector. In the same manner, the project will support the use of the full cycle of project identification, preparation, and appraisal, consistent with the newly designed guidelines on public investment management, produced by the Ministry of Finance. The same dialogue will also encourage the GoA to establish the process by which the ANTP is regularly revised and updated, to inform the Medium Term Budget Program.

181. In terms of the second pillar, the project will provide direct assistance to achieve the following objectives:

- a) Contributing TA to develop an action plan for the institutional reform of GRD;
- b) Establishing the Maritime Administration and the secondary legislation for the sub-sector; and
- c) Strengthening the institutional framework for road safety.

182. It will also directly support the GoA's plans to harmonize PIUs in the sector, and reduce transaction costs, with the potential future option of moving towards a SWAp approach in the use of donor funds in the sector, via the undertaking of a sector specific fiduciary assessment. The following matrix details the monitoring indicators to measure progress towards the realization of these objectives:



**Matrix on the implementation of the Governance Filters - Transport project**

Governance filters	Issues in the sector	Measures to be implemented under the project <i>Supported directly by the project:</i>	Monitoring Indicators
<p><i>Seek greater transparency in the use of public resources</i></p>	<p>Poor budgetary planning and execution</p> <p>Limited use of formal techniques of economic appraisal in project identification and prioritization;</p> <p>Lack of professional asset management;</p> <p>Evidence of some rent seeking behavior in contract issue in the sector; and</p> <p>Insufficient emphasis on maintaining existing transport</p>	<p>a) Introducing the use of output based maintenance methods on a pilot basis;</p> <p>b) Increase the allocation of transport spending to recurrent expenditures;</p> <p>c) Strengthening data collection for the asset management system; and</p> <p>d) Supporting institutional reform of GRD.</p> <p><i>Applied by beneficiary irrespective of financing source:</i></p> <p>Strengthen the professional management of assets with particular attention to the establishment of an Asset Management System, in both the GRD and the MoPWT to improve the management of assets in the sector.</p> <p>Subject all transport projects to the full cycle as per the newly designed guidelines on public investment management, including project identification, approval and appraisal.</p>	<p>a) Contracts issued in 2 pilot regions;</p> <p>b) Annual increase in maintenance expenditures;</p> <p>c) Operational establishment of traffic classifiers;</p> <p>d) New structure supplied and approved with WB.</p> <p>Establishment of Asset management system in roads sector</p> <p>Annual review of the sector's public investment pipeline (PIP);</p>
<p><i>Support increased autonomy and de-politicization of key public sector counterpart organizations.</i></p>	<p>Strengthening and developing road safety in Albania</p> <p>Current lack of Maritime Administration and secondary legislation in sector</p> <p>Limited autonomy and efficiency in the management of the national road sector</p>	<p><i>Supported directly by the project:</i></p> <p>a) Technical assistance and training to develop capacity, institutional co-operation and secondary legislation;</p> <p>b) Road Safety Audit on Tirana – Durres Road; and</p> <p>c) Provision of enforcement equipment (alcohol testing, radar, computers, portable weigh scales, etc).</p> <p>TA to support the establishment of the Maritime administration.</p> <p><i>Applied by beneficiary irrespective of financing source:</i></p> <p>Reforming GRD into a small centralized contracting unit, with greater autonomy in staff hiring and rewards.</p>	<p>a) Operational establishment of specific road safety equipment (tbc at appraisal); and</p> <p>b) Road Safety Audit – Tirana – Durres Road.</p> <p>Establishment of Maritime Administration.</p>

## **Annex 11: Environmental Impact Assessment**

### **ALBANIA: TRANSPORT**

183. The project is in full compliance with all environmental regulations, policies and procedures of the Government of Albania and the World Bank. The Project was categorized as Category A, in accordance with World Bank safeguard policies and procedures for Environmental Assessment (EA) (OP/BP/GP 4.01). This required the preparation of a detailed EA document (see OP 4.01 Annex B, “*Content of an Environmental Assessment Report for a Category A Project*”), which was undertaken in a number of steps: An initial EA report was prepared in 2003 by the design consultant, funded by the then Government. However, OP 4.01 requires the EA to be prepared by independent experts not affiliated with the project. To satisfy this requirement, an independent consultant reviewed and updated the prepared EA for the original alignment, as part of the preparation of the, subsequently suspended, FY04 Transport Project.

184. The alignment was then changed, and an updated EA document was prepared by another independent consultant. The suspension of the FY04 Transport Project, reactivated in January 2006, engendered a need for a new round of consultation. The resulting EA document: (a) fully reflects the current project alignment and design; (b) fully complies with World Bank EA policies and procedures as cited above; and (c) reflects the findings of this new round of public consultation, as detailed below. It has also been cleared by the regional Environmental Agency of Lezha Prefecture (it includes the Milot, Rubik and Rreshen districts), and was approved by the Ministry of Environment High Commission on October 30, 2006.

185. In total, three phases of public consultation were conducted in a number of different locations: (i) Consultations to discuss the Terms of Reference for the Environmental Assessment were conducted on June 16, 2003 in Shkodra, June 17, 2003 in Kukes, and July 22, 2003 in Rreshen; (ii) Consultation to discuss the first draft of the EA report were conducted on March 3, 2004 in Milot, March 28, 2004 in Rubik, and March 29, 2004 in Rreshen; and (iii) final consultation was conducted in Fushe-Milot on January 22, 2006 and in Vau I Shkjezes on February 19, 2006. The Final Version of the EA was supplied to the Bank on the 23<sup>rd</sup> May 2006 and formally approved. It was subsequently translated and disclosed publicly in the General Road Directorate on the 3<sup>rd</sup> June 2006, with an announcement appearing in the “Rilindja Demokratike” newspaper on the same day. It was disclosed in the Infoshop on the 29<sup>th</sup> June 2006.

186. The chief potential environmental issues associated with the project include soil erosion (construction and during use), health effects to construction workers from existing contaminated land (construction), land disturbance (construction), water pollution (construction and accidental spillage during use), noise (primarily during construction), and the perception of increased flooding risk to residential areas in or near the village of Fushe-Milot. The issue of the perceived increase in the risk of flooding to the Fushe-Milot area was raised during the second public consultation by concerned residents: the justification for the perceived increase in risk of flooding is because the previous alternative alignment of the road, discussed during the first round of consultation, followed the edge of the floodplain and would have provided increased protection. The selected alignment does not provide this increased protection, but reverts to the

'status quo' of the situation. But the residents' concerns have been addressed by the GRD and provision to improve the situation is to be provided by the Ministry of Agriculture. The potential flooding risk of the Fushe-Milot area will be mitigated by proper design of the highway to allow floodwaters to readily pass through the elevated road structure, and reinforcement of the existing bunds on both sides of the River Matit to reduce the risk of flooding. The reinforcement of the existing 'bunds' on either side of the river, are formal loan conditions.

187. The issues raised by the earlier work of the Albania Army, instructed by the former Government to proceed with earthworks on the first section of the Milot – Rreshen section, has been investigated by a suitably qualified Civil Engineer, hired by GRD. The findings and recommendations were reviewed by a Geo-technical specialist hired by the Bank, and appropriate changes made to the Environmental Management Plan (EMP), the Terms of Reference for the Supervising Consultant, and the detailed design. All environmental issues can be readily mitigated with good engineering design and construction practices. A summary of the Environmental Management Plan (EMP) is provided in the following section.

## SUMMARY ENVIRONMENTAL MANAGEMENT PLAN

### (A) MITIGATION PLAN

Phase	Issue	Mitigating Measure	Institutional Responsibility
<b>Construction</b>	<u><i>Material Supply</i></u> (a) Asphalt Plant (b) Stone Quarry (c) Sand/Gravel (d) Borrow pits	Requirement for official approval or a valid operating license from National Environmental Agency of Albania (NEAA) specified in bid document	(a) Asphalt Plant Owner (b) Stone Quarry Owner (c) Sand/Gravel Contractor (d) Borrow pit areas to be restored at end of Contract
	<u><i>Material Transport</i></u> (a) Asphalt -dust/fumes (b) Stone -dust (c) Sand/Gravel -dust from the if (d) Traffic Management -noise and vehicular exhaust, road congestion	(a) Asphalt -cover truck load (b) Stone -wet or cover truck load (c) Sand/Gravel -wet or cover truck load (d) Haul material at off-peak traffic hours Use routes to minimize major traffic sites	(a) Truck operator  (b) Truck operator  (c) Truck operator  (d) Truck operator
	<u><i>Erosion Protection</i></u> Risk of erosion (along embankments adjacent to the proposed road and the opposite riverbank).	Groynes or Gabions should be used.	Construction Contractor
	<u><i>Soil Protection</i></u> (a) Loss of topsoil and erosion of bare ground  (b) Loss of agricultural soil through ponding behind the flood prevention embankment	(a) Careful storage of topsoil for re-use and rapid re-establishment of base areas of ground  (b) Embankment to incorporate flood relief outlets (with flap valves if necessary)	Construction Contractor
	<u><i>Cultural Heritage</i></u> (a) Archaeological finds	(a) Archaeological supervision during construction. In the even of a find stop work, notify archaeological authority and follow their directions. No artefacts are to be moved or removed until government officially approves it.	Construction Contractor

	<p><u>Construction Site</u></p> <p>(a) Noise</p> <p>(b) Dust</p> <p>(c) Traffic Disruption (during construction activity)</p> <p>(d) Vehicular/pedestrian safety (off hours when there is no construction activity)</p> <p>(e) Water Pollution from Improper Materials Storage/Management</p> <p>(f) Sediment runoff</p> <p>(g) Protection of water resources</p> <p>(h) Archaeological finds</p> <p>(i) Construction camps Garbage removal Sewage management</p> <p>(j) Bridge Construction over rivers and watercourses - Water pollution risk from bridge construction during fish spawning season</p>	<p>(a) Limit activities to reasonable hrs (not between 11 PM and 7 AM or as agreed by Supervision Consultant )</p> <p>(b) Water construction site and materials storage sites as appropriate (during dry, windy conditions)</p> <p>(c) Appropriate measures to redirect traffic that are easily seen or easy to follow including preparation of a traffic management plan</p> <p>(d) Appropriate lighting and well defined safety signs included in traffic management plan</p> <p>(e) Cover material storage areas Construct channels to direct runoff to sewage system or appropriate treatment facility</p> <p>(f) Provide sediment fence, straw bales or other sediment traps</p> <p>(g) Take measures (diversion ditches, etc.) to prevent the direct entry of water from construction sites into streams, canals, lakes, wells and aquifers; provide detention basins, where needed</p> <p>(h) Notify archaeological authority and follow their directions</p> <p>(i) Location of construction camps to be approved by local authority and camps to be fenced and screened. Sewage disposal to be to sewer system if available, otherwise to be to constructed cesspools. Garbage disposal to be delivered to authorised tips only.</p> <p>(j) Construct bridges within rivers out of fish breeding season</p>	<p>Construction Contractor</p>
	<p><u>Waste Disposal</u></p> <p>(a) Construction debris (concrete, asphalt, fuels, paints, contaminated soil)</p>	<p>(a) Dispose of in approved locality and cover with inert material.</p>	<p>Construction Contractor</p>

	(b) Solid waste	(b) Dispose of in accordance with the directions of the Prefect of Lezha and the Institute of Hygiene and Sanitation.	
1. PRIOR TO CONSTRUCTION OF EMBANKMENT AT FUSHË-MILOT	<u>Flood Protection</u> Perceived increased risk of overtopping of the poorly maintained flood protection bunds between Milot and the Milot-Lezha national road (applies to both sides of River Mat).	Repair and strengthen (including an increase in height by at least 10cm) the protective flood bunds on both sides of the River Mat between Milot (where flood bunds previously repaired) and the Milot-Lezha national road embankment.	Ministry of Agriculture (MOA)
	<u>Material Deposited in Floodplain (Opp. Fierza)</u> Excavated rock material dumped in floodplain by Albanian army restricting flow of flood waters and increasing risk of flooding for Fierza and Rubik.	Include requirement in contract documents for each Works Contract for Contractor to extract material from river floodplain and re-use in embankment construction for the proposed road.	Construction Contractors
	<u>Surplus Material Deposited in Floodplain</u> Surplus excavated material dumped in floodplain by Albanian army restricting flow of flood waters and increasing risk of flooding for Vau i Shkryzës and Rethi i Epërm.	Include requirement in contract documents for Lot 3 Works Contract for Contractor to extract material from river floodplain and re-use in embankment construction or deposit at a location agreed with the local authorities	Construction Contractors
2. OPERATION	<u>Maintenance of Constructed Road</u> Noise	Limit activities to reasonable hours (not )between 11 PM and 7 AM except for winter maintenance) or as agreed by Local Authority	GRD
	<u>Road Safety</u> Erosion, rockfall, hazardous conditions	Install appropriate warning signs (rockfall, landslide, wet or slippery conditions, dangerous curve, animal or pedestrian crossing, school, slow moving vehicles, merge), reflective markers to indicate steep edge, or convex mirrors to see oncoming traffic at blind curves. Locate warnings at points considered appropriate by good engineering practice	GRD

**(B) MONITORING PLAN**

<b>Phase</b>	<b>What</b> <i>Is to be Monitored</i>	<b>How</b> <i>Will monitoring be done</i>	<b>When</b> <i>Will monitoring be done</i>	<b>Who</b> <i>Will do the monitoring</i>
<b>Construction</b> <u>Material Supply</u> (a) Asphalt Plant (b) Stone Quarry (c) Sand/Gravel (d) Borrow pits	NEAA approval or valid operating license  NEAA approval or valid operating license plus restoration at end of Contract	GRD Supervision Consultant	At start of contract  At any time borrow pits are proposed	Plant owner/contractor
<u>Material Transport</u> (a) Asphalt (b) Stone (c) Sand/Gravel (d) Traffic Management	(a) ) Truck load covered or wet (b) See (a) (c) See (a) (d) Hours and routes selected	GRD Supervision Consultant	After work starts- several unannounced inspections	GRD Supervision Consultant

<u>Construction Site</u>				
(a) Noise	(a) Noise levels	(a) Sound level detector (dB[A] meter)	a) Once/week- (AM-PM) and when locals complain	(a) MEFWA + GRD Supervision Consultant
(b) Dust	(b) Air quality (dust)	(b) Visual	(b) During material delivery and construction	(b) See (a)
(c) Traffic Disruption (during construction)	(c) Traffic patterns + preparation of traffic management plan (TMP)	(c) Approval of TMP and observation by GRD Supervision Consultant	(c) TMP as necessary + once/week at peak and non peak periods	(c) GRD Regional Maintenance Department + GRD Supervision Consultant
(d) Vehicular/ Pedestrian Safety (after hours when there is no construction activity)	(d) Visibility and appropriateness + traffic management plan	(d) Approval of TMP and observation by GRD Supervision Consultant	(d) TMP as necessary + once/week during evening	(d) GRD Regional Maintenance Department + GRD Supervision Consultant
(e) Water Pollution (from Improper Materials Storage/ Management)	(e) Water quality (primarily suspended solids)	(e) Observation by GRD Supervision Consultant + water sample collected for analysis if necessary	(e) During precipitation (rain, snow etc.) and periodically during storage period	(e) MEFWA + GRD Supervision Consultant
(f) Sediment runoff	(f) Water quality (primarily suspended solids)	(f) Observation by GRD Supervision Consultant + water sample collected for analysis if necessary	(f) During occurrence of sediment runoff	(f) MEFWA + GRD Supervision Consultant
(g) Protection of water resources	(g) Water quality of water resource (major cations & anions, BOD, COD, heavy metals, oil and grease)	(g) GRD Supervision Consultant to collect water sample for analysis as necessary	(g) Water samples to be taken monthly and analysed by competent laboratory	(g) MEFWA + GRD Supervision Consultant
(h) Archaeo-logical finds	(h) Archaeo-logical finds to be reported	(h) Observation by GRD Supervision Consultant and notification to Archaeology Department	(h) At time of discovery	(h) MEFWA + GRD Supervision Consultant
(i) Construction camps	(i) Location of construction camps to approved by Local Authority	(i) GRD Supervision Consultant	(i) At start of contract	(i) MEFWA + GRD Supervision Consultant
<u>Waste Disposal</u>				
(a) Construct-ion debris (including contaminated soils)	(a) Surplus or unsuitable materials to disposed of in authorised tips	(a) GRD Supervision Consultant	(a) At time of disposal	(a) MEFWA + GRD Supervision Consultant
(b) Solid waste	(b) Solid wastes to disposed of to authorised receivers	(b) GRD Supervision Consultant	(b) At time of disposal	(b) MEFWA + GRD Supervision Consultant



<u>Erosion Protection</u> Risk of bank erosion	Effectiveness of gabions	GRD Supervision Consultant	Several unannounced inspection	MEFWA + GRD Supervision Consultant
<u>Soil Protection</u> (a) Loss of topsoil	(a) Storage/ rapid reestablishment of bare ground	(a) GRD Supervision Consultant	(a) Several unannounced inspections	(a) MEFWA + GRD Supervision Consultant
(b) Ponding behind embankment	(b) Effectiveness of flood relief outlets	(b) GRD Supervision Consultant	(b) Annually during the wet season	(b) MEFWA + GRD Supervision Consultant
<u>Cultural Heritage</u> Archaeological finds	Any river valley tumuli and relics of significance	GRD Supervision Consultant	Several unannounced inspections	The Institute of Monuments, (a dependency of the Ministry of Culture) + GRD Supervision Consultant
<u>Material Deposited in Floodplain (Opp. Fierza)</u> Excavated rock material dumped in floodplain by Albanian army restricting flow of flood waters	Construction Contractors re-use the material from the floodplain for embankment construction.	Supervision Consultant.	During earthworks phase of construction.	Construction Contractors
<u>Surplus Material Deposited in Floodplain</u> Surplus excavated material dumped in floodplain by Albanian army restricting flow of flood waters and increasing risk of flooding for Vau i Shkjetzës and Rethi i Epërm	Construction Contractor for Lot 3 to remove and re-use the material from the floodplain for embankment construction or fill material.	Supervision Consultant.	During earthworks phase of construction.	Construction Contractors
<u>Operation Maintenance of Constructed Road</u> Noise	Noise levels	Sound level detector (dB[A] meter)	During maintenance activities or when locals complain	MEFWA
<u>Road Safety</u> Rock falls, land erosion, hazardous conditions	Condition of hazard signs	Visual Observation	One - two times/year	GRD Regional Maintenance
<u>Flood Protection</u> Risk of overtopping on River Mat flood protective bunds	Condition of embankment	Visual Observation	One - two times/year during period of high flow	MEFWA + GRD Regional Maintenance

## Annex 12: Project Preparation and Supervision

### ALBANIA: TRANSPORT

	Planned	Actual
PCN review	18 <sup>th</sup> June 2003	18 <sup>th</sup> June 2003
Initial PID to PIC	18 <sup>th</sup> June 2003	30 <sup>th</sup> June 2003
Initial ISDS to PIC	18 <sup>th</sup> June 2003	30 <sup>th</sup> June 2003
Appraisal	27 <sup>th</sup> November 2006	27 <sup>th</sup> November 2006
Negotiations	14 <sup>th</sup> December 2006	14 <sup>th</sup> December 2006
Board/RVP approval	22 <sup>nd</sup> February 2007	
Planned date of effectiveness	30 <sup>th</sup> March 2007	
Planned date of mid-term review	15 <sup>th</sup> June 2009	
Planned closing date	30 <sup>th</sup> June 2011	

Key institutions responsible for preparation of the project:

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Bank staff and consultants who worked on the project included:

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Elona Gjika	Financial Mgmt Specialist	ECSPS
Ahmet Gokce	Sr. Procurement Specialist	ECSPS
Artan Guxho	Project Officer	ECSSD
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Salim Benouniche	Sr. Procurement Specialist	ECSPS
Alia Moubayed	Country Economist	ECSPE
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Radhika Srinivasan	Sr. Social Specialist	ECSSD
Kirsten Burghardt Propst	Counsel	LEGEC
Nikolay Christyakov	Sr. Finance Officer	LOAG1

Bank funds expended to date (8<sup>th</sup> November 2006) on project preparation since FY2003:

1. Bank resources: US\$553,182.00
2. Trust funds: US\$7,200.00
3. Total: US\$560,382.00

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$10,000.00
2. Estimated annual supervision cost: US\$80,000.00

## **Annex 13: Documents in the Project File**

### **ALBANIA: TRANSPORT**

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World Bank (2002b) *Poverty in Albania: A Qualitative Assessment*, Washington DC.

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World Bank (2004b) *A Framework for the Development of the Transport Sector in South East Europe*, Washington DC.

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World Bank (2006b) *Transport for Growth – safe, clean and affordable*, Draft Transport Sector Board Strategy, Washington DC.

World Bank/IFC, (2006c) *Country Assistance Strategy for the Republic of Albania for the Period FY06-FY09*, Washington DC.

World Bank (2006d) *Public Expenditure and Institutional Review*, Washington DC.

World Bank, (2006e) *Infrastructure, Lessons from the Last Two Decades of World Bank Experience*, Washington DC.

World Bank, (2006f) *Guidelines for the Implementation of the "Governance Filter" of the Albania CAS (FY06-09)*, World Bank Country Office, Tirana.

## Annex 14: Statement of Loans and Credits

### ALBANIA: TRANSPORT

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Org.	Frm. Rev'd
P096643	2007	BERIS	5.60	3.70	0.00	0.00	0.00	9.19	0.00	0.00
P100273	2006	AVIAN FLU - AL	0.00	5.00	0.00	0.00	0.00	5.14	0.17	0.00
P082814	2006	HEALTH SYST MOD	0.00	15.40	0.00	0.00	0.00	15.84	0.23	0.00
P078933	2006	EDUC EXCEL & EQUITY	0.00	15.00	0.00	0.00	0.00	15.43	0.48	0.00
P090656	2005	ECSEE APL2 (ALBANIA)	0.00	27.00	0.00	0.00	0.00	25.53	-0.01	0.00
P089061	2005	NATURAL RES DEVT (GEF)	0.00	0.00	0.00	5.00	0.00	4.44	0.00	0.00
P086807	2005	COASTAL ZONE MGMT (APL #1)	0.00	17.50	0.00	0.95	0.00	15.60	2.76	0.00
P082375	2005	NATURAL RES DEVT	0.00	7.00	0.00	0.00	0.00	5.77	1.06	0.00
P082128	2004	WATER RES MGMT	0.00	15.00	0.00	0.00	0.00	11.87	0.48	0.00
P077526	2004	POWER SECTOR GENER & RESTRCT'G	0.00	25.00	0.00	0.00	0.00	24.38	14.55	0.00
P075156	2004	INTGD WATER/ECOSYS MGMT (GEF)	0.00	0.00	0.00	4.87	0.00	4.72	4.31	0.00
P077297	2003	COM WRKS 2	0.00	15.00	0.00	0.00	0.00	5.72	1.53	0.98
P041442	2003	MUN WATER/WW	0.00	15.00	0.00	0.00	0.00	9.38	2.72	0.00
P074905	2002	PWR SECT REHAB/RESTRCT'G	0.00	29.90	0.00	0.00	0.00	6.69	1.10	0.00
P069479	2002	FISHERY DEVT	0.00	5.60	0.00	0.00	0.00	1.26	-0.09	0.00
P066260	2002	ROAD MAINT	0.00	17.00	0.00	0.00	0.00	4.09	-12.70	-0.73
P055383	2001	SOC SERV DEVT	0.00	10.00	0.00	0.00	0.00	8.89	4.40	0.65
P054736	2001	AG SERVICES	0.00	9.90	0.00	0.00	0.00	2.75	0.44	0.00
P069939	2000	PUB ADM REF	0.00	8.50	0.00	0.00	0.00	2.76	2.09	2.09
Total:			5.60	241.50	0.00	10.82	0.00	179.45	23.52	2.99

ALBANIA  
STATEMENT OF IFC's  
Held and Disbursed Portfolio  
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2005	Fushe Kruje	30.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
2002	INSIG	0.00	0.00	6.23	0.00	0.00	0.00	6.22	0.00
2000	NCBank	0.00	2.00	0.00	0.00	0.00	2.00	0.00	0.00
1999	ProCredit ALB	0.00	0.98	0.00	0.00	0.00	0.98	0.00	0.00
2003	Vodafone Albania	17.83	0.00	0.00	3.70	17.83	0.00	0.00	3.70
Total portfolio:		47.83	2.98	6.23	3.70	47.83	2.98	6.22	3.70

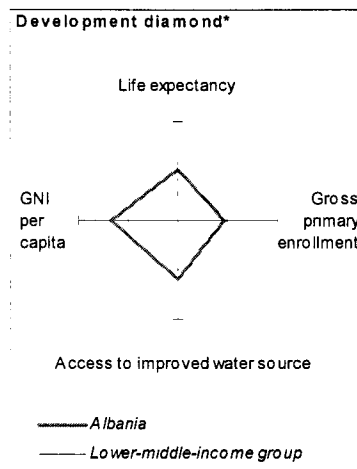
FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
2002	Savings Bank	0.00	0.02	0.00	0.00
Total pending commitment:		0.00	0.02	0.00	0.00

## Annex 15: Country at a Glance

### ALBANIA: TRANSPORT

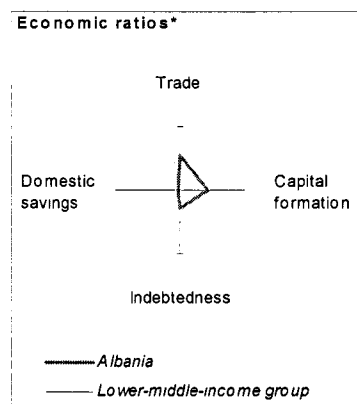
#### POVERTY and SOCIAL

	Albania	Europe & Central Asia	Lower-middle-income
<b>2005</b>			
Population, mid-year (millions)	3.1	473	2,475
GNI per capita (Atlas method, US\$)	2,580	4,113	1,918
GNI (Atlas method, US\$ billions)	8.1	1,945	4,747
<b>Average annual growth, 1999-05</b>			
Population (%)	0.4	0.0	1.0
Labor force (%)	0.0	0.6	1.4
<b>Most recent estimate (latest year available, 1999-05)</b>			
Poverty (% of population below national poverty line)	25	..	..
Urban population (% of total population)	45	64	50
Life expectancy at birth (years)	74	69	70
Infant mortality (per 1,000 live births)	17	28	33
Child malnutrition (% of children under 5)	14	5	12
Access to an improved water source (% of population)	96	92	82
Literacy (% of population age 15+)	99	97	89
Gross primary enrollment (% of school-age population)	104	104	114
Male	105	105	115
Female	104	102	113



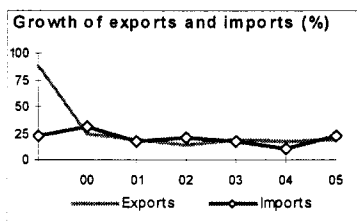
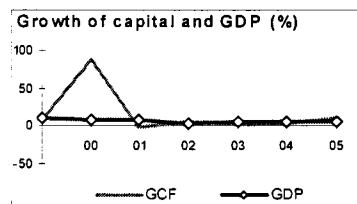
#### KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1985	1995	2004	2005	
GDP (US\$ billions)	2.0	2.4	7.5	8.4	
Gross capital formation/GDP	32.8	18.0	24.1	25.1	
Exports of goods and services/GDP	16.2	12.5	21.8	23.5	
Gross domestic savings/GDP	30.5	-4.0	2.0	2.4	
Gross national savings/GDP	30.6	18.1	18.2	18.2	
Current account balance/GDP	..	-0.5	-7.3	-6.2	
Interest payments/GDP	..	0.2	0.3	..	
Total debt/GDP	..	18.8	20.8	..	
Total debt service/exports	..	12	2.9	..	
Present value of debt/GDP	..	..	14.2	..	
Present value of debt/exports	..	..	41.3	..	
<b>(average annual growth)</b>					
GDP	-3.3	5.8	5.9	5.5	6.5
GDP per capita	-3.8	5.7	5.3	4.9	5.3
Exports of goods and services	..	21.5	16.5	19.3	11.7



#### STRUCTURE of the ECONOMY

	1985	1995	2004	2005
<b>(% of GDP)</b>				
Agriculture	34.6	55.8	25.2	..
Industry	43.3	22.5	19.5	..
Manufacturing	..	..	..	..
Services	22.1	21.7	55.3	..
Household final consumption expenditure	60.2	90.4	88.5	88.4
General gov't final consumption expenditure	9.3	13.6	9.5	9.2
Imports of goods and services	18.4	34.5	43.9	46.2
<b>(average annual growth)</b>				
Agriculture	3.1	2.6	3.5	..
Industry	-11.4	9.4	4.3	..
Manufacturing	..	10.0	..	..
Services	-2.9	7.6	7.7	..
Household final consumption expenditure	19	7.5	7.1	12.4
General gov't final consumption expenditure	-7.8	3.7	2.9	2.2
Gross capital formation	13.5	12.4	3.0	9.7
Imports of goods and services	..	17.7	10.7	22.1



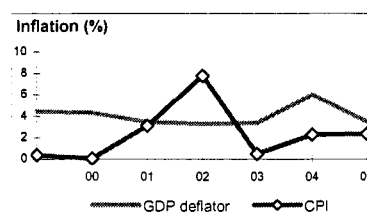
Note: 2005 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will

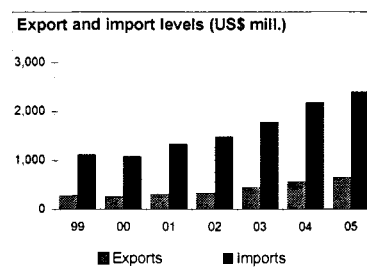
## PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
<b>Domestic prices</b> (% change)				
Consumer prices	..	7.8	2.3	2.4
Implicit GDP deflator	0.4	9.8	6.0	3.5
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	50.6	22.5	25.2	24.9
Current budget balance	24.4	-2.2	1.1	1.2
Overall surplus/deficit	..	-9.0	-5.6	-4.1



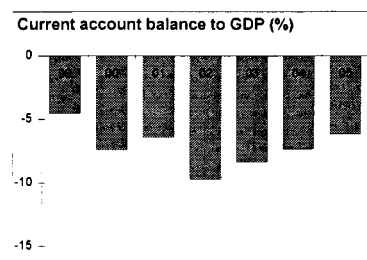
## TRADE

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total exports (fob)	..	205	567	652
Agriculture	..	35	..	..
Mineral products	..	24	..	..
Manufactures	..	92	..	..
Total imports (cif)	..	679	2,189	2,397
Food	..	102	..	..
Fuel and energy	..	80	..	..
Capital goods	..	313	..	..
Export price index (2000=100)	..	..	120	121
Import price index (2000=100)	..	..	117	116
Terms of trade (2000=100)	..	..	103	104



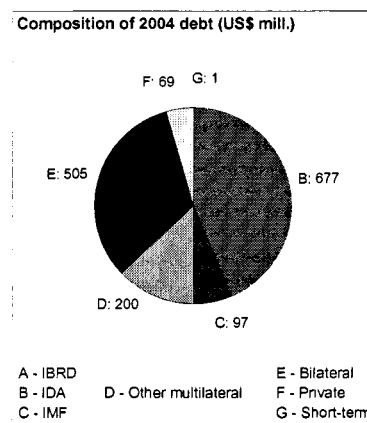
## BALANCE of PAYMENTS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Exports of goods and services	319	304	1,364	1,501
Imports of goods and services	362	836	3,082	3,358
Resource balance	-44	-533	-1,718	-1,857
Net income	1	44	144	168
Net current transfers	..	477	1,028	1,172
Current account balance	..	-12	-547	-517
Financing items (net)	..	32	681	620
Changes in net reserves	18	-21	-134	-103
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	265	1,168	1,263
Conversion rate (DEC, local/US\$)	8.6	92.8	102.8	99.9



## EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	..	456	1,549	..
IBRD	..	0	0	0
IDA	..	109	677	655
Total debt service	..	10	74	..
IBRD	..	0	0	0
IDA	..	1	8	10
<b>Composition of net resource flows</b>				
Official grants	..	77	110	..
Official creditors	..	70	113	..
Private creditors	..	0	30	..
Foreign direct investment (net inflows)	..	70	426	..
Portfolio equity (net inflows)	..	0	0	..
<b>World Bank program</b>				
Commitments	..	36	50	..
Disbursements	..	43	67	34
Principal repayments	..	0	3	4
Net flows	..	43	64	30
Interest payments	..	1	5	5
Net transfers	..	43	59	24



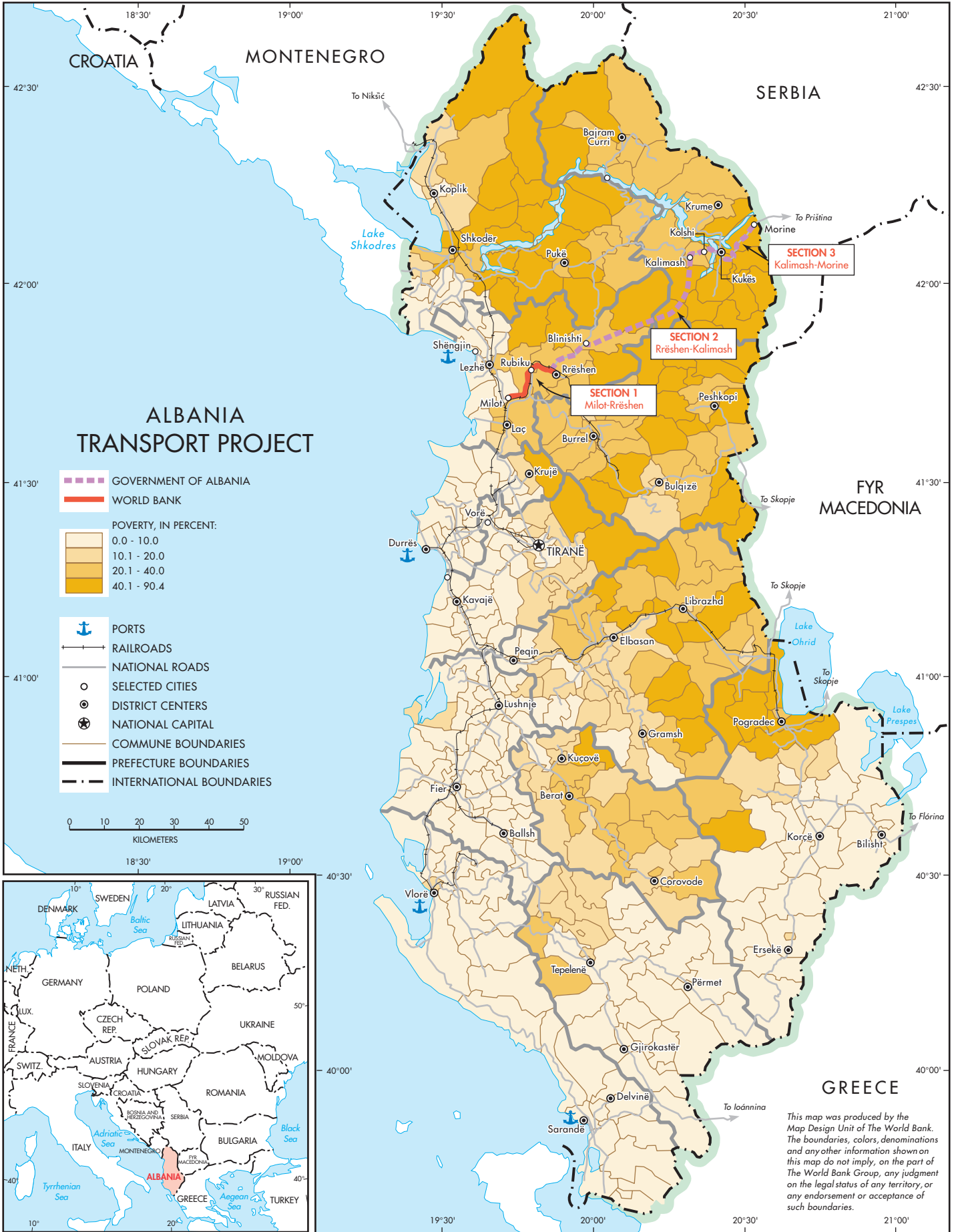
Note: This table was produced from the Development Economics LDB database.

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**Annex 16: Map**  
**ALBANIA: TRANSPORT PROJECT**





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