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Report No: { PP1751 }

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF (US\$ 0.40 MILLION EQUIVALENT)

TO

ALBANIA

FOR A

*SUPPORT TO EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE COMPLIANCE
PROCESS PROJECT*

21 December 2015

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 21, 2015)

1 LEK = US\$ 0.01
US\$ 1 =127.99 LEK

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CPS	Country Partnership Strategy
CSO	Civil Society Organization
EGPS	Extractives Global Programmatic Support
EITI	Extractive Industries Transparency
EI	Extractive Industries
FM	Financial Management
GOA	Government of Albania
GA	Grant Agreement
GRS	Grievance Redress Service
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
MDTF	Multi-Donor Trust Fund
METE	Ministry for Economy, Trade and Energy
MSG	Multi-Stakeholder Group
PDO	Project Development Objective
TAP	Trans Adriatic Pipeline
TANAP	Trans Anatolian Pipeline
SCD	Systematic Country Diagnostic
WB	World Bank
WBIF	Western Balkans Infrastructure Facility

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ALBANIA
Support to Extractive Industries Transparency Initiative Compliance Process

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APPRAISAL DATA SHEET

Albania

*SUPPORT TO EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE COMPLIANCE
PROCESS PROJECT (P158380)*

PROJECT PAPER

EUROPE AND CENTRAL ASIA

0000009266

Report No.: PP1751

Basic Information			
Project ID P158380	EA Category C - Not Required	Team Leader(s) Ilhem Salamon	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 01-Jan-2016	Project Implementation End Date 31-Dec-2018		
Expected Effectiveness Date 01-Jan-2016	Expected Closing Date 31-Dec-2018		
Joint IFC No			
Practice Manager/Manager Paulo De Sa	Senior Global Practice Director Anita Marangoly George	Country Director Ellen A. Goldstein	Regional Vice President Cyril E Muller
Approval Authority			
Approval Authority CD Decision			
Borrower: Ministry of Finance			
Responsible Agency: Ministry of Energy and Industry - Albanian EITI Secretariat			
Contact: Telephone No.:	Dorina Cinari 355694047910	Title: Email:	National Coordinator dorina.cinari@albeiti.gov.al
Project Financing Data(in USD Million)			
Total Project Cost:	0.40	Total Bank Financing:	0.00

Financing Gap:	0.00									
Financing Source					Amount					
Borrower					0.00					
Extractives Global Programmatic Support					0.40					
Total					0.40					
Expected Disbursements (in USD Million)										
Fiscal Year	2016	2017	2018	2019	0000	0000	0000	0000	0000	0000
Annual	0.10	0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	0.10	0.40	0.40	0.40	0.00	0.00	0.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Energy & Extractives										
Contributing Practice Areas										
Cross Cutting Topics										
[] Climate Change										
[] Fragile, Conflict & Violence										
[] Gender										
[] Jobs										
[] Public Private Partnership										
Sectors / Climate Change										
Sector (Maximum 5 and total % must equal 100)										
Major Sector				Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %	
Energy and mining				Oil and gas		100				
Total						100				
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.										
Themes										
Theme (Maximum 5 and total % must equal 100)										
Major theme				Theme				%		
Public sector governance				Other accountability/anti-corruption				50		
Social dev/gender/inclusion				Participation and civic engagement				30		

Environment and natural resources management	Other environment and natural resources management	20	
Total		100	
Proposed Development Objective(s)			
The project development objective (PDO) is to assist Albania in implementing its EITI agenda.			
Components			
Component Name	Cost (USD Millions)		
EITI Implementation Support	0.20		
Capacity Building Activities	0.10		
Communication and Outreach	0.07		
Project Management	0.03		
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]	
Does the project require any waivers of Bank policies?	Yes []	No [X]	
Have these been approved by Bank management?	Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []	
Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Description of Covenant			

Conditions				
Source Of Fund	Name	Type		
Description of Condition				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Ilhem Salamon	Team Leader (ADM Responsible)	Senior Oil and Gas Specialist	TTL/ Oil and Gas	GEEDR
Benedicta T. Oliveros	Procurement Specialist (ADM Responsible)	Procurement Analyst	Procurement	GGODR
Jonida Myftiu	Financial Management Specialist	Financial Management Specialist	Financial Management	GGODR
Agnes I. Kiss	Team Member	Regional Environmental and Safeguards Advisor	Safeguards	OPSPF
Daksha Shakya	Team Member	Consultant	Social Development/Operations	GEEX1
Edon Vrenezi	Peer Reviewer	Senior Operations Officer	Operations	LCROS
Elena Segura Labadia	Team Member	Senior Counsel	Legal	LEGLE
Esra Arikan	Safeguards Specialist	Senior Environmental Specialist	Environmental Safeguards	GENDR
Hayat Taleb Al-Harazi	Team Member	Program Officer	Operations	MNARS
Helen Ba Thanh Nguyen	Team Member	Program Assistant	ACS	GEEDR
Hilda Shijaku	Peer Reviewer	Economist	Economist	GMFDR
Nightingale Rukuba-Ngaiza	Counsel	Senior Counsel	Legal	LEGLE
Odeta Bulo	Team Member	Executive Assistant	ACS	ECCAL
Vidya Narasimhan	Team Member	Finance Officer	Disbursement	WFALN
Vivian Nwachukwu-Ironi	Team Member	Legal Analyst	Legal Analyst	LEGCF

Extended Team					
Name	Title	Office Phone	Location		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments

I. STRATEGIC CONTEXT

A. Country Context

1. **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.

2. **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.

3. **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% 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.

4. **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.

B. Sectoral and Institutional Context

5. **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.

6. **The Canadian company Bankers Petroleum, operating onshore in the region of Patos-Marinza, 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 one 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-Marinza oil fields, operated by Bankers.

7. **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.

8. **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.

9. **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*.

10. 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).

11. 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 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.

C. Higher Level Objectives to which the Project Contributes

12. The implementation of the Extractives Industries Transparency Initiative (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 (MDTF) 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.

13. **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 sector.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

14. The project development objective (PDO) to assist Albania in implementing its EITI agenda.

B. Project Beneficiaries

15. Direct project beneficiaries of the project include members of the Albania EITI Multi-Stakeholder Group (MSG), staff of the Albania EITI National Secretariat, operators, and civil society organizations/representatives who will benefit from capacity building activities supported by this project. Trainings to be supported by this project will enable MSG members to better understand the key issues and challenges pertaining to extractive sector development. With enhanced capacity, the MSG can influence positively decisions on sustainable management of the extractives sector in Albania. Further, disclosure of payment and revenue flows between the industry and the government through EITI Reports and analytical work related to the regulatory and legal framework reduces opportunities for corruption and as such the implementation of this project will benefit the wider public in Albania.

C. PDO Level Results Indicators

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

- a) Improved capacity to implement EITI agenda, as measured by EITI compliance maintained in Albania.
- b) Enhanced capacity of Albania EITI MSG to manage the EITI process, measured by increased proportion of discrepancies explained 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. PROJECT DESCRIPTION

A. Project Background

17. 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.

18. 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.

19. 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 the 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 EITI reporting in Albania and a study investigating how to develop IT applications to systemize EITI data reporting.

20. 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) annually 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, (iii) reach out to all relevant stakeholders in the EITI process and provide them with tailored capacity to engage in the EITI process, and (iv) build the analytical and legal work needed to underpin the

reform agenda associated with 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.

B. Project Components

21. 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.

22. **Component A: EITI Implementation Support** (US\$ 200,000). 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.
- *Legal and Regulatory Review* (US\$ 50,000). Recruitment of a local lawyer to identify impediment slowing data collection from State Agencies and Operators in the preparation of EITI reports, and suggest improvements.

23. When additional Extractive Global Programmatic Support (EGPS) financing becomes available to Albania, the funds will 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); and (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).

24. **Component B: Capacity Building Activities** (US\$ 100,000). 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\$ 50,000).
- *Advisory services for state agencies and companies operating in the EI* to address their particular needs in complying with EITI reporting requirements (US\$ 50,000);

25. 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).

26. **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.

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

28. **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 support operational costs incurred by the EITI Secretariat and MSG for travel agreed by the world bank. GoA covers all other operating costs, including the costs of national Secretariat staff, office space, office maintenance, internet, phone, banking charges and associated utility costs.

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

	<i>Activities to be financed under the proposed project</i>	<i>Trigger for additional financing</i>	<i>Activities to be financed under the follow on project</i>
Component A: EITI Implementation	<i>Annual EITI reports for Albania</i>	Contract with Independent administrator is signed.	- government system for EITI data generation; - study identifying options to enhance the contribution of

			the extractive industries to economic growth and employment - strategy to enhance the participation of the private sector to the petroleum sector.
Component B: Capacity Building Activities	-Tailored training for all relevant stakeholders -Advisory services for state agencies and companies operating in the EI	Contract for training to all stakeholders is signed.	- additional training for Albania's EITI MSG and National Secretariat - training to investigative journalists
Component C: Communication and Outreach	- Print and visual media outreach campaigns - Organization of awareness raising events - Internet and social media activities		- Print and visual media outreach campaigns - Organization of awareness raising events - Internet and social media activities
Component D: Project Management	Support to Albania EITI National Secretariat	Contract with IT specialist and procurement specialist are signed	Support to Albania EITI National Secretariat

C. Project Cost and Financing

30. Funding in the amount of US\$ 400,000 will be provided through the EGPS MDTF in the form of a grant. EITI implementation in Albania requires very intensive follow-up with over all the companies reporting. The government of Albania has been co-financing EITI implementation in an amount estimated to be about US\$ 400,000 per year and will continue to provide parallel co-financing going forward to cover majority of the operational and staff costs that is not reflected in the table below.

Project Components	Project cost	Grant Financing	% Financing
1. EITI Implementation Support	200,000	200,000	100%
2. Capacity Building Activities	100,000	100,000	100%
3. Communication and Outreach	75,000	75,000	100%

4. Project Management	25,000	25,000	100%
Total Project Costs	400,000	400,000	100%
Total Financing Required	400,000	400,000	

31. An additional financing will be requested when additional funds become available for Albania through the EGPS MDTF.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

32. **Implementation Arrangements.** The implementation arrangements will remain unchanged from the previous grant agreements. The Recipient of the EGPS MDTF Grant will be the Republic of Albania, represented by the Ministry of Finance. The executing agency will be the Albanian EITI National Secretariat, housed within the Ministry for Energy and Industry. The National Coordinator will, together with the MSG, coordinate the use of the grant according to the agreed procurement plan.

33. Albania' EITI National Secretariat, fully operational since September 2010 with IT, procurement and Financial Management staff, is by now experienced in the field of grant management and execution, understands Bank processes and has proven effective in terms of project delivery. However, considering the procurement environment in the country and the existing procurement capacity, procurement risk rating is moderate.

34. The grant proceeds will be used according to the agreed work plan and related procurement plan. An Implementation Manual will be developed to articulate how the operations planned under the proposed project will be under taken by the Secretariat. The World Bank team (based in Washington and Country Office) will provide technical support during implementation, monitor the operational progress, and provide fiduciary oversight/clearances.

35. **Financial Management arrangements.** The Albanian EITI Secretariat, and its finance department, will be responsible for financial management and disbursements arrangements of this grant. The Secretariat has experience in implementing previous World Bank assisted grants, however employees previously involved in Bank projects have departed. As a result, some weaknesses were observed such as lack of timeliness in submitting IFRs, not correct format followed for IFRs, difficulties with disbursement applications. Therefore, it is required that the finance department staff attend relevant trainings in the area of project financial management, in addition to WB training program. The Albanian EITI Secretariat will be required to prepare and submit separate semiannual Unaudited Interim Financial Reports (IFRs) to account for activities funded under this grant. IFRs for the project are expected to be submitted not later than 45 days after the end of each semester. The financial reports will follow the template used for the

previous grants. Accounting records will be retained in the automated accounting system of EITI secretariat, complimented by additional disclosure tables as may be necessary. The Implementing Agency shall prepare or obtain and keep necessary records and books of accounts which shall adequately identify, in accordance with accepted international accounting standards and practices, the goods and services financed out of the proceeds of the Grant. The project annual financial statements will be subject to an audit by an independent auditor firm based on the terms of reference approved by the Bank. The independent audit firm will be contracted by the Ministry of Finance under “global audit arrangements” for the entire World Bank financed project portfolio.

36. **Disbursement Arrangements:** The grant funds will be disbursed in accordance with the traditional disbursement procedures of the World Bank. Withdrawals from the Grant will be made on the basis of Statement of Expenditures (SOEs) for contracts for goods costing less than the equivalent of US\$50,000 and for consulting contracts (individuals or firms) less than the equivalent of US\$100,000. Documentation supporting expenditures claimed against SOEs will be retained by the Implementing Agency and will be available for review during supervision missions. The funds will be advanced through a Designated Account opened in the Bank of Albania. A bank operational account is maintained in a second level commercial bank to make payments to consultants. It is recommended that the bank account is denominated in the currency of the grant to avoid foreign currency risk.

37. No withdrawal shall be made for payments made prior to the date of the Grant Agreement (GA), except withdrawals up to an aggregate amount not to exceed \$40,000 equivalent may be made for payments made prior to the date of the GA but on or after the date twelve (12) months prior to the date of GA, for Eligible Expenditures under the Project.

38. The summary disbursement table is as follows:

Category	Amount financed by MDTF USD \$	% financed by MDTF
Goods, Consultants Services, Training, Workshops, and Operating Costs under the project	400,000	100%
Totals	400,000	100%

39. The Proceeds of the grant will be used by Albania’s EITI National Secretariat for eligible expenditures as defined in the Grant Agreement and further detailed in the respective annual work plans and budgets. Disbursement arrangement will follow the standard Bank procedures for Investment Lending, for use by the Borrower for eligible expenditures as defined in project Financing/Grant agreements. Financial reporting on disbursement made under the grant will be transactions based reporting and it is expected that the unit will maintain adequate filing and archival system of all relevant supporting documents for review by the Bank’s Financial Management team during supervision mission and also for audit purposes.

40. The Implementing Agency shall ensure that the proceeds of the Grant are used exclusively for the procurement of items identified in the Grant in accordance with sound financial and accounting practices following the World Bank rules.

B. Results Monitoring and Evaluation

41. Monitoring and evaluation will be managed by the Albania EITI National Secretariat. The Results Framework is included in Annex 1 of this Project Paper. The Bank would assist the EITI National Secretariat in tracking performance indicators during regular supervision missions. The EITI Secretariat will also be responsible for overall day-to-day technical supervision of the implementation of the project activities and will benefit from technical input from the MSG to this end.

42. Project monitoring and evaluation will include the following:

- (a) **Status Reports:** With input from the MSG, the EITI National Secretariat will prepare status reports on the implementation of the project activities as part of the terms of the Implementation Grant Agreement. These reports must be submitted on a bi-annual basis (June 30, 2016, December 31, 2016, June 30, 2017, and November 30, 2017) to the World Bank. The goal of status reporting is to ensure timely support and feedback from the GoA on the activities outlined in the Grant Agreement. These reports will also include the status of the Project Results Framework: PDO and Intermediate Results Indicators, when applicable and as contained in Annex 1.
- (b) **Completion Report:** With input from the MSG, the EITI National Secretariat will also prepare a completion report within six months of grant closing, to ensure that the objectives outlined in the Grant Agreement are met and there is a plan for their sustainable continuation.
- (c) **Financial Statements:** The EITI National Secretariat is required to prepare financial statements and interim financial reports that reflect the operations, resources, and expenditures related to the activities detailed in the Grant Agreement. Periodic, independent auditing of financial statements will be included in the Grant Agreement.

V. KEY RISKS AND MITIGATION MEASURES

A. Systematic Operations Risk-rating Tool

Risk category	Rating
1. Political and Governance	L
2. Macroeconomic	L
3. Sector Strategies and Policies	L
4. Technical Design of Project or Program	L

5. Institutional Capacity for Implementation and Sustainability	L
6. Fiduciary	M
7. Environment and Social	L
8. Stakeholders	L
9. Other: Sustainability	M
OVERALL	M

B. Overall Risk Rating Explanation

43. Overall risk is rated Moderate due to moderate sustainability and fiduciary risk.

The small size of the grant, limited scope of activities and well-conceived concept proven over many years of implementation in other countries, limits substantially the potential risks for this operation. However, even with mitigation measures, two risk categories have been rated Moderate leading to an overall Moderate risk rating: Fiduciary and Sustainability. The sustainability of EITI process in Albania is largely dependent on the cooperation between the MSG and the National Secretariat. It is important to clarify the responsibilities of the AlBEITI MSG and the AlBEITI National Secretariat in order to ensure that both entities function seamlessly and complement each other. The AlBEITI MSG must function as a high level committee in charge of making policy reviews and decisions which are expected to affect all stakeholders. The MSG should thus include members who are widely recognized as a representative/member of their respective stakeholder groups (including Civil Societies Organizations, Government Officials, State Agencies and sector operators) with the capacity to act on their behalf. The grant will, therefore, include the following mitigation measures: (i) A stakeholders mapping will be undertaken by the Bank with support from the Recipient at the start of the proposed grant, in order to verify and confirm membership in the MSG. (ii) All members of the MSG will be evaluated annually by the Leader of the MSG to continue their membership. The annual evaluation will, among other criteria, consider the quality of participation throughout the implementation of the annual work plan. (iii) As the MSG decides on the EITI work plan and evaluates its execution, MSG members will be ineligible to bid for activities financed under this grant in order to avoid obvious conflict of interest. (iv) AlBEITI Secretariat is the implementing agency. As such, it should perform and be responsible for the procurement, financial and technical management of the activities financed under this grant.

44. Further, GoA is committed to remaining EITI compliant and to provide the necessary resources to ensure that EITI Reports are produced on time. There is a moderate risk that funding for the uninterrupted implementation of EITI will not be available once this programmatic approach comes to a close. The Bank will work closely with GoA and other donors in ensuring that adequate resources are made available to ensure continuity of the EITI process in Albania. In regards to the moderate fiduciary rating, the ECA Regional Procurement Maximum Thresholds, effective January 2, 2014 (revised February 10, 2015) will apply.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

45. The proposed Project is a technical assistance project supporting GoA's efforts in the EITI implementation by funding the EITI Reports, capacity building of stakeholders in the extractive industries sector, and outreach activities. As such, the Project has a very limited scope aimed at enhancing the overall transparency of payments and revenues in the mining and oil and gas sectors. While the Project is expected to have substantial benefits for improving the governance of the sector and indirectly improving the business environment and efficiency of public financial management, the attribution of those potential benefits to this level of technical assistance is very distant. As such, the traditional cost benefit analysis is not an adequate tool for assessing the potential economic benefits of this small grant.

B. Technical Issues

46. The activities financed by this grant are all part of the EITI work plan, which was approved by Albania's EITI MSG and EITI International Secretariat. The Work Plan is part of the established and well proven practice of EITI implementation.

47. The funding needs identified in the Work Plan stem from requirements of the EITI Standard, which is an authoritative source approved by the EITI Board on how countries implement EITI. These are all essential for Albania to retain its compliant status to the global standard of transparency and accountability.

C. Financial Management

48. The fiduciary arrangements will be carried out by Albania's EITI National Secretariat. The Bank performed a simplified financial management assessment of this proposed project in accordance with OP/BP 10.00 and the Financial Management (FM) Practice Manual (issued by the Financial Management Sector Board in March 1, 2010). It was concluded that the recipient agency has an adequate financial management system in place that can provide, with reasonable assurance, accurate and timely information on the status of the funds as required by the Bank.

49. Overall, the project is relatively small and has a straightforward design and planned activities. However, to ensure that the required FM arrangements are maintained, most contracts will be prior reviewed by the World Bank. However, the project would allow for direct purchases. The grant will be transferred to a dedicated account.

50. The overall FM risk-rating assigned to this project at appraisal stage is low. The financial management system will monitor the project's financial risk during project implementation.

D. Procurement

51. Procurement of goods and works and selection of consultants shall be conducted in accordance with: (i) "Guidelines: Procurement of Goods, Works, and non-Consulting Services Under IBRD Loans and IDA Credits & Grants by WB Borrowers," dated January 2011 (revised July 2014); (ii) "Guidelines: Selection and Employment of Consultants Under IBRD Loans and

IDA Credits & Grants by WB Borrowers," dated January 2011; and (iii) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006, and revised in January 2011 (revised July 2014). Most of the grant funds for this Project, will fund consultant services. There is substantial global experience in the Bank and other EITI Implementing countries with standard requirements and terms of references for similar tasks and, therefore, the procurement work load will be relatively straightforward.

52. Based on the moderate risk rating, the ECA Regional Procurement Maximum Thresholds, effective January 2, 2014 (revised February 10, 2015) will apply. The related link is: <http://intresources.worldbank.org/INTECACOSUPROC/Resources/ECA-Regional-Thresholds.pdf>.

E. Environment and Social (including Safeguards)

53. The proposed Project is a technical assistance grant of a limited scope with activities that do not have any likely adverse environmental or social impacts. Funding of the EITI Report and training and other capacity building activities are aimed at improving the transparency of payments and revenues in the extractives sector. All TORs prepared for this technical activity study will meet the Bank's safeguard policies. Therefore, per OP 4.01 Environmental Assessment, the proposed project is classified as a Category C Project.

F. World Bank Grievance Redress

54. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Country: Albania

**Project Name: SUPPORT TO EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE COMPLIANCE PROCESS
PROJECT (P158380)**

Results Framework

Project Development Objectives

PDO Statement

The project development objective (PDO) is to assist Albania in implementing its EITI agenda.

These results are at | Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values										
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target	
EITI Compliance Maintained (Yes/No)	Yes	Yes	Yes	Yes								Yes
Increased proportion of discrepancies explained (Yes/No)		Yes	Yes	Yes								Yes
Increased reporting in the		Yes	Yes	Yes								No

media by journalists on EITI and the extractive industries compared to the previous year (Yes/No)											
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Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values									End Target
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	
EITI Reports completed and published in a timely manner (Number)	4.00	5.00	6.00	7.00							7.00
EITI training plan for MSG members and Secretariat staff adopted and implemented (Yes/No)	No	Yes	Yes	Yes							Yes
Percentage of female representation on the MSG (Percentage)	30.00	35.00	40.00	45.00							45.00
Number of activities targeted at	0.00	2.00	4.00	6.00							6.00

MSG, CSOs, media and/or parliamentarians . (Number)											
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Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
EITI Compliance Maintained	Albania maintains compliance to the EITI Standard	Annual	Status Report	EITI National Secretariat
Increased proportion of discrepancies explained	Based on information from the Independent Administrator, evaluation of increased proportion of discrepancies explained in EITI reporting from state and private companies	Annual	EITI Report	EITI National Secretariat
Increased reporting in the media by journalists on EITI and the extractive industries compared to the previous year	The Communications Officer of the EITI National Secretariat to track stories on EITI and extractive industries on a monthly basis and provide cumulative figures for annual reporting	Annual	Status Report	EITI National Secretariat

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
EITI Reports completed and published in a timely manner	EITI report is finalized by the consultant, approved by MSG and published.	Annual	EITI Report	EITI National Secretary
EITI training plan for MSG members and Secretariat staff adopted and implemented	MSG members and EITI National Secretariat staff receive various technical training from the EITI International Secretariat, technical Experts, and other EITI national Secretariats	Annual	Status Report	EITI National Secretariat
Percentage of female representation on the MSG	EITI National Secretariat to refer to MSG meeting notes and membership to report on this indicator on the status report	Annual	Status Report	EITI National Secretariat

Number of activities targeted at MSG, CSOs, media and/or parliamentarians.	Organization of training and awareness raising events for dissemination of information on EITI in Tirana and other cities in Albania	Annual	Status Report	EITI National Secretariat
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