

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

Report No.: AB1828

Project Name	TRANSPORT PROJECT
Region	EUROPE AND CENTRAL ASIA
Sector	Roads and highways (98 percent); Ports, waterways and shipping (1 percent); General transportation sector (1 percent)
Project ID	P078949
Borrower(s)	GOVERNMENT OF ALBANIA
Implementing Agency	Ministry of Public Works, Transportation and Telecommunication
Environment Category	<input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	June 26, 2006
Date of Appraisal Authorization	September, 2006
Date of Board Approval	November, 2006

1. Country and Sector Background

Country Background

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 an income per capita estimated at US\$ 2,250 in 2005, widespread poverty, high unemployment, substantial regional disparities, and weak governance structures. The program of the current 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.

The recent Country Assistance Strategy¹ 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, 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 to the development of firms despite recent improvements in regulations governing entry/exit to particular sectors.² The current poor state of infrastructure was noted in the recent

¹ World Bank (2006), Paragraph 31.

² 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.

Country Economic Memorandum (CEM) to *lower the marginal productivity of private capital in Albania, discouraging the involvement of the private sector.*

Transport Sector Background

Transport demand has changed radically since 1991, reflecting the structural changes in the economy and the realignment of trade flows in the region. The NSSED Progress Report for 2004³ 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 on 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.

There are many institutional actors responsible for the regulation and execution of transport policy in Albania. At the national level, the recent 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). This body employs some 950 staff; 155 at the main office in Tirana, and the remainder at the seven Regional Road Directorates. The responsibility for maintaining the secondary and local road networks rests with the District road departments on behalf of the Ministry of Local Government and Decentralization (MLGD). Whilst, the 2,500 km of urban roads are maintained by the Municipal road departments on behalf of the Ministry of Territorial Planning and Tourism (MTPT).

The road infrastructure compares poorly to regional comparators in extent and quality. The road network in Albania totals about 14,500 km, comprising 3,136km 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 3,000km 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% of the road network paved in Albania, compared to 52% in Bosnia and Herzegovina and 62% in Macedonia, and 92% in Greece. In 2002, only 10% of the national road network was found to be in good condition, with an additional 22% in fair condition, and the remaining 68% in poor condition,⁴ primarily due to

³ Ministry of Finance, (2005) *NSSED Implementation Progress Report for 2004*, Tirana.

⁴ World Bank (2004) *A Framework for the Development of the Transport Sector in South East Europe*, Washington DC.

inadequate or insufficient maintenance. By way of contrast, the comparative figures for Croatia, according to a recent survey, are 32%, 46%, and 22% respectively.

Poor transport infrastructure is regarded as one of main cause of difficulties for many firms and individuals. A qualitative survey⁵ 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 problem⁶. 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 percent⁷. 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 producers⁸. More recent studies have supported these findings, also noting positive differences in school enrollment, and use of health services, between areas with and without all weather roads⁹.

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 8) running between Tirana and the Macedonia border, and on the main North-South corridor from Durrës and Tirana through Shkodra to the Montenegro border. Nearly all the road sections on those corridors are now under preparation, construction, or have been completed. The main priority of the Government of Albania, consistent with the new National Transport Plan, is now the development of the road corridor to Kosovo. The emphasis given to 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, 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 Durrës 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, which links with the main North-South road.

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).

⁵ World Bank (2002b).

⁶ World Bank (2002b) Page 27.

⁷ Evans, (1990).

⁸ World Bank (2004c) *op cit.*

⁹ World Bank (2006).

The proposed project will include a road safety component to further contribute to the development of domestic capacity to address this serious and pressing issue.

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 Sector¹⁰. 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.

Reform in the maritime sector has started, but partial implementation has been restricted to the Port of Durres at this time. Prior to 1991, the ports were formerly 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. 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. The project will be providing Technical Assistance to facilitate the development of the institutional framework.

A further concern is that multiple projects from different donors, each with their different financial management, reporting and evaluation approaches, create excessive transactions costs for the responsible public sector bodies in the 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. 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 WB funded projects would be funded through existing government structures¹¹.

¹⁰ Council of Minister's Decision 270, dated the 10th May 2006.

¹¹ World Bank/IFC (2006) Paragraph 46, Page 18.

The implementation arrangements for the transport project, discussed below, reflect these concerns. In addition, the Government requested the World Bank to assess the potential benefits of introducing a Sector Wide Approach (SWAp). 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. The project will include a study to assess domestic capacity for such an approach in the sector.

2. Objectives of the Project

The main project development objective is to reduce user costs, in terms of time and money, and improve road safety between Milot and Rreshen, and improve access to points north in the corridor, thereby contributing to poverty alleviation and economic development in one of the poorest areas of Albania. The project aims to realize this objective through the construction and upgrading of the 26.5 kilometer section of the Milot – Morine road, thereby contributing to a significant reduction in journey time through an increase in vehicle speeds on the road section.

3. Rationale for Bank Involvement

The World Bank has a long history of successful collaboration in 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 facilitating rather than impeding economic development. The broad experience of the World Bank in the transport sector, and earlier country assistance in the form of both physical investments, and technical assistance to strengthen the road administration to better manage and maintain national and rural road networks, and implement traffic safety policies, places it in a unique position to continue to assist development in the sector.

The Durres-Morine corridor is the foremost priority for the Government of Albania in the sector. The selection of the first section of the Durres - 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 national and regional integration of the ethnic Albanian population. The development of this section will reduce the user costs, both in terms of time and money, for the movement of individuals and freight along the whole corridor, thereby contributing to economic development through the concomitant reductions in input and output prices.

The development of the proposed corridor will alleviate poverty in one of the poorest parts of the country. A further benefit, which has not been quantified 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), with per capita income which is below the national average. In addition, the participation of the Bank in a project which is likely to cost more than \$200 million reassures other donors and acts as a catalyst in attracting financing, predicating viability and fiscal prudence in scheduling the implementation. Also, the experience of the World Bank with large

infrastructure projects provides the World Bank with a comparative advantage in undertaking this project.

4. Description of the Project

The project will consist of four main components: The first project component will be the civil works and consultant supervision to allow the construction and upgrading of the 26.5 kilometer Milot - Rreshen section of the Durres - Morine road corridor. This road section 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 second component will involve the piloting of performance based contracting for national roads in two regions in Albania. It is the intention that these contracts will be 'pure' PBC, covering winter and routine maintenance, and will last for a period of three years.

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 technical assistance and goods for the Ministry of Public Works, Transportation and Telecommunication, and the Traffic Police under the Ministry of Interior, in the area of road safety. This will include...

The fourth component will involve the provision of technical assistance to the Ministry of Public Works, Transportation and Telecommunication. This will include the following: (i) assisting in the establishment of the maritime administration; (ii) implementing the new port authority law and preparing new maritime by-laws in conformity with EU standards; (iii) undertaking a sector specific fiduciary assessment; and (iv) supporting the reform of GRD.

5. Financing

Source:	(\$m.)
BORROWER	27
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	25
Total	52

6. Implementation

The Project Implementation Team within the General Roads Directorate (GRD) under the Ministry of Public Works, Transport and Telecommunications (MPWTT) will be the sole implementing agency for the project. The Project Implementation Team will be responsible for the overall management of the project, including the procurement of civil works, goods and services, project monitoring, and reporting on project status to the Albanian Government and the Bank. It is expected that the PIT will work closely with the MPWTT and the NRSC.

7. Sustainability

The sustainability of the project will depend on the degree of Government commitment to provide both the necessary recurrent financing to maintain the project roads, together with the commitment necessary to restructure GRD to better manage road construction and rehabilitation

programs. While the present level of road maintenance financing is clearly inadequate for maintaining the national road network, the recent announcement of the Minister of Public Works, Transport and Telecommunications to significantly increase allocations to maintenance expenditures is welcomed. The project will also have a covenant to support the Government's commitment to providing increases of 10 percent each year in real terms in the allocation for maintenance to the sector. The restructuring of the GRD is now under way, and this proposed project will support, together with extensive support from the European Union, to continue that process.

8. Lessons Learned from Past Operations in the Country/Sector

The World Bank has extensive experience in road construction and maintenance in the countries of Central and Eastern Europe, together with numerous other countries around the world. The Bank has learned that the selection of the most appropriate route and road design should be based on careful economic analysis of the alternative routes, and only construction that promises to yield a rate of return higher than the normal threshold of 12 percent should be undertaken. It has also learned that in most cases maintenance should be given priority over new construction when financing is constrained, except in those cases where the new construction can provide an economic rate of return that matches the potential returns from additional maintenance activity, or there are significant external benefits that are not immediately reflected in the traditional appraisal methods. The strategic nature of this proposed investment would support the assertion of the latter in this case.

9. Safeguard Policies (including public consultation)

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

In accordance with World Bank safeguard policies and procedures for Environmental Assessment (EA, OP/BP/GP 4.01) the project was assigned to Category A and a detailed EA document (see OP 4.01 Annex B, "Content of an Environmental Assessment Report for a Category A Project") was required. In 2003 before World Bank involvement with the project, an initial EA report was prepared by the design consultant. However, OP 4.01 requires independent EA experts not affiliated with the project to implement the EA process. To satisfy this requirement, an independent consultant reviewed and updated the EA in 2004 based on a

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

preliminary alignment and engineering design produced by ITP. This alignment underwent a significant revision, and an updated EA document was prepared by another independent consultant. This latest EA document: (a) fully reflects the current project alignment and design, (b) has been approved by the Albanian Ministry of Environment; and (c) fully complies with World Bank EA policies and procedures as cited above.

Three public consultations were conducted. A consultation to discuss the Terms of Reference for the Environmental Assessment was conducted on June 16, 2003 in Shkodra, June 17, 2003 in Kukes, and on July 22, 2003 in Rreshen. Consultations 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. A 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 EIA was supplied to the Bank on the 23rd May 2006 and formally approved. It was subsequently translated and disclosed publicly on the 3rd June 2006, with an announcement appearing in the “Rilindja Demokratike” newspaper, advising the location of the document for public access. The EIA and RAP were formally transmitted to the Infoshop on the 26th June 2006.

The chief potential environmental issues associated with the project include soil erosion (construction and during use), health effects to construction workers during construction, land disturbance (construction), water pollution (construction and accidental spillage during use), noise (primarily during construction), the perception of an enhanced risk of flooding of residential areas in or near the village of Fushe-Milot. The flooding risk to Fushe-Milot was identified during the second public consultation. An action plan was agreed with the Government to rehabilitate the flood protection walls on the north and south side of the Matit River. The implementation of these works will be supervised during project implementation. All other environmental issues can be readily mitigated with good engineering design and construction practices.

10. List of Factual Technical Documents

Durres-Kukes-Morine Feasibility Study, November 2003, Tecnic Consulting Engineers and Mott/McDonald
Environmental Assessment (EA), November 2003, Tecnic Consulting Engineers and Mott/McDonald
Engineering design of Milot-Rreshen road, April 2004, ITP
Confirmation of the engineering design, 2004, Scott Wilson
Environment Impact assessment for Milot-Rreshen road, February 2004, GRD and Scott Wilson; revised EIA, January 2006.
Engineering design of Kalimash-Morine road, 2005, ITP and SDC
Road Safety Action plan, 2006, SWEROAD

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