

PROJECT INFORMATION DOCUMENT (PID) IDENTIFICATION/CONCEPT STAGE

Report No.: PIDC46980

Project Name	SUPPORT TO EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE COMPLIANCE PROCESS PROJECT
Region	EUROPE AND CENTRAL ASIA
Country	Albania
Sector(s)	Oil and gas (100%)
Theme(s)	Other accountability/anti-corruption (50%), Participation and civic engagement (30%), Other environment and natural resources management (20%)
Lending Instrument	Lending Instrument
Project ID	P158380
Borrower Name	Ministry of Finance
Implementing Agency	Ministry of Energy and Industry - Albanian EITI Secretariat
Environment Category	C - Not Required
Date PID Prepared	16-Dec-2015
Estimated Date of Approval	15-Dec-2015
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Albania is a small European country with a population of 2.89 million (2014). Albania enjoys a favorable geographic location in South-East Europe and valuable natural resources. Its natural resources include significant hydropower potential, large swathes of fertile agricultural land, over 360 kilometers of Mediterranean coastline with excellent tourism and transport potential, and valuable mining deposits. The country is also close to much larger economies (Greece and Italy) which are important trading partners, hosts of Albanian migrants and sources of investment.

Before the global financial crisis, Albania was one of the fastest-growing economies in Europe, enjoying average annual real growth rates of 6%, accompanied by rapid reductions in poverty. However, after 2008 average growth halved and macroeconomic imbalances in the public and external sectors emerged. The pace of growth was also mirrored in poverty and unemployment: between 2002 and 2008, poverty in the country fell by half (to about 12.4%) but in 2012 it increased again to 14.3%. Unemployment increased from 12.5% in 2008 to 17.3 % in the second quarter of 2015, with youth unemployment reaching 34.2 %. The recovery to growth rates above 3% in 2011 moderated in 2012 and 2013, reflecting the deteriorating situation in the Eurozone and the difficult situation in the energy sector. Growth picked up to 2.1 % in 2014, led by an increase in consumption and private investments. A rebound is expected in 2015, but growth is also expected to stay below the country's potential over the medium term.

Overall, weaknesses in governance and the perception of corruption have long persisted in Albania. The country remains in the bottom of global rankings of corruption perception as measured by Transparency International. In 2014, the country was ranked 110 out of 175 countries. Albania also ranks low in some areas of the Doing Business Index, namely, the areas associated with corruption and the solicitation of bribes. The first legislative steps have been taken (such as the Civil Service Law that came into effect in February 2014) to fight corruption. However, the need to increase transparency and accountability must be a policy priority.

Recognizing the urgency of restoring growth and reducing poverty, the Government moved energetically to begin implementing a medium-term program of fiscal consolidation and financial sector stability that has included clearing public sector arrears equivalent to more than 5 percent of GDP. Concurrently, it has moved forward on structural reforms in energy and pensions that have important impacts on fiscal sustainability as well as growth and inclusion. Initial reforms were also undertaken to improve the investment climate and tackle corruption in public service delivery. The track record of the past year demonstrates the highest level of political commitment to resolve the deep-rooted issues facing the country.

Sectoral and Institutional Context

The contribution of the extractives industries to economic growth is small in Albania but has a strong potential for enhancement, particularly for oil, chromium, nickel and copper. The contribution of the extractive industries to GDP increased to 5.6% in 2012, up from 4.3% in 2011, and significantly up from 2.4% in 2008. The industries' contribution to the State Budget was also up from 1.8% to 2.5% in 2012. It must be noted, however, that the value of the oil and gas production is 3.2 times higher than that of mining. The government's revenue from main benefit streams in 2012 was 8.35 billion Lek, up from 2011's 6.06 billion Lek. Albania's mineral deposits include chromite, copper, iron-nickel, limestone and petroleum. Chromium continues to play a leading role at over 60% of mining production, with China and Switzerland as the two main markets.

The Canadian company Bankers Petroleum, operating onshore in the region of Patos-Marinzha, was responsible for 87% of Albania's oil production in 2014. Crude oil production in Albania began in 1929 with 750 tons of crude oil. After World War II production increased steadily and recorded the highest pick in 1974 with an annual production of 2.25 million tons. In the 80s, oil production fell under 1 million tons per year and did not pick up until 2012. Oil production through petroleum agreements has increased significantly over the last few years. In 2013, the National Agency of Natural Resources reported production of crude oil 1,204 ktoe. Oil produced by private licensees operating in the petroleum sector represented 97% of total oil produced in 2014. This production was extracted mainly from the Patos-Marinzha oil fields, operated by Bankers.

Crude oil export has grown dramatically since 2008's 277 thousand tons to 2012's figure of 1,024 thousand tons. A comparison of 2011 and 2012, however, demonstrates the volatility in the commodities sector. 2011 figures for production value of chromium were US\$143 million which dropped substantially to \$92 million in 2012. In March 2015, the start of exploration at sea for oil and gas was announced and the parliament also passed a new bill on hydrocarbons, in order to grant oil blocks through procedures that boost cooperation between government and investors, avoiding several obstacles and by helping the state, as a regulator, to bring positive effects in the oil market.

To date there has been no gas market in Albania but plans have advanced for the creation of a functioning gas market in the coming years through the Trans Adriatic Pipeline (TAP). TAP will transport natural gas from Shah Deniz II field in Azerbaijan to Europe. The approximately 870 km long pipeline will connect with the Trans Anatolian Pipeline (TANAP) near the Turkish-Greek border at Kipoi, cross Greece and Albania and the Adriatic Sea, before coming ashore in Southern Italy. Accordingly, Albania will become a central transit country for energy security of the European Union, but also for the diversification of gas supply sources, marking the opening of the Southern Gas Corridor (Power) for Europe. TAP is expected to promote the economic development and job creation along the pipeline route, including Albania. With the first gas sales to Georgia and Turkey targeted for late 2018, the first deliveries to Europe will follow approximately a year later.

The European Commission's Western Balkans Infrastructure Facility (WBIF) is contributing 1.1 million Euro for drafting the Gas Master Plan. At the same time, the Government of Albania (GoA) has signed an agreement with SOCAR (National Gas Company of Azerbaijan) to support the development of the Gas Master Plan, while the Swiss State Secretariat for Economic Affairs, as part of its 6.6 million Euro technical assistance project for the gas sector, has committed further support for the Gas Master Plan. The comprehensive medium-term master plan for natural gas is expected to examine all aspects (technical, legal, regulatory, economic, market and social) related to the introduction of a gas system in the country. While the current framework generally allows for the development of the natural gas infrastructure, the Law on Natural Gas Sector adopted in 2008 needs to be upgraded to allow for full transposition of the Third Energy Package. In particular, requirement for unbundling and third party access rules need to be further specified in line with the EU acquis.

The country has proven to be exceptionally rich in renewable energy sources with most of its electricity generated by hydropower plants, but the increased electricity demand has led to regular power shortages, and the country is only exploiting 35% of its hydropower potential at the moment. Recurrent energy shortages due to fluctuations in rainfall, persistently high distribution losses (about 43 percent in 2013), and regulated tariffs below energy costs have resulted in sustained fiscal support from the Government in the form of guarantees for power imports and liquidity injections to the national energy company, KESh. In the distribution sector, low collection rates from households, businesses, and public institutions have contributed to the financial woes of the publicly owned distribution company (OShEE).

The energy sector poses significant fiscal risks. About 98 percent of Albania's energy is generated from hydropower. Recurrent energy shortages due to fluctuations in rainfall, persistently high distribution losses (about 44 percent in 2013), and regulated tariffs below energy costs have resulted in sustained fiscal support from the government in the form of guarantees for power imports and liquidity injections to the national energy generation company. In the distribution sector, low collection rates among households, businesses, and public institutions (78 percent in 2013) have contributed to rising fiscal costs. In response to these challenges, the World Bank through the Power Sector Recovery Project (\$150 million) supports the Government's ambitious reform program in the energy sector. It aims to improve reliability of power supply and financial viability of the power sector. Albania has also made progress in bringing its legal and regulatory framework in the energy sector in line with the EU acquis. During 2014 and 2015 there have been positive developments in the energy sector including improved collection rate. The Law on Energy Efficiency is largely in compliance with the EU acquis. A new draft Energy Efficiency Law largely in compliance with the acquis is being prepared. Further, a new Electricity Law compliant with the

3rd EU Energy Market package was adopted by the Parliament on 30 April 2015. The Government also undertook targeted efforts at reducing bad debt and electricity thefts which significantly improved the liquidity and self-sufficiency of the sector in the first half of 2015.

Relationship to CAS/CPS/CPF

The implementation of EITI could support GoA's efforts for improving governance and enhancing transparency in the mining and oil and gas sectors. Through the implementation of EITI, the government can demonstrate its adherence to an internationally recognized standard and practices of good, open and responsible corporate governance. Greater transparency in production data, licenses, and payments and revenues can boost prospective investors' confidence and enhance competition. This could support Albania in consolidating its credibility with international public and private partners. The preceding EITI grant to Albania funded through the EITI Multi-Donor Trust Fund managed by the World Bank was in line with and supported the World Bank Group's Country Partnership Strategy (CPS) for Albania (FY11-14) (Report No. 54188-AL). EITI implementation in Albania was cited in the CPS (FY11-14) as contributing to the objective of improved business regulations and reduced compliance costs for the private sector.

EITI implementation in Albania is in line with the five-year Country Partnership Framework (CPF) covering 2015-2019, and the Systematic Country Diagnostic (SCD), "Next Generation Albania". The SCD for Albania identifies enhancing governance, transparency, and accountability of government as a fundamental priority in achieving the Bank's twin goals. The continued implementation of EITI in Albania largely contributes to this policy priority of enhancing governance, transparency and accountability in the energy sector. Further, one of the key constraints identified in the SCD were the large regulatory barriers to economic agents that impede growth and job creation. The policy actions recommended for this barrier include cutting the regulatory burden across the board and strengthening the policy, legal and institutional framework. The proposed project will use the EITI platform to strengthen the legal and institutional framework for investments in the mining, oil and gas sectors with the objective of enhancing the overall growth of and transparency in the extractives sectors.

II. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective (PDO) is to enhance the transparency in the extractive sectors in Albania by supporting the implementation of the Extractive Industries Transparency Initiative (EITI).

Key Results

Progress in achieving the PDO will be measured by the following key results indicators:

- a) Improved transparency in the extractive industries as measured by EITI compliance maintained in Albania.
- b) Enhanced capacity of Albania EITI MSG to manage the EITI compliance process, measured by increased percentage of total revenues reconciled in the EITI reports.
- c) Improved capacity to communicate on issues associated with transparency and accountability in the extractive industries measured by increased reporting in the media by journalists compared to the previous year.

III. Preliminary Description

Concept Description

EITI is a global Standard to promote open and accountable management of natural resources. GoA expressed its support to EITI in February 2009, and Albania became an EITI candidate in May 2009. The implementation of the EITI agenda is ensured by a technical Secretariat, which was created by a Ministerial Council's decision on July 07, 2010 and operates under the leadership of a Multi Stakeholder Group (MSG), created by a Decree issued by the Prime Minister in July 21, 2011. The MSG includes representatives of civil society, extractive industries' operators, and government. The MSG is chaired by the Deputy Minister of Energy and Industry.

For GoA, the need to boost the contribution of the extractives sector to economic growth and employment is clear and requires enhancing sector governance to foster private sector investments in large infrastructure projects. While the challenge is significant, substantial progress has already been recorded under the strong leadership of Albania's EITI National Secretariat. After rich debates and stakeholder consultations, innovative sector laws have been promulgated to establish principles of transparency and accountability in the mining sector (Law No. 10304 "On the Mining sector in the Republic of Albania" dated 15 July 2010) and the hydrocarbon sector (Hydrocarbon Law number 7746, dated July 28, 1993 and amended on March 12, 2015). Albania became an EITI compliant in May 2013, after successfully publishing four EITI reports covering the years 2009 to 2012.

In October 2013, the World Bank approved a Trust Fund in the amount of US\$300,000 which was scaled up to US\$420,000 in July 2015 to support the government of Albania's effort to remain compliant to the global standard of accountability and transparency (Albania – MDTF for EITI Post-Compliance Grant). The grant, which will close on December 31st, 2015 enabled Albania to: (i) publish the EITI Reports for 2011, 2012, 2013 and 2014 under the proactive supervision of Albania EITI MSG; (ii) support to the operating costs of EITI National Secretariat; (iii) enhance stakeholders capacity through EITI training; and (iv) develop analytical work, including a study articulating how to include the hydro power sector in the EITI reporting in Albania and a study investigating how to develop IT applications to systemize EITI data reporting.

While reaching compliance with the Global standard necessitated substantial effort and commitment from the Albania EITI MSG and National Secretariat, the challenges ahead remain massive. To make sure that Albania can meet its ambitious objectives of transparency and improved governance, it must: (i) periodically publish EITI reports including the most updated contextual and financial data, covering all extractive industries and the hydropower sector. In addition; (ii) communicate extensively and effectively on the EITI requirements and process, (ii) reach out to all relevant stakeholders in the EITI process and provide them with tailored capacity to engage in the EITI process, (iii) build the analytical and legal work needed to underpin the reform agenda associated the EITI compliance process. The proposed grant is meant to support these critical efforts, the publication of the next EITI reports and other key activities needed to ensure the sustainability and mainstreaming of EITI in Albania.

Project Components

The proposed grant is meant to support critical efforts to help the country maintain EITI compliance. A follow-up grant will be needed to ensure the sustainability and mainstreaming of EITI in Albania.

The signing of key contracts under the proposed project will be needed to trigger access to a follow-on grant.

Component A: EITI Implementation Support (US\$ 150,000). This component will support the activities essential to EITI implementation and to meet Albania's obligations to maintain its compliant status.

- Annual EITI reports for Albania (US\$ 150,000). Recruitment of Independent Administrator (IA) in charge of the preparation of two annual EITI reports covering all extractive industries and for the calendar years 2015 and 2016.

When additional Extractive Global Programmatic Support (EGPS) financing becomes available to Albania, a follow-on project will be prepared with the objectives to use the funds to finance: (i) the set-up of integrated government system for generating EITI data more efficiently, following the option developed in a feasibility study financed under a previous support to EITI implementation (Albania – MDTF for EITI Post-Compliance Grant) (US\$400,000); (ii) a study identifying options to enhance the contribution of the extractive industries to economic growth and employment in Albania; (US\$ 300,000) (iii) a strategy to enhance the participation of the private sector to the petroleum sector and support on-going efforts of the Government to restructure and reorganize the crude oil and petroleum sector (US\$ 300,000). Such strategy and any associated work to this strategy would be prepared in compliance with and taking into account WB's safeguards and related operational policies.

Component B: Capacity Building Activities (US\$ 150,000). This component will support core training on EITI and natural resources management.

- Tailored training for all relevant stakeholders, including Albania's EITI National Secretariat and MSG, government officials, parliamentarians, companies operating in the Extractives Industries (EI), civil society (including NGOs, the media, and youth) on matters related to the extractive industries, EITI Standard, and overall transparency in the sector (US\$ 75,000).
- Advisory services for state agencies and companies operating in the EI to address their particular needs in complying with EITI reporting requirements (US\$ 75,000);

When additional EGPS financing becomes available to Albania, the funds will finance: (i) additional training to deepen Albania's EITI MSG and National Secretariat knowledge of issues associated with resource management (US\$ 50,000); and (iii) tailored training to investigative journalists on the reporting on the EI and EITI (US\$ 50,000).

Component C: Communication and Outreach (US\$ 75,000). This component will support the implementation of the Albania EITI Communication Strategy for the first year of project implementation and will include the following activities:

- Print and visual media outreach campaigns (US\$ 30,000). Support for the EITI National Secretariat to publish and disseminate crucial information on the EITI implementation through radio, TV, and print media outreach campaigns, in order to inform the public on the overall extractives industry, EITI implementation and related events;
- Organization of awareness raising events (US\$ 35,000). Round tables, press conferences, conferences, workshops will be organized to increase the overall understanding of the key issues in

the management of the extractives sectors.

- Internet and social media activities (US\$ 10,000). Support for the management of Albania's EITI website and social media accounts that contains information specifically related to the EITI implementation in Albania as well as wider information on activities related to transparency of extractive industries and hydropower in Albania, as well as global news and trends on EITI implementation experiences from other countries.

When additional EGPS financing becomes available, the funds will be used to finance a second year of implementation.

Component D: Project Management (USD\$ 25,000). This Component will support the first year of project implementation.

- Support to Albania EITI National Secretariat. The project will finance two members of Albania EITI National Secretariat (IT specialist and procurement specialist) on individual consultant contracts to cover specific assignments as needed and provide support for operating costs of day to day activities carried out by the EITI Secretariat, under the oversight of the MSG. GoA covers the costs of national Secretariat staff, office space, office maintenance, internet, phone, banking charges and associated utility costs, while the grant will cover the operational costs associated including travel costs related to the work of the Secretariat and of MSG members.

When additional EGPS financing becomes available, the funds will be used to finance a second year of implementation. Triggers will be added to the Project Paper for the completion of specific actions during this phase before financing for the next phase kicks in.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	0.4	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Extractives Global Programmatic Support			0.4

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