

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

Report No.: PIDA524

Project Name	Water Resources and Irrigation Project (P121186)
Region	EUROPE AND CENTRAL ASIA
Country	Albania
Sector(s)	Flood protection (50%), Irrigation and drainage (50%)
Lending Instrument	Specific Investment Loan
Project ID	P121186
Borrower(s)	
Implementing Agency	Ministry of Agriculture, Food and Consumer Protection, Ministry of Environment, Forestry and Water Administration
Environmental Category	B-Partial Assessment
Date PID Prepared	11-Sep-2012
Estimated Date of Appraisal Completion	14-Sep-2012
Estimated Date of Board Approval	27-Nov-2012
Decision	

I. Project Context

Country Context

1. Albania has undergone rapid economic development and has recently joined the middle income group countries. During 1998-2010 Albania's economy grew at an average rate of 6 percent, higher than any other European country. At the same time, inflation remained subdued, and the exchange and interest rates were stable. Unemployment went down considerably (from 17 percent to 12.8 percent) and the poverty headcount rate halved from 25.4 percent in 2002 to 12.4 percent in 2008. Since mid-year 2011, however, Albania's external economic environment has deteriorated significantly, as a result of which growth rate and revenue projections have been cut sharply. Fiscal adjustments are required to bring public debt to a sustainable level and to maintain macroeconomic stability to avoid facing the prospect of having to make painful adjustments later.

2. Much of the growth over the past decade was attributable to a shift of workers from agriculture to services and manufacturing. This inter-sectoral redeployment of labor from low to higher productivity sectors was welcome, but it can only be a temporary means of converging to the income levels of the European Union (EU). This inter-sectoral shift will eventually come to an end and increasingly growth will have to come from intra-sectoral productivity increases. Moreover, the post-crisis global economic environment will make the objective of sustaining rapid growth even more challenging. Consequently, much stronger efforts than in the past will be needed to eliminate the obstacles that are stifling productivity and investment, and to enhance the competitiveness of Albanian agriculture.

3. The Government of Albania (GOA) recognizes that weak governance and institutions are formidable obstacles to intra- and inter-sectoral productivity growth. Addressing these weaknesses is a requirement for continued long-term sustainable growth and poverty reduction, as spelled out in the 2007 National Strategy for Development and Integration (NSDI). The strategic goals of the NSDI are: (i) integration in the EU; (ii) strengthening the rule of law and democratization; and (iii) achieving rapid and sustainable economic and social development. The GOA has recently applied for EU candidate status, but recognizes that fulfillment of conditions and requirements to achieve candidate status present the biggest challenge in the medium term. This is particularly true for the EU Water Framework Directive (WFD), as Albania's water sector is facing a number of serious challenges.

II. Sectoral and Institutional Context

4. The project is fully aligned with the Albania Country Partnership Strategy (CPS) for the Period FY11–FY14. Specifically, under Strategic Objective 1: Accelerating the recovery in Albania's economic growth through improved competitiveness, the CPS identifies the need to improve infrastructure services in irrigation, and to make these more sustainable. The CPS refers to the Water Resources and Irrigation Project (WRIP) to support rehabilitation of the national irrigation network, to address upstream safety and efficiency of irrigation reservoirs, to introduce more efficient water distribution mechanisms and consolidate recent reforms in irrigation system management and cost recovery.

5. In preparation for project implementation, the Ministry of Environment, Forestry and Water Administration (MEFWA) and the Ministry of Agriculture, Food Security and Consumer Protection (MAFCP) recently prepared Position Papers (PPs) that summarize the Ministries' views on the water resources and irrigation sectors, and that will, during project implementation, be converted into a national policy for Integrated Water Resources Management (IWRM) and a national policy for Irrigation and Drainage (I&D), respectively. The PPs include a comprehensive and updated overview of the sector, describe the role and functions of its main stakeholders, identify key sectoral obstacles affecting productivity and growth, and define the main directions for the development and modernization of the sector.

6. Flooding and droughts are recurrent events in Albania, especially in the last two decades. During the recent large floods of December 2010, 14,000 ha in Shkodra were inundated due to heavy rains and high levels of the Drin river. Flooding has worsened in recent decades as a result of deforestation, overgrazing, and erosion, combined with a lack of maintenance of drainage canals and pumping stations. In addition, river management programs were discontinued and water levels in reservoirs were lowered in response to dam safety concerns, worsening the risk of flooding. Drought in summer and flooding in winter is expected to be exacerbated as a result of climate change (see box 1). Albania is among the

countries that are most exposed to climate change and water resources will be particularly impacted, including the magnitude and frequency of catastrophic flooding events.

7. As a result of Albania's recent rapid economic growth, increase in population and urbanization, seasonal water shortages and water abundance have magnified serious weaknesses in the management of Albania's water resources. The main weaknesses in IWRM, as identified by the PP and confirmed by an institutional review of the water sector, include the high level of fragmentation of water resources management in Albania. A cross-sectoral institutional framework with broad stakeholder involvement in IWRM is missing, and responsibilities for IWRM are not clearly divided, duplicative and sometimes contradicting. Investment decisions related to water are often made on the basis of single sector considerations, leading at best to suboptimal investments and lost opportunities for capturing multi-purpose benefits, and at worst to a waste of limited public resources. In an environment of economic development and against the backdrop of climate change, these institutional weaknesses have become one of the key obstacles to growth. They also constitute Albania's most important challenge in meeting the EU's accession requirements as they relate to water, as embodied in the WFD.

8. To avoid increased demand for water from turning into a water crisis, in view of satisfying WFD requirements for EU accession, and in order to remove some of the obstacles to sectoral growth, poverty reduction and food security, Albania will need to significantly strengthen its current policy, institutional and strategic framework for IWRM, including a clear allocation of responsibilities, an effective institutional framework for decision making and enforcement, and strengthened capacities for IWRM of key stakeholders. Doing so will help Albania allocate water between sectors in a more rational and accountable manner, on the basis of which sectoral investments decisions can be made in a more rational way, capturing multi-sectoral benefits of investments in water.

9. Although Albania is favored by water resources and an annual average rainfall of 1,485 mm, the fact that about 20 percent of the total of rainfall falls during the summer period makes irrigation indispensable. An estimated 360,000 ha have been equipped for irrigation, 280,000 ha for drainage and 130,000 ha for marine flood protection, but in 2009 only 80,000 ha was irrigated (22 percent of the equipped area). About 626 agricultural dams provide 0.56 billion cubic meters (m³) of water for irrigation purposes mainly during the hot and dry summer season. Irrigation is the country's largest consumptive water user – and by far its least efficient.

10. Based on a Public Expenditure and Institutional Review (PEIR) of the I&D sector conducted during preparation, the sector also consumes a considerable share of public resources which is required to maintain, upgrade and operate the I&D infrastructure and secure the safety of the irrigation dams and flood protection systems. Since 2000, aggregate expenditure in I&D exceeds US\$240 million. However, much of the I&D infrastructure in Albania is degraded due to years of neglect. The Bank has been the main partner of the GOA in modernizing the I&D system and institutions, with three consecutive projects between 1994-2009, amounting to US\$112.4 million.

11. The I&D PP identifies the main weaknesses in I&D sector governance, including (i) poor quality of I&D service delivery; (ii) poor condition of I&D infrastructure, with many canals and pumping stations no longer operational and many dams exhibiting safety concerns; and (iii) weak capacities of Water Users Organizations (WUOs) with poor Operation and Maintenance (O&M) cost recovery. Much of the I&D sector operates in a vicious cycle of poor cost recovery, low quality of I&D service delivery and deferred maintenance.

12. In response to these challenges, and in accordance with the NSDI, MAFCP's PP proposes to allocate a more important role to Local Governments (LGs) in I&D management to take advantage of their close proximity to farmers. In addition, the PP proposes to pilot outsourcing of the delivery of I&D services to private operators.

III. Project Development Objectives

The Project Development Objective (PDO) is to (i) strengthen the Government's capacity to manage water resources at both the national level and in the Drin-Buna and Semani river basins and (ii) sustainably improve the performance of irrigation systems in the project area.

IV. Project Description

Component Name

Dam and I&D Systems Rehabilitation
 Institutional Support for Irrigation and Drainage
 Institutional Support for Integrated Water Resources Management
 Implementation Support

V. Financing (in USD Million)

For Loans/Credits/Others	Amount
Borrower	0.00
International Bank for Reconstruction and Development	40.00
SWEDEN Swedish Intl. Dev. Cooperation Agency (SIDA)	5.00
Total	45.00

VI. Implementation

A. Partnership arrangements

38. The project will be co-financed by the Swedish Government. The Swedish Government has agreed to co-finance US\$ 5.0 million which will be used to support the activities outlined in Component 3 on IWRM. This financing is in line with Sida's Strategy for Development Cooperation for Albania (January 2009-December 2012). The focus of the Swedish support is on two sectors: (i) democratic governance and human rights; and (ii) natural resources and environment. The specific objectives for the sector of natural resources and environment include increased Albanian administrative capacity at national and local levels for dealing with natural resources sustainably in the long run and

increased capacity for the sustainable use of the country's water resources. The Swedish Government will either extend the span of the current strategy until 2013 or start the preparation process for a new cooperation strategy, where integrated management of water resources remains a priority area.

39. Sida will also co-finance an IBRD/GEF financed Environmental Services Project (ESP - scheduled to start in 2014) that aims strengthen community based natural resource management planning and implementation. That project will pilot payments for environmental services that sustainable forest and pasture management provides to downstream users, such as reduced sedimentation of reservoirs. The project will facilitate negotiations between down-stream beneficiaries (irrigation, hydropower, water supply companies) and up-land managers.

40. WRIP and ESP have a number of common aims, with opportunities for developing combined activities and building synergy for enhanced impact. Areas for potential collaboration include: reducing maintenance costs of dam and other water infrastructure by encouraging infrastructure owners to work together with upland resource managers for sustainable upland resource management; developing outreach activities to both downstream beneficiaries and upstream communities; and contributing to the development of sound institutions and policy framework for both water and land management.

B. Institutional and implementation arrangements

41. MEFWA and MAFCP will be the lead Implementing Agencies for the project, responsible for project management of activities relevant for each of the ministries. A Project Steering Committee (PSC), co-chaired by the Minister of MAFCP and the Minister of MEFWA will be maintained to ensure inter-institutional coordination and provide overall project oversight. Members of the PSC will include representatives of the DBs, RBCs, WUOs, LGs relevant for the project area, MOF and other stakeholders. Each implementing agency will house a Project Management Team (PMT) consisting of Project Coordinator, Project Manager, Procurement Specialist, Financial Management Specialist, a Monitoring and Evaluation (M&E) Specialist, and Technical Specialists. The Project Coordinator will be the General Director of the General Directorate for Land, Water, and Services (GDLWS) in MAFCP, and the General Director of GDWA in MEFWA. The Project Managers will be appointed staff of each general directorate. Each Ministry has also appointed an M&E Specialist from among its staff within the relevant General Directorates. Each of the PMTs will be supported by local consultants for Procurement and Financial Management. To ensure coordination at the operational level, a Technical Committee including Project Coordinators and Project Managers of each Ministry, as well any additional staff of the PMTs as necessary, will be established.

C. Results Monitoring and Evaluation

42. The project implementing agencies, MAFCP and MEFWA, will be responsible for the preparation and implementation of the M&E program. In particular, one staff of each ministry PMT will be appointed to carry-out M&E activities. The PMTs will be supported by a consultancy planned under Component 4 that will be engaged to set up the project's MIS, based on the agreed Project Outcome Indicators and targeted annual performance objectives (presented in Annex 1), that will be used to track progress in implementation activities. Inputs will be also provided through baseline surveys, carried out as project preparation activities, and additional surveys scheduled for mid term and end of the project.

43. Progress will also be monitored through regular reporting by the PMTs and through joint Bank and Sida implementation support missions. Findings of M&E activities will provide feed-back during project implementation. The data collected will be presented in semi-annual progress reports, to be shared with the Bank and Sida, prior to missions. These progress reports should also include a chapter reporting on safeguards (progress on the ESMPs and RAPs). Technical and environmental audits of the works carried out during the project will also provide inputs to the progress reports.

D. Sustainability

44. Concerns about sustainability include four distinct levels:

(a) Financial viability of IWRM: adequate financial resources need to be made available to RBCs and RBAs to satisfactorily perform their responsibilities. Public resources have been allocated so far, but these have been inadequate to ensure high quality management of water resources. Over time, IWRM will need to be funded through water resource fees that will be paid by water users. However, in the short- and medium-term, adequate allocations from the public budget need to be made. This will provide RBAs and RBCs with an opportunity to demonstrate the added value of their services to customers in view of longer-term cost recovery objectives. The project will address the sustainability of IWRM by strengthening capacities, assisting RBAs and RBCs in the identification and implementation of their workplan (focusing on service delivery to customers), pursuing institutional reforms and helping MEFWA and GDWA to ensure that adequate public resources are being allocated to MEFWA and GDWA, respectively.

(b) Financial viability of I&D: a key concern associated with I&D is the insufficient allocation of resources to public I&D services and the inadequate recovery from farmers of private O&M costs. As a result, many irrigation schemes, not only in Albania, are faced with a vicious cycle of inadequate resources, poor I&D service delivery and limited willingness among farmers to pay. The project will address these concerns by (i) closer involvement of LGs in I&D management and in particular in O&M fee collection; (ii) contractualizing relationships between MAFCP, DBs and WUOs, to clearly define mutual rights and responsibilities; (iii) strengthening capacities of LGs in revenue and expenditure management, asset management and capital investment planning; and (iv) piloting involvement of private operators in providing high quality, accountable and transparent I&D services.

(c) Environmental and social sustainability: an Environmental and Social Framework Document (ESFD), drafted during project preparation, has identified key measures to mitigate any adverse environmental and social impacts of the project. A generic ESMP and sample site specific ESMPs for a number of dams have been prepared and will be prepared for each investment in dam and I&D rehabilitation. An RPF has been prepared and RAPs will be prepared for each of the investments. ESMPs and RAPs will identify specific measures that will need to be taken. Most of these will be reflected in the construction contracts, and adequate resources have been allocated for implementation of additional measures. The project will follow up diligently on the implementation of these ESMPs and RAPs.

(d) Climate Change: during project preparation, the Bank team has taken advantage of a detailed climate change study that was

undertaken in Albania. Many of the recommendations have been incorporated into the project, including (i) improved institutional framework and enhanced capacities for managing water resources; (ii) investments in dam safety; (iii) investments in irrigation and drainage infrastructure; and (iv) improved reliability of I&D service delivery.

VII. Safeguard Policies (including public consultation)

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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

VIII. Contact point

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