

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	[X] A [] B [] C [] FI [] TBD (to be determined)
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1. Country and Sector Background

Country Background

Albania's record 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\$ 2,150¹ in 2006, with 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.

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 NSSD Progress Report for 2004² 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. 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

¹ World Bank (2006a) *Albania: Trends in Poverty and Inequality*, Draft Paper.

² Ministry of Finance, (2005) *NSSD Implementation Progress Report for 2004*, Tirana.

percent in the same year. The one exception is on the railways, where total railway traffic declined by 24.2 percent in the same year, comprising a 15 percent decline in the value of passenger traffic and a 19.3 percent decline in goods traffic.

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). The 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, 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,³ 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.

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.

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 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. The level of recurrent expenditure on the national road network in 2004 amounted to some ALL 2.2 billion⁴ (US\$21 million) only, or 40 percent below the level required to maintain the network in a sustainable state. 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.

The primary emphasis in the road sector is the rehabilitation and upgrading of the existing road network. The ANTP forecasts the capital expenditure needs on the national road network to be ALL 56 billion in total by 2023⁵. 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 included the Milot - Morine road in its base network, so the costs of constructing this road are additional to the above figures.

³ World Bank (2004) *A Framework for the Development of the Transport Sector in South East Europe*, Washington DC.

⁴ Assuming that asphalt repair and partial resurfacing are reclassified as maintenance expenditures.

⁵ 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.

The earlier road investments, mostly donor financed, focused on the main north-south and east-west corridors. The majority of sections is either under preparation or construction, or are been completed. The main priority of the GoA now, consistent with the new National Transport Plan, is the development of the road corridor to Kosovo. The emphasis on this corridor reflects that it is the section of the national highway network which is in poorest condition, on average, that it serves the area of the country with the lowest per capita income, as established by the recent NSSD and Poverty Assessment study, 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 a primary link between Kosovo and the Durres port and therefore would benefit the development of the port by increasing its "hinterland." A Feasibility Study⁶, commissioned by the then Government, investigated the alternatives, and confirmed the viability of constructing a new two lane road along the corridor. This project is financing the construction/upgrading of a section of 26 kilometers between the towns of Milot and Rreshen at the west end of the corridor, together with a link to the main North-South Highway.

2. Objectives of the Project

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.

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 roads 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; and (iii) institutional development and support to improving road safety in Albania.

3. Rationale for Bank Involvement

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, together with the strong dialogue enjoyed with counterparts, and the experience available within the World Bank in large civil engineering projects, endows the World Bank with a key role in the development of the sector. The regard displayed for the World Bank is illustrated by the explicit request from counterparts that the technical assistance for the maritime sector should be included in this project, despite offers from other sources. Also, experience both with large infrastructure projects and output and performance based road maintenance approaches in neighboring countries and elsewhere in the world, provides the

⁶ TECNIC/Mott McDonald (2003) "*Durres – Morine Road Corridor*" Feasibility Study.

World Bank with a comparative advantage in both assisting with this particular project, and acting as a catalyst in attracting other donor finance.

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.

4. Description of the Project

The project will consist of four main components:

Component 1: Construction of the Milot – Rreshen Road [Estimated total cost – US\$44.4 million (€34.7 million), Bank financed US\$15.8 million (€12.4 million)]. This component involves the civil works and consultant supervision to undertake the construction of the three lots of the 26 kilometer Milot - Rreshen section of the Milot - 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, 9.3 meters on the paved area), with a design speed 80 km/hr. The World Bank will co-finance Lots 1 and 2 with the GoA, whilst Lot 3 is expected to be financed by the OPEC Fund⁷.

Component 2: Introduction of Output/Performance Based Maintenance Contracts [Estimated total cost – US\$11.5 million (€9.0 million), Bank financed US\$5.87 million (€4.59 million)]. The second component involves the introduction on a pilot basis of output or performance based road maintenance contracts in two pilot regions, and consultant supervision. This initiative follows the introduction of these approaches in an earlier World Bank project in Serbia, within the region, where provisional indications suggest a significant reduction in unit operating costs.

Component 3: Road Safety Component [Estimated total cost – US\$ 1.2 million (€0.9 million), Bank financed US\$1.2 million (€0.9 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, undertaking a road safety audit on the Tirana – Durres highway, and the provision of necessary goods for the Ministry of Public Works, Transportation and Telecommunication, and the Traffic Police under the Ministry of Interior.

Component 4: Necessary Technical Assistance and Goods [Estimated total cost – US\$ 2.08 million (€1.6 million), Bank financing US\$2.08 million (€1.6 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

⁷ OPEC Fund financing for this lot will be confirmed at appraisal.

maritime by-laws in conformity with EU standards; (ii) undertaking a sector specific fiduciary assessment; (iii) technical assistance to the Project Implementation Team in GRD for a defined term; (iv) training; (v) limited office expenses; (vi) two vehicles for the PIT; (vii) road roughness measuring equipment; and (viii) equipment for counting/classifying motor vehicles on the network.

5. Financing

Source:	(\$m.)
BORROWER	19
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)	20
INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)	5
OPEC FUND	15
Total	59

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 PIT 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 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. The recent announcement of the Minister of Public Works, Transport and Telecommunications of the decision to significantly increase allocations to maintenance expenditures, and the GoA agreement to include a covenant in this project to increase maintenance expenditures by not less than 10 percent each year, in real terms, over the lifetime of the project, represent growing commitment on part of the Government.

The restructuring of the GRD is a priority for the GoA, for which a steering committee has been established within the MPWTT, comprising stakeholders from both the Ministry and GRD, and a draft structure has been defined, and is subject to formal approval. The European Union is also continuing its support to institutional reform in the sector, and will be working with the MPWTT, to implement the agreed reform of GRD, and greatly strengthen the capacities of the institution. A formal condition has been introduced into the loan to ensure that the PIT is adequately staffed and resourced throughout the lifetime of the project.

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

Key lessons learned from past operations and used in preparation of this project include: (i) the need to implement all projects through existing public sector structures; (ii) the need to reduce the transaction costs on counterparts and harmonize donors implementation arrangements, financial management, reporting and evaluation approaches; (iii) the need for improved governance in the sector and introduce the principles of transparency in the use of public resources, increased autonomy and de-politicization of the public administration, supporting decentralization; and strengthening mechanisms to encourage advocacy and voice amongst civil society in the sector; (iv) the need for improved transport infrastructure, the poor state of which "...represents a major constraint to trade, foreign direct investment, tourism, growth, and the provision of social services for the poor."⁸

9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	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]

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

⁸ The Country Economic Memorandum (World Bank, 2004)

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

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