

Document of
The World Bank

Report No: ICR00001422

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(TF052981)

ON A

GLOBAL ENVIRONMENT FACILITY GRANT

IN THE AMOUNT OF US\$4.87 MILLION

TO

ALBANIA

FOR AN

INTEGRATED WATER AND ECOSYSTEMS MANAGEMENT PROJECT

June 11, 2010

Sustainable Development Department
Southeast Europe Country Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS
(Exchange Rate Effective February 1, 2010)

Currency Unit = Lek
Lek 1.00 = US\$0.01
US\$1.00 = Lek 100

FISCAL YEAR
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

BOD	Biological Oxygen Demand
CAS	Country Assistance Strategy
CTW	Constructed Treatment Wetlands
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EU	European Union
EMPF	Environmental Management Plan Framework
GEF	Global Environment Facility
IPA	Instrument for Pre-Accession (of the European Union)
IWEMP	Integrated Water and Ecosystems Management Project
KfW	Kreditanstalt für Wiederaufbau (Germany)
MoE	Ministry of Economy
MEFWA	Ministry of Environment, Forestry and Water Administration
MoF	Ministry of Finance
MoTAT	Ministry of Territorial Adjustment and Tourism
MPWTT	Ministry of Public Works, Transport and Telecommunications
NRW	Non-Revenue Water
NWRC	National Water Regulatory Commission
NWSS	National Water Supply and Sanitation Strategy
O & M	Operations & Maintenance
PIU	Project Implementation Unit (in the MPWTT)
PO	Private Operator
WWTP	Wastewater Treatment Plant

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ALBANIA
Integrated Water and Ecosystems Management Project (IWEMP)

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A. Basic Information			
Country:	Albania	Project Name:	Integrated Water & Ecosystems Management Project
Project ID:	P075156	L/C/TF Number(s):	TF-52981
ICR Date:	06/14/2010	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	ALBANIA
Original Total Commitment:	USD 4.9M	Disbursed Amount:	USD 4.8M
Revised Amount:	USD 4.9M		
Environmental Category: B		Global Focal Area: M	
Implementing Agencies: Ministry of Public Works, Transportation and Telecommunications			
Cofinanciers and Other External Partners: European Investment Bank (EIB) European Union (EU) - Instrument of Pre-Accession (IPA)			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	02/12/2002	Effectiveness:		07/27/2004
Appraisal:	10/31/2003	Restructuring(s):		
Approval:	03/25/2004	Mid-term Review:	03/10/2008	04/16/2008
		Closing:	12/31/2009	12/31/2009

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Unsatisfactory
Risk to Global Environment Outcome	High
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Satisfactory	Government:	Unsatisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Moderately Satisfactory	Overall Borrower Performance:	Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	Moderately Satisfactory
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
GEO rating before Closing/Inactive status	Moderately Unsatisfactory		

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Central government administration	10	10
General water, sanitation and flood protection sector	8	8
Sewerage	82	82
Theme Code (as % of total Bank financing)		
Access to urban services and housing	28	28
Biodiversity	29	29
Environmental policies and institutions	14	14
Pollution management and environmental health	29	29

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Philippe H. Le Houerou	Shigeo Katsu
Country Director:	Jane Armitage	Orsalia Kalantzopoulos
Sector Manager:	Wael Zakout	Sumter Lee Travers
Project Team Leader:	Michael John Webster	Andreas Rohde
ICR Team Leader:	Michael John Webster	
ICR Primary Author:	Klas B. Ringskog	

F. Results Framework Analysis

Global Environment Objectives (GEO) and Key Indicators(as approved)

The development objective of the GEF/EIB project is to improve the municipal wastewater services in the coastal cities of Durres, Lezha and Saranda. The global environmental objective is to improve the health and habitat conditions of globally significant marine and coastal ecosystems along the coastline of Albania in an integrated manner.

Revised Global Environment Objectives (as approved by original approving authority) and Key Indicators and reasons/justifications

(a) GEO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Improved health of posidonia oceanic (seagrass) meadows			
Value (quantitative or Qualitative)	No system for monitoring	Monitoring system established in 3 cities		Partially achieved.
Date achieved	03/30/2006	12/31/2009		12/31/2009
Comments (incl. % achievement)	Baseline established in 3 cities (Shengjin, Sarande and Durres) - future monitoring possible.			
Indicator 2 :	Improved biodiversity in Kune Vain Managed Area regarding flora and fauna			
Value (quantitative or Qualitative)	Limited baseline information available	Improved selected short term indicators: # of breeding wetland bird species (> 12); # of wintering water birds (>3000); recovery of estuarine forests		Partially met. # of breeding wetland bird remained unchanged around 12; # of wintering birds around 1,500; recovery of estuarine forests can be seen in Kune forest and some parts in Vain saplings of Mediterranean oak trees
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	Baseline established for birds - wintering birds and typical breeding wetland birds.			

achievement)				
Indicator 3 :	Decrease nutrient load caused by the wastewater to the marine environment in the project area and the Kune Vain tidal marshland as follows: Nitrogen: 115t/a; Phosphorus: 32 t/a			
Value (quantitative or Qualitative)	To be determined through monitoring under the project.	Decrease in nutrient load		Not achieved, since WWTPs are not operative.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	To be monitored once the three WWTPs/CTWs are operational.			
Indicator 4 :	Integrated Management Plan implemented for Kune Vain Managed Area.			
Value (quantitative or Qualitative)	No MP for Kune Vain Reserve	MP approved and implemented; capacity for MP implementation in place		Partially achieved.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	MP prepared and submitted to government, but not yet approved or implemented at time of project closing.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Wastewater collection and discharge in the participation cities improved			
Value (quantitative or Qualitative)	Baseline to be established	Wastewater collection and discharge in the participation cities improved.		Not achieved. Monitoring will commence when CTWs become operational.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	CTWs will not be operational by the time of Project closing so no improvements in wastewater collection and discharged will be realized.			
Indicator 2 :	CTW constructed and operational.			
Value (quantitative or Qualitative)	TBD through monitoring under the project.	CTW constructed and operational.		Not achieved, not completed at time of project closing.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)				
Indicator 3 :	Removal efficiency of CTWs			

Value (quantitative or Qualitative)	TBD through monitoring under the project	50 percent for Total Nitrogen (unfiltered), 25 percent for Total Phosphorus (unfiltered), and 70 percent for BOD5 (unfiltered).		None. To be determined.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	CTWs were not operational by the time of Project closing so it was not possible to measure removal efficiencies of nitrogen, phosphorus and BOD5.			
Indicator 4 :	Number of complaints received by the utilities regarding the operation of the CTW (odor, noise, mosquitoes. etc.)			
Value (quantitative or Qualitative)	TBD through monitoring under the project	Less than 3 percent of customers complaints.		To be determined.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	CTWs are not operational by the time of Project closing. Target expected to be achieved nine months after commissioning of the CTW.			
Indicator 5 :	Adoption of the Kune Vain Management Plan that includes process indicators, stress reduction indicators, and environmental status indicators.			
Value (quantitative or Qualitative)	TBD through monitoring under the project	Adoption of the Kune Vain Management Plan.		Partially achieved.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	MP was finalized based on agreed roadmap with MEFWA but is pending approval and implementation/adoption at time of project closing.			
Indicator 6 :	Implementation of a basic monitoring system of the coastal areas.			
Value (quantitative or Qualitative)	TBD through monitoring under the project	Basic Monitoring System Implemented; capacity for execution in place.		Partially achieved.
Date achieved	05/02/2009	12/31/2009		12/31/2009
Comments (incl. % achievement)	Monitoring system and baseline established for wintering birds.			
Indicator 7 :	Stakeholder consultations for the preparation and implementation of the Kune Vain Management Plan ongoing throughout the lifetime of the project.			
Value (quantitative or Qualitative)	TBD through monitoring under the project	Stakeholders consultations for the preparation and implementation of		Achieved.

		the Kune Vain Management Plan ongoing throughout the lifetime of the project.		
Date achieved	05/02/2009	12/31/2009		12/31/2009
Comments (incl. % achievement)	Kune & Vaine Board operational; stakeholder consultations conducted and public workshops held.			
Indicator 8 :	Environmental Education and Communication Program delivered.			
Value (quantitative or Qualitative)	TBD through monitoring under the project.	Environmental Education and Communication Program delivered.		Achieved.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	Documentary to be used in education and communication program completed; 150 students involved in education program in KVMR.			
Indicator 9 :	Establishment of effective support mechanisms to prevent illegal construction.			
Value (quantitative or Qualitative)	No supporting mechanisms	Number of illegal buildings frozen at 42		Achieved.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	Park Administration generally succeeded to enforce regulations (five buildings attempted, of which two were stopped at foundation).			
Indicator 10 :	Establishment of effective mechanisms to prevent illegal hunting.			
Value (quantitative or Qualitative)	TBD through monitoring under the project.	Number of empty cartridges found: 0 per km, number of wintering water birds > 2,500		Partially met.
Date achieved	05/02/2005	12/31/2009		12/31/2009
Comments (incl. % achievement)	Number of empty cartridges found > 20 per km. Number of wintering water birds < 2,500.			

G. Ratings of Project Performance in ISRs

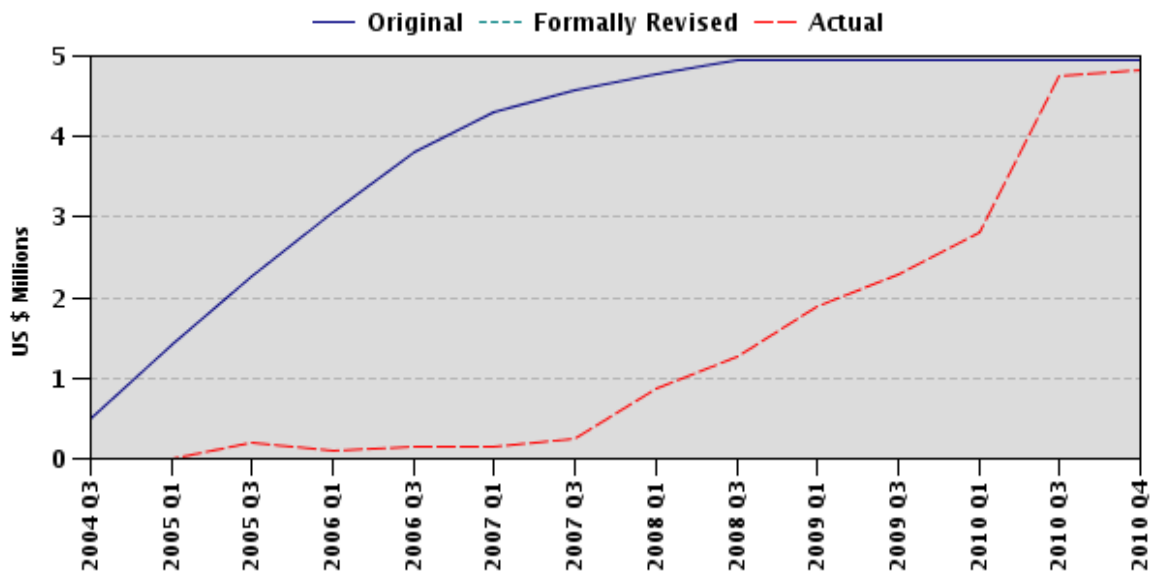
No.	Date ISR Archived	GEO	IP	Actual Disbursements (USD millions)
1	06/09/2004	Satisfactory	Satisfactory	0.00
2	09/14/2004	Satisfactory	Satisfactory	0.00
3	01/07/2005	Satisfactory	Satisfactory	0.20
4	05/04/2005	Moderately Satisfactory	Moderately Satisfactory	0.20

5	04/04/2006	Moderately Satisfactory	Moderately Unsatisfactory	0.15
6	09/11/2006	Moderately Satisfactory	Moderately Satisfactory	0.15
7	03/15/2007	Moderately Satisfactory	Moderately Satisfactory	0.15
8	12/10/2007	Moderately Satisfactory	Moderately Satisfactory	1.08
9	05/25/2008	Moderately Satisfactory	Moderately Satisfactory	1.35
10	11/15/2008	Moderately Satisfactory	Moderately Satisfactory	2.13
11	06/18/2009	Moderately Satisfactory	Moderately Satisfactory	2.36
12	11/07/2009	Moderately Unsatisfactory	Moderately Unsatisfactory	2.83

H. Restructuring (if any)

Not Applicable

I. Disbursement Profile



1. Project Context, Global Environment Objectives and Design

The Integrated Water and Ecosystems Management Project (IWEMP) was originally part of the International Development Association (IDA)-financed Municipal Water and Wastewater Project, but due to the extensive consultation process for the Global Environment Facility (GEF)/European Investment Bank (EIB) project, the World Bank processed the IDA credit in advance of the GEF approval. The IDA-supported Municipal Water and Wastewater Project and the GEF/EIB-supported project, although technically separated into two projects, were still intended to achieve an overarching development objective. The development objective of the GEF/EIB project was to improve municipal wastewater services in the coastal cities of Durrës, Lezha, and Saranda. By achieving this objective the project was to contribute to economic growth in these three tourist cities, the continued prosperity of which depends heavily on a healthy coastal environment. To this end, the EIB-financed conventional wastewater plants in each of the three coastal cities.

The GEF financing was designed to meet the global environment objective of improving the health and habitat conditions of globally significant marine and coastal ecosystems along the coastline of Albania in an integrated manner. These global objectives were to be achieved through: (i) reduction of sewage pollution loads through the development and establishment of low-cost water treatment technologies Constructed Treatment Wetlands (CTWs) producing environmental incremental benefits; (ii) promotion of the establishment and improvement of the management of the Kune Vain protected marshland; and (iii) improvement of the dialogue between public institutions and citizens through a public communications program as well as a program of dissemination and replication of project achievements.

1.1 Context at Appraisal

Albania is endowed with water resources of 8,600 m³ per capita and year. This generous allowance helps the country provide high coverage of water supply and sewerage services. Currently the share of the 3.1 million strong population connected to a piped water network is estimated at 87% for the 65 urban municipalities and 47% in the 309 rural communes, or an aggregate of 74% for the total population. The corresponding coverage of sewerage is 68% in the urban municipalities and 3% in the rural communes.

The relatively high coverage is negated by the poor quality of service. It is estimated that the water *captured at the source* is generally of good quality and only needs disinfection with chlorine. The quality of water *available to consumers at their taps* is an entirely different matter, because service is rarely continuous. While data on water quality are not fully reliable, it is well known that water quality deteriorates due to the intrusion of surrounding polluted groundwater that enters the periodically empty pipe wherever water is intermittent as is the case in Albania. Wastewater management is in a worse state than water supplies. Whatever wastewater collection exists has not been maintained and is often overloaded due to cross-connections with the rainwater drainage causing periodic

flooding of raw sewage. Reportedly there is no well-functioning wastewater treatment plant (WWTP) in Albania.

The underlying cause of this dire state is the weakness of the utilities that are subject to political dominance from local municipal councils and from the central government. At the same time, Albania must improve the safety of its water supplies and wastewater management since the country aspires to gain pre-accession status to the European Union. Pre-accession will demand that the country make significant progress towards the EU Water and Wastewater Directives. The country has relied on foreign donors to finance the investments in the water supply and sanitation sector. The main donors have been the KfW, the EIB, and the World Bank with IDA funding.

Initially, the World Bank group financed two emergency repair projects: (i) the Durres Water Supply Rehabilitation Project (DWSRP), approved in May 1994 (total cost US\$17.6 million, of which US\$11.6 million was financed by IDA and US\$5.5 million by the Government); and (ii) the Albania Water Supply Urgent Rehabilitation Project (WSURP), approved in February 2000 (total cost US\$14.6 million of which US\$10 million was financed by IDA). The World Bank then attempted to focus more on building capacity through financing a Management Contract with investments in Durres, Fier, Lezha, and Saranda under the Municipal Water and Wastewater Project (MWWP) in an amount of US\$15 million. The Integrated Water and Ecosystems Management Project became the fourth World Bank project within a ten-year span. It addressed the need for sustainable wastewater management and environmental improvements and took advantage of EIB financing of conventional wastewater treatment in Durres, Lezha, and Saranda and of a GEF grant to introduce innovative, low-cost treatment through Constructed Treatment Wetlands. The intent was to be able to count on the improved capacity to operate and maintain the wastewater systems offered by the expected presence of a private Management Contractor.

1.2 Original Global Environment Objectives (GEO) and Key Indicators

The Project Appraisal Document (PAD) specifies the project development objective (PDO) of the GEF/EIB project as “to improve the municipal wastewater services in the coastal cities of Durres, Lezha and Saranda.” The global environmental objective (GEO) is to improve the health and habitat conditions of globally significant marine and coastal ecosystems along the coastline of Albania in an integrated manner. The GEF Grant Agreement shortens the wording of the objective of the Project to read “to improve the municipal wastewater services in the Recipient’s coastal areas.” For the purposes of the ICR the PAD wording of the objectives has been retained since it makes a clear distinction between the PDO related to wastewater services and the GEOs.

The key performance indicators were to remove 50% for Total Nitrogen (N), 25% for Total Phosphorous (P), and 70% for Biological Oxygen Demand (BOD5) in the wastewaters from the three participating municipalities.

1.3 Revised GEO (as approved by original approving authority) and Key Indicators, and reasons/justification

The GEOs were not changed although the values of performance indicators related to two GEOs were modified during the Mid-Term-Review as follows:

GEO, original	GEO, revised	Reason for change
1.Improved health of posidonia oceanic (seagrass) meadows: biomass per surface unit; shoot density, epiphyte growth and area covered.	Monitoring of posidonia oceanica (seagrass) meadows	Sea grass is a suitable long-term indicator. Even with 100% successful implementation it is not expected that effects on seagrass become visible within project lifetime
2. Improved biodiversity in Kune Vain Managed Area regarding the following flagship Classes: Malachofauna, Herpetofauna, Avifauna, and Mammalia.	Improved biodiversity in Kune Vain Managed Area regarding flora and fauna	<p>End-of-project target values have been reduced to three basic short-term biodiversity indicators as follows.</p> <p>Improved baseline for selected short-term indicators:</p> <ul style="list-style-type: none"> ● # of breeding wetland bird species (>12); ● # of wintering water birds (>3000); and ● recovery of estuarine forests (increased area with Quercus robur saplings). <p>These were the most realistic changes expected within the (short) lifetime of the project. Changes of other taxa like Malachofauna, Herpetofauna and Mammalia have long-term perspective.</p>

1.4 Main Beneficiaries

The beneficiaries from the project were expected to comprise three groups: (i) at the global level the beneficiaries would be all those affected by transboundary pollution into the Adriatic Sea which is currently endangering numerous species in the coastal and marine environment. The reduction of pollution loads of BOD, Nitrogen and Phosphorous were expected to favor global biodiversity; (ii) at the regional level the beneficiaries were expected to be those who were expected to replicate the use of constructed treatment wetlands as a low-cost technology for nutrient reduction; and (iii) at the local level the resident population and the temporary tourists were expected to benefit from a cleaner environment with the concomitant benefits in the form of improved health, accelerated and sustained economic growth because of a cleaner environment, and aesthetic benefits from the improved management of wastewaters.

1.5 Original Components *(as approved)*

Project component 1: Sewage pollution reduction, estimated to cost US\$15.79 million, (94% of total), was expected to be financed by the GEF in an amount of US\$3.96 million for creating a total of 92 hectares of constructed treatment wetlands in proximity of the urban areas of Durres, Lezha, and Saranda; and by the European Investment Bank (EIB) in an amount of US\$11.15 million for sewage collectors to connect the existing sewerage systems in Durres, Lezha, and Saranda and bring the sewage to pretreatment facilities to be built to enhance the performance of the natural system, and by the Government of Albania to finance land, taxes and duties in an amount of US\$0.68 million. The pre-treatment in this context stood for conventional wastewater treatment plants. In Durres the chosen technology was activated sludge, and in Lezha and Sarande aerated oxidation ponds. The projected investment costs for these conventional wastewater treatment plants were considerably higher than for the constructed treatment wetlands which was one prime reason for considering the CTW in the first place.

Project component 2: Environmental management and monitoring, estimated to cost US\$0.70 million (4% of total), all of which to be financed by GEF. This component was expected to assist the Ministry of Environment and the Ministry of Agriculture and Food, respectively, to carry out the following tasks: (i) technical assistance to development a Management Plan for the Kune-Vain reserve; (ii) training of staff from the Kune Vain administration and in ministries and NGOs on natural resource management and integrated ecosystems management; (iii) Implementation of priority measures in the Kune Vain Management Plan to improve environmental conditions of the receiving waterways; and (iv) design and implementation of a monitoring program for water quality and biodiversity in the Kune Vain Managed Area and the coastal areas affected by the Project.

Project component 3: Public communication and replication, in an amount of US\$0.13 million (1% of total), all of which financed by the GEF, to finance the following activities: (i) organization of stakeholder activities for the preparation of the management plan for the Kune Vain Managed Area; (ii) design and implementation of awareness campaigns on goals and benefits of integrated ecosystem management; (iii) training and workshops for practitioners and decision-makers on the benefits of constructed wetlands; (iv) environmental education and communication program for local communities; (v) a pilot teachers' training program in ecology and environmental education in selected schools; and (v) technical assistance to develop a replication strategy of the Constructed Wetlands Treatment in Albania and elsewhere.

Project component 4: Project management, monitoring and evaluation, in an amount of US\$0.08 million (1% of total), all of which financed by GEF, to support a Project Implementation Unit (PIU) within the Ministry of Territorial Adjustment and Tourism to implement and monitor the activities under the project. The PIU was to have full responsibility for: (i) procurement, financial management and disbursement related to the activities funded by the GEF grant and the EIB loan; (ii) financial management reporting for the overall project; (iii) monitoring, evaluation and reporting for the overall project implementation; and (iv) coordination with local stakeholders.

1.6 Revised Components

Project component 1: Sewage pollution reduction. The project suffered changes as a result of the need to match substantially higher investment costs with the available financing. At project closing on December 31, 2010, the project's main component (wastewater treatment and sewerage upgrading in Durres, Lezha, and Saranda) remained unfinished due to delays in procurement and in securing financing to cover substantial overruns in the cost of the main civil works contract. The sequence of events that lead to this unsatisfactory outcome is as follows:

- The initial design of the wastewater treatment plants, done by a foreign consulting firm, proved to be deficient and suffered major revisions that lost time and required adjustments in the order of 40% for the contract value of the main civil works contract.
- In view of the cost increases of both the constructed treatment wetlands and of the conventional wastewater treatment plants the planned CTWs were cancelled in Lezha and reduced by 56% in Durres and by 50% in Saranda. The future function of two remaining CTWs will be to “polish” the effluents that will be produced by the two conventional wastewater treatment plants in Durres and Saranda. The performance targets for BOD-removal will be well met by the three conventional WWTP, and the targets for removal of phosphorous and nitrogen may be met if certain adjustments are made in the operation of the plant.
- After the supervision engineer and the Government realized that there was a major cost increase (due to additional items and poor design), the Government established a commission to review a contract amendment, proposed by the supervisory engineer, to finalize the construction. The Bank fielded a specific mission to review the work of the commission and agree a way forward. The agreement of all parties was to: (i) reduce the size of the overrun by Euro 2 million, which resulted in a revised cost of Euro 19.8 million; (ii) reduce the CTW in Durres and Sarande, but still comply with the pollution reduction committed under the GEF (BOD, N, P); (iii) eliminate the CTW in Lezhe as the discharge in Lezhe from the WWTP goes into a natural wetland and expect the nutrient removal performance would be achieved in the natural wetlands; and (iv) take advantage of the European Union Instrument for Pre-Accession (EU IPA) funds already committed in Durres and Lezhe (committed in 2008) to finance the collectors for the influent and therefore shift EIB financing from collectors to finance more of WWTP. This allowed the project to continue and the Government portion to increase modestly to an amount approved by Ministry of Finance (MoF).
- In order to avoid having three completed WWTP without wastewater to treat, funding was secured from the EU IPA program in order to upgrade the sewerage systems and, most critically, build the pumping stations and connecting trunk sewers, to bring wastewater to the WWTP. The IPA-financed works are procured with EU tender rules and have suffered from their initial poor design. At the present time, it is estimated that these works will not be completed until sometime in 2011 for Lezha and Saranda, and sometime in 2012 for Durres. As a consequence, if the three WWTP could be completed by early 2011, conditioned

- on additional financing, they will be without wastewater to treat for six months to two years depending on the plant;
- By securing additional IPA grant funds EIB financing were able to be redirected to finance the escalating construction cost of the three conventional WWTP; however, this in turn deprived the upgrading of existing sewerage systems of the needed funding as the IPA funds were delayed.

Project component 2: Environmental management and monitoring was implemented as planned.

Project component 3: Public communication and replication was partially implemented with respect to consultations in order to promote the adoption a Management Plan for the Kune-Vain Managed reserve

Project component 4: Project management, monitoring and evaluation was implemented with respect to project management, but not with due respect to the monitoring and evaluation of the project.

1.7 Other significant changes

Project component 1: Sewage pollution reduction. The changes in project scale, scheduling and funding allocations have been described in section 1.6. In addition, it should be noted that the delayed and slower project implementation increased project costs, due to inflation. The financing plan was further squeezed by the fact that the US dollar, in which the GEF grant is denominated, depreciated during the implementation period with respect to the Euro in which the project expenditures and contracts were denominated. Project implementation was also slowed by late payments from the Government of Albania of contractual counterpart funds.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

The World Bank financed none of the investments in the IWEMP but was the Implementing Agency for the GEF grant, and relied on EIB financing and on counterpart financing from the Government of Albania to finance the bulk of the investments related to conventional wastewater treatment plants. The IWEMP was originally to have been an integral part of the Municipal Water and Wastewater Project but the need to allow for slower-than-expected processing of the GEF-financed IWEMP caused the World Bank to process the Municipal Water and Wastewater Project alone. The split between the projects might have negatively affected the attention paid to IWEMP. The IWEMP benefited from a GEF project preparation grant, in an amount of US\$350,000, approved in 2002, and that helped prepare the project.

In retrospect, it must be concluded that the project was too ambitious in view of the scarce political support and environmental consciousness that prevailed in Albania at the time. This observation is valid both for the selected novel wastewater treatment

technology (CTW) and for the environmental management component. Albania's coastal areas are continuously under pressure and erection of private houses, tourism facilities as well as industrial complexes is an everyday reality. There is little appropriate spatial planning to steer the informal development. On the institutional level, Albania has not yet established a specialized entity for protected areas management. Management of the reserves is done under the Forestry Directorates that are overextended with this task.

Protected areas regulations have not been enforced properly within the last 20 years and the "free" admittance to the country's natural resources is perceived as a common good. It is not to be expected that this attitude can be changed within the lifetime and restricted means of a five-year project. The importance of a well-managed system of protected areas as well as the importance of coastal wetlands is not readily understood in Albania. Thus the political support for conservation projects in general and the IWEMP in particular was and remains weak.

The project suffered from lack of ownership from side of the Ministry of the Environment, Forestry and Water Administration (MEFWA). The support was further diminished by the fact that procurement for the environmental component 2 was done by the "Water PIU" in the MPWTT. The intention was to have the environmental technical leadership exercised by the MEFWA but this never materialized. Instead it fell on World Bank missions, with the Water PIU in the MPWTT, to supervise the implementation of the project that would have benefited from a strong involvement from the MEFWA.

The same lack of support of the CTW to reduce pollution loads was noticeable. What concerned the city political authorities the most is the lack of a functioning wastewater collection system within their very cities. The project never focused sufficiently on this vital aspect since the attention was mainly on how to prepare, finance and construct the wastewater treatment plants.

The total PIU financing was US\$0.08 million with which funding the PIU was expected to implement, monitor and evaluate a project, the total cost of which was about US\$30 million. However, the same PIU had additional financing under the Municipal Water and Wastewater Project and did not suffer any shortage of funds to supervise both projects, including the IWEMP.

In summary, the ICR rates the quality at entry as "*moderately satisfactory*", given the relative lack of ownership of the country, and the novelty of the project concept in the Albanian socio-economic context.

2.2 Implementation

The project was swiftly declared effective in July 2004, three months after Board presentation. In contrast, the subsequent detailed design and procurement of the main contract to build the three wastewater treatment plants proved time-consuming. Construction did not start until April 2007, three years after Board presentation and was immediately slowed when the consequences of the seriously deficient design became apparent. It became necessary to partly revise the design and adjust the contract sum for a

number of omissions. The complementary design and contract adjustments resulted in two contract addenda of which the second one was only signed in February 2009, i.e., less than one year from the scheduled closing date of December 31, 2009. As a result of the redesign, delayed implementation, and adjustments for omissions, the contract sum rose from Euro 14.4 million to Euro 19.8 million. The renegotiated contract fixed a provisional completion date of September 29, 2010, almost one year beyond the closing date. The World Bank closed the project, as scheduled, which immediately removed the financing of the PIU running costs. At the ICR mission in early February 2010 the main contractor was owed about Euro 3.8 million in overdue payments, and the construction supervision consultants another Euro 0.1 million. In addition, the main contractor had refrained from submitting additional invoices to avoid being liable to pay the Value Added Tax to the Albanian tax authorities without the certainty of eventually being paid by the Government. In view of the substantial unpaid invoices, the Contractor has now slowed project implementation to a minimum to preserve working capital. The conclusion of the main contract to build the three wastewater treatment plants promises to be both uncertain and difficult. In the best of circumstances, the three wastewater treatment plants could be finished by March 2011.

How to transport the wastewater from Durres, Lezha and Saranda to their respective wastewater treatment plants is of equal importance. As noted in section 1.6, the EIB financing, originally intended to finance these works, was instead used to pay for the additional costs of the wastewater treatment plants. At the suggestion of Bank supervision missions, the EU then agreed to provide IPA financing to prepare and implement investments that will intercept the wastewater flows in Durres and Lezha and transport them to the respective wastewater treatment plants that the IWEMP finances.

The Durres and Lezha investments have been tendered but no contract has been signed. The EU supervision consultants have concluded that the designs of the respective investment packages need be modified to correct for deficiencies. Subsequently it will be decided whether negotiations with the indicated bidders are possible or whether the works need be retendered. As a result the completion date for the investments could be the second half of 2011 in the case of Lezha, and late 2012 in the case of Durres. *The upshot is that the respective wastewater treatment plants, even if completed, would not have any wastewater to treat until the second half of 2011 in the case of Lezha and the second half of 2012 in the case of Durres.* The situation in Saranda is better since it is likely that KfW will finance the necessary works to intercept and bring the wastewater to the town wastewater treatment plant.

Subsequent Bank supervision missions repeatedly alerted the Government to the importance of implementing the sewage interception works and bringing the wastewater to the WWTP. The mid-term review took place in April 2008 and concerned itself mostly with the cost overruns for the WWTPs and with the construction of a breakwater that threatened to undo whatever advances had been made to preserve the Kune Vain Managed reserve. The relatively late timing of the MTR was dictated by the fact the wastewater treatment works were only tendered in April 2007.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

Many of the performance indicators for the sewage pollution reduction components lacked a baseline at Board presentation and the expectation was to create the baseline during implementation. In reality, it was not until the mid-term review in early 2008, four years after Board presentation, that baseline values for the performance indicators were established.

2.4 Safeguard and Fiduciary Compliance

Around 42 illegal buildings of different size existed in Kune Vain prior to project entry. The presence of these buildings has been a constant source of disturbance, pollution, illegal hunting and other unauthorized activities and poses a big challenge for future management of the reserve. From the conservation point of view it would be necessary to relocate all of these residents, which is not in compliance with World Bank social safeguard policies, unless a resettlement plan is being prepared. However, Albanian law does not allow legalization of buildings inside protected areas, nor does it foresee compensation for them in case of resettlement. The project financed a due diligence social survey among all affected and presented solution models to the GoA as part of the management plan. The Government and the Bank signed an amendment to the GEF Grant Agreement that, in the absence of the planned but delayed Kune-Vain Management Plan, no structure built prior to the Grant effectiveness date of July 27, 2004 would be demolished; that the Management Plan be subject to the Bank's no-objection to ensure that any adverse impact be mitigated; and that due process be followed if any resettlement take place. Through this amendment the Bank's social safeguards were complied with.

2.5 Post-completion Operation/Next Phase

There are two key aspects of arrangements for post-completion operations. The first concerns the readiness of the Durres, Lezha, and Saranda utilities to prepare to operate and maintain the respective WWTP that they will take over. This condition is moot at present since no WWTP has been completed. However, the main civil works contractor is contractually obliged to operate and maintain the WWTP for one year following completion, during which period he is also obliged to train utility staff in the operations and maintenance of each plant. The second aspect concerns the adoption of the Management Plan for the Kune-Vain Managed Area. A management plan according to international standards has been finalized but has neither been approved nor implemented. As stipulated in the results framework, the preparation was accompanied by extensive stakeholder consultations, workshops and information dissemination. The Kune Vain Management Board was established and convened twice during the lifetime of the project. It is possible that the Management Plan will soon be adopted through the decision of the Council of Ministers, but political delays cannot be excluded. There is anecdotic information that the National Territorial Planning Council has granted permission for new development within the protected area boundaries, as defined by the Management Plan, thus seriously threatening its adoption and implementation, afterwards.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

The relevance of the project development objective of improving sanitation services in the three participating cities is rated ‘high’. The objective of improving wastewater management is aligned with the second pillar of the joint Bank-International Finance Corporation (IFC) Country Assistance Strategy (CAS) for Albania for FY06-09 which focused on improving public service delivery particularly in the social sectors, with outcomes being improved public infrastructure and access to safe water supply and sanitation.

The relevance of the Environmental management component is also rated “high” since it accords with the Government’s concern with sustainable management of natural resources. The relevance is further strengthened by the need to mitigate the effects of two other public investments that have affected the Kune-Vain reserve in particular. The Kune-Vain Marshland is a complex coastal ecosystem historically built up by the sediment load of the Lezha branch of the Drini River. It is comprised of a big variety of typical Mediterranean wetland and coastal habitats, such as estuarine forests, Mediterranean pine tree forests, sand dunes, salt marshes, and shallow water bodies with varying salinity. Historically two major human interventions changed the hydrology of the entire floodplane. The first was the construction of hydro power dams in the 1950-1970s that diverted the major water flow of Drini River towards Shkodra. The second was the establishment of the drainage system in the Drini flood plain. Still, until 1990 the area remained well protected and habitats and wildlife were outstanding. After the collapse of the command economy in 1990 the area deteriorated rapidly. Informal settlement and construction, uncontrolled hunting, logging, over-fishing, pollution, and beach tourism together with inappropriate management resulted in extensive destruction of habitats and withdrawal of wildlife.

3.2 Achievement of Global Environmental Objectives

GEO and Intermediate Outcome Indicators (IOI). The IWEMP aimed at supporting the recovery of the Kune Vain ecosystem by introducing integrated protected areas management. In the original project design a set of environmental parameters was chosen as GEOs to be monitored during project lifetime. GEOs were subsequently simplified during the mid-term review.

- GEO 1: Monitoring of *Posidonia oceanica* (seagrass) meadows. *GEO indicator 1 is fully met by the project.* Baseline conditions of *Posidonia* meadows along the coast of Durrës, Lezha, and Saranda have been investigated, markers for future monitoring have been placed on the seafloor, biometric parameters have been taken, and for the first time in Albania a method of quantifying epiphyte growth on *Posidonia* samples has been applied. The baseline allows monitoring of the seagrass meadows in the coming years. Since *Posidonia* is a long-term indicator with a very slow growth rate, changes cannot be detected before several years of full operation of the WWTPs. It

needs to be stated that no seagrass was found in the coastal waters of Lezha, simply because the sediment composition does not provide the suitable habitat. In addition, it is important to note that even though the monitoring of seagrass was financed under component 2, GEO 1 measures the achievement of activities financed under component 1.

- GEO 2: Improved biodiversity in Kune Vain Managed Area regarding flora and fauna. *GEO indicator 2 is only partly met by the project.* The baseline conditions, as stipulated in the results framework, for birds, mammals, reptiles/amphibians, mollusks, flora, and phytoplankton have been established. Among end-of-project targets only one has been met, namely the natural regeneration of estuarine forests to some extent. Both in Kune forest and at some parts in Vain saplings of Mediterranean oak trees (*Quercus robur*) can be seen. With appropriate management, these forests stand a chance of recovering. However, the potential area of recovery is significantly reduced as a consequence of erosion and intrusion of sea water. It was anticipated that improvement of the management in Kune Vain would reduce stress factors with subsequent recovery of wintering and breeding bird populations. This did not happen. The number of wintering/resting water birds remained low around 1,500, and the number of typical wetland bird species breeding remained unchanged around 12. While attempts to enforce regulations were made by the Park Administration, many stress factors prevail such as daily illegal hunting, ubiquity of fishing boats on all water bodies in combination with illegal hunting by fishermen, uncontrolled access for sports anglers, cars, beach tourists as well as the lack of strictly protected zones with zero access. The quality of the habitats contributes to the lack of recovery, e.g. deforestation leaves almost no space for the re-establishment of breeding colonies for herons, and poor water quality may influence the availability of food for birds.
- GEO Indicator 3: Decrease nutrient load caused by the wastewater to the marine environment in the project area and the Kune Vain tidal marshland as follows: Nitrogen – 115t/a; Phosphorus – 32 t/a. *GEO 3 was not met, since the WWTPs are not operative.* However, it is likely that this indicator will be met if the WWTP/CTW are completed.
- GEO Indicator 4 (IOI 5, and IOI 7): An Integrated Management Plan implemented for Kune Vain Managed Area. *GEO indicator 4 has not been met.* A management plan according to international standards has been prepared and finalized by the end of the project. As stipulated in the results framework, the preparation was accompanied by extensive stakeholder consultations, workshops and information dissemination. The Kune Vain Management Board was established and convened twice during the lifetime of the project but the Management Plan is neither approved, nor implemented. It is likely, that the plan will soon be adopted through the decision of the Council of Ministers, but political delays cannot be excluded. The capacity to implement the plan is not fully in place. The Park Administration would have to be supplemented with at least one or two expert positions, and stronger political support would be needed from the line Ministries as well as from local administrative bodies.
- IOI 6: Implementation of a basic monitoring system of the coastal areas. *IOI 1 is partly met.* The project financed baseline inventories on mammals, birds, reptiles/amphibians, flora, phytoplankton of lagoon water bodies, mollusks, and seagrass. Additionally, a survey on sea turtles has been initiated along the beaches of

Kune Vain and the Patoku-Lagoon. All surveys were conducted by specialists. It was intended to extract a small number of key parameters from each program to create a combined monitoring scheme for Kune Vain to be conducted by the Park Administration on a regular basis. This has only been realized for a very few parameters, in particular the number of wintering/resting birds.

- IOI 8: Environmental Education and Communication Program delivered. *IOI 2 is partly met.* During the project several education activities have been supported. A documentary has been produced and broadcasted on Albanian TV, special broadcasts have been produced for children’s education, students have been brought to the reserve, and stakeholders have been participating on a study tour. The project did not succeed in creating the kind of capacity in the Park Administration, which could make education activities part of their management routine.
- IOI 9: Establishment of effective mechanisms to prevent illegal construction. *IOI 3 was partly achieved.* Throughout project implementation illegal construction remained a serious issue. Repeated attempts to build inside of the reserve were discovered. The Bank team was continuously in dialogue with the key stakeholders in the MEFWA and the Park Administration. Subsequently, the Park Administration succeeded in enforcing regulations and new illegal constructions were demolished by the construction police. Mechanisms are mostly not effective enough to prevent the activities in a very early stage, or sufficient to enforce the rehabilitation of the occupied site. So in every case the ruins, together with an area of filled up and destroyed wetland, remains. It is expected that further attempts to construct in the area will be made, but it is uncertain to what extent the Park Administration is able to withstand the pressure from private investors.

In summary, one GEO indicator was met by the Project, another two GEO indicators were not met, and the remaining indicators were partly met. The ICR rates the achievement of the GEO as “moderately unsatisfactory”. However, in view of the major impact from the (non-project) construction of the unauthorized breakwater at the mouth of the Drini river on the Kune-Vain managed reserve the ICR rates the overall achievement of the GEOs as “unsatisfactory” (see Section 3.5 c).

3.3 Efficiency

The main component, supporting the reduction of sewage flows, was unfinished at the closing date. As a consequence, the Project efficiency is rated “highly unsatisfactory” since this component, accounting for more than 95% of total project costs, involved only costs and but has not yet produced benefits.

3.4 Justification of Overall Outcome Rating

Rating: *Unsatisfactory*

The ICR rates the Overall Outcome Rating “*unsatisfactory*”. The rating is a composite of a “high” relevance, an “unsatisfactory” achievement of the PDOs and the GEOs; and a “highly unsatisfactory” efficiency.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

Not applicable.

(b) Institutional Change/Strengthening

The Environmental Management and Monitoring component contained US\$0.70 million for a series of activities that could have changed and strengthened the local and central agencies and ministries but the ICR estimates that achievements were slight in view of the low amount of funding. Significantly, the Kune Vain Management Plan has not been approved, nor implemented.

(c) Other Unintended Outcomes and Impacts

An example of the weakness of the Park Administration, and of the entire environmental administration of Albania, was the construction of the breakwater at Drini River mouth. At the end of 2007 the Lezha Drainage and Irrigation Board (under the Ministry of Agriculture) utilized state funds to construct a breakwater in combination with dredging works at the river mouth. The construction was unlicensed and neither the Park Administration nor the MEFWA were notified. During several weeks hundreds of truckloads passed through the reserve, bringing crushed stones and boulders, filling up parts of the marshlands to rehabilitate the access road for the construction, interrupting an essential communication channel between Zaje Lagoon and Drini River, filling up marshlands with huge piles of dredging material and finally building a breakwater extending 200 m into the sea.

The MEFWA issued an environmental license after the completed construction and, following a protest from the World Bank team, the Ministry required an EIA. Albanian experts as well the World Bank experts expressed their concerns that the investment might affect the sustainability of the lagoon ecosystem. However, mitigation measures as stipulated in the EIA and requested by the Bank have never been implemented.

The worst expectations of the experts have been confirmed by recent events. The breakwater changed coastal flow patterns that sped up erosion. The entire northern part of the Kune Vain lagoon system is likely to be destroyed. The reported damage so far comprises:

- Removal of the littoral from Drini River mouth to Kune Island, exposing the Kune Lagoon to the sea with subsequent extensive ecological changes;
- Erosion along the inner shoreline of Kune Lagoon;
- Rapid withdrawal of the northern Drini River bank that separated the river from Kune Lagoon;
- Erosion at the southwest corner of Kune Island;
- Flooding of agricultural lands and settlements of Ishull Shengjin at high tide events (as documented in June 2009 and December 2009); and

- Accelerated erosion along the beach area of Shengjin Bay, affecting a huge volume of tourism investment.

Given the severe impact derived from the breakwater together with the incapability of the entire environmental administration to act in an adequate way, the project's outcome objectives were impossible to achieve. Bank supervision mission warned of the negative consequences that could be expected from the construction of the breakwater. Yet, all these warnings were ignored and the Lezha Drainage Board under the Ministry of Agriculture went ahead with the construction, causing the negative fall-out.

While the envisaged objectives were not met, there was some positive project impact. The regular presence of the Bank team in discussions with the various stakeholders, as well as the training activities, strengthened the Park Administration and no doubt reduced illegal construction. By the same token, other enforcement activities improved, especially against illegal hunting, though they are not yet fully effective.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable since the main components were unfinished at the Closing date.

4. Assessment of Risk to Development Outcome

Rating: *High*

The ICR rates the risk to development outcome as "*high*". The risk assessment amalgamates separate assessments of the completion risks, the operating risks and the financial risks. The risk assessment should separate between component 1 (sewage pollution reduction) and component 2 (environmental management and monitoring).

The completion risk is the first and most serious risk to the development outcome. It is already certain the three wastewater treatment plants will not be finished by the contractual completion date of September 29, 2010. However, there is an additional risk they will not be finished, as now estimated, in early 2011. By the same token, there is uncertainty when the necessary IPA-funded works to upgrade and connect the sewerage system to the three WWTP will be completed. The present completion estimate for these important complementary works is some time in calendar year 2012. The completion risk is compounded by the fact that there is at the present time no assured funding of the Project Implementation Unit in the MPWTT since this component was previously financed by the GEF grant. There is an effort underway to find alternative sources of financing of the PIU, but the outcome of this effort was uncertain at the time of the ICR mission.

Once the WWTP are completed there is the risk the three WWTP may not be well operated. The operating risk is considerable since none of the involved utilities has any experience in the operation of conventional wastewater treatment plants. Wastewater treatment is a novelty in Albania and the three WWTP, once operational, would represent the fourth, fifth, and sixth plants in the country. Reportedly, there is no well-functioning

WWTP, attesting to the operational challenge. The activated sludge WWTP in Durres represents a particular problem since it involves digestion of excess sludge which generates explosive gases. The WWTP in Lezha and Saranda would be more robust to operate since they rely on the less sophisticated technology of aerated oxidization ponds.

The risk assessment of the sustainable management of the Kune Vain Protected reserve also signals “high” operating risks in view of the constant infringements of the protected nature of the reserve and of the risks to the sustainability of the shoreline north of the breakwater that was built in blatant disregard to the warnings from ecological experts from Albania and the World Bank.

The financial risks to component 1 (sewage pollution reduction) concern the risks there will not be sufficient funds to operate and maintain the sewerage infrastructure and the three WWTP. Such risks are highly relevant for the Durres activated sludge WWTP that is energy intensive. The ICR rates these financial risks as “high”. Annex 3 provides a full financial analysis of the three utilities that will manage the WWTP in the future. The following aspects are worth noting:

- The Durres, Lezha, and Saranda financial working ratios, i.e. the ratio between cash operating costs (without depreciation) and cash operating revenue, i.e. collections, was 1.33; 1.34; and 0.96, respectively in 2009, after five years of a management contract with an international operator. The conclusion is that, except for Saranda, the utilities lose operating cash and depend on operating subsidies from the central Government which is hardly sustainable considering the difficult budget situation of the MPWTT;
- The collection rates for the three utilities are 0.55; 0.66; and 0.76, respectively. These low rates do not bode well for the three utilities when they will need to add a sewerage surcharge to pay for the operation of the three WWTP; and
- The non-revenue water levels for the three utilities are 71%, 54%, and 85%, respectively. These levels are extraordinarily high and show the inefficiency of the operations and attest to the fact that no utility is financially self-sufficient but depends on continued substantial subsidies from the central Government.

5. Assessment of Bank and Borrower Performance

5.1 Bank

(a) Bank Performance in Ensuring Quality at Entry

Rating: *Moderately Satisfactory*

The ICR rates the Bank performance in ensuring quality at entry as “*moderately satisfactory*”. The rating reflects the assessment that sufficient resources were devoted to preparing the project, but that the project design was overly complicated, particularly with respect to the weak institutional capacity of the three participating utilities and of the Ministry of the Environment.

(b) Quality of Supervision

Rating: *Satisfactory*

The ICR rates the quality of Bank supervision as “*satisfactory*”. There were only two task team leaders during the two years of preparation and five years of implementation. There were at least two supervision missions annually and some components, such as the environmental component in Kune-Vain, were more frequently supervised during visits of highly specialized environmental consultants. The Bank missions left a full record of their work in aide-memoires with early and clear warnings of the risks to orderly project implementation and to development outcome. In particular, Bank supervision missions strongly warned of the risks there would not be sufficient resources to connect the sewerage systems to the respective WWTP; and of the risks that the unauthorized construction of the break water at the mouth of the Drini river would have on the Kune Vain Managed reserve. In the latter case the Bank threatened to suspend disbursements from the GEF grant if (i) an environmental impact assessment were not prepared, and (ii) further breakwater construction were carried out. Both of these demands were honored, and the Bank did not have to pursue the option of suspending the GEF grant disbursements.

(c) Justification of Rating for Overall Bank Performance

Rating: *Moderately Satisfactory*

The ICR rates the overall Bank performance as “*moderately satisfactory*”.

5.2 Borrower**(a) Government Performance**

Rating: *Unsatisfactory*

The ICR rates the Government performance as “*unsatisfactory*” because of the disregard of the warnings that the construction of the Drini river breakwater would have on the Kune-Vain Managed reserve. The ICR also notes the weakness of the Ministry of Environment in addressing the issue and taking ownership of the environmental component of the Project.

(b) Implementing Agency or Agencies Performance

Rating: *Satisfactory*

The ICR rates the performance of the PIU in the MPWTT as “*satisfactory*” whereas the rating of the performance of the MPWTT itself is “marginally satisfactory” in view of the frequent delays in disbursements to finance project implementation.

(c) Justification of Rating for Overall Borrower Performance

Rating: *Unsatisfactory*

The ICR rates the overall Borrower Performance as “*Unsatisfactory*” in view of the breach of the Ministry of Agriculture in constructing the breakwater at the mouth of the

Drini river in spite of the warnings of the likely environmental damage to the Kune Vain Managed reserve.

6. Lessons Learned

Lesson One. It is unrealistic to expect that a country like Albania, with weak environmental support and understanding of the general population and many within the administration, will, within the limited period of a five-year project implementation period, accept and implement best practice of managed and protected nature reserves. As a result, project objectives must be set realistically with due regard to the time needed to change behavior and culture.

Lesson Two. The financial and implementation risks from projects with multiple financing sources cannot be emphasized enough. The IWEMP counted upon financing from the GEF and from the EIB, both of which have their special limitations and requirements as to preparation and implementation. When the risks of underfinanced investments materialized (as a result of the cost increases of the main construction contract) yet a third source, the EU IPA-financing, was brought in to finance critical connecting interceptors to bring wastewater to the WWTP. However, the IPA-funding came with its particular implementation conditions that might have contributed to further delays.

Lesson Three. The role of the World Bank as a convener of financing from several sources (GEF, EIB, and the EU/IPA) is risky since, without its own sizable financing, it is more difficult for the Bank to adjust the financing to changed needs. The decision of the World Bank not to extend the project closing date might have been prompted by the fact the GEF grant was fully committed by the closing date. Extending the Project closing date would have been hard to justify since the Bank would have used its own scarce operating budget to supervise investments financed by other financiers.

Lesson Four. The project name is Integrated Water and Ecosystems Management Project. Yet, the project failed to apply successfully the integrated nature of wastewater projects that require attention be paid to the (i) connection of buildings to the sewerage system; (ii) the collection of wastewaters to secondary sewers in the streets; (iii) the interception of the collected wastewater and conveyance to the wastewater treatment plants; and (iv) the safe and environmentally disposal of the treated effluents.

Lesson Five. It is risky to rely on a Private Operator to solve the many problems that face water supply and wastewater operations. Specifically, the employment of a private operator presumably meant that the Government was planning to rely on private management in the future which in turn means that the IWEMP expected the Management Operator to guarantee sustainable operations of the sewerage system and of the wastewater treatment plants. After the departure of the Management Operator the capacity to operate and maintain the project infrastructure is uncertain, endangering project sustainability.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

No comments were received from the Borrower/Implementing Agencies /Partners of the draft ICR.

(b) Cofinanciers

No comments were received from EIB and the EU on the draft ICR.

(c) Other partners and stakeholders

(e.g. NGOs/private sector/civil society)

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Component 1: Sewage Pollution Reduction	15.79	>30.00	Cost is not final
Component 2: Environmental Management & Monitoring	0.70	0.70	100%
Component 3: Public Communication & Replication	0.13	0.13	100%
Component 4: Project Management, Monitoring & Evaluation	0.08	0.08	100%
Total Baseline Cost			
Physical Contingencies	0.00		
Price Contingencies	0.00		
Total Project Costs			
Project Preparation Facility (PPF)	0.00		
Front-end fee IBRD	0.00		
Total Financing Required	16.70		

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower		3.98	Indeterminate	Indeterminate
EC: European Investment Bank		11.15	17.00	Euro appreciation
Global Environment Facility (GEF)		4.87	4.87	100%

Annex 2. Outputs by Component

See main ICR text

Annex 3. Economic, Financial and Incremental Cost Analysis

(a) Financial Position of the participating Companies.

The three water and sewerage companies in Durres, Lezha, and Sarande are running losses and their operations depend on the government operating subsidy before the start-up of the project implementation. At the closure of the project the financial position of these companies has improved substantially compare to the base year (2002), and yet their operations are still not financially viable (see Table 1 below). Table 1 indicates that the three companies were not able to cover the increased operation and maintenance costs of water and sanitation services from the increased tariffs during the implementation, let alone the payment of the two sub-loans to the Ministry of Finance. In the last year of project completion (2009) the financial position of the three companies did not change from 2008.

Table 1: Profit and Loss Account ('000 Lek)

Profit & Loss	Durres		Lezhe		Sarande	
	2003	2008	2003	2008	2003	2008
Revenues	266,893	446,870	43,942	61,522	25,901	71,026
Operating expenses	373,812	595,423	112,689	83,479	35,499	67,692
EBITDA	(106,919)	(148,553)	(68,747)	(21,957)	(9,598)	3,334
Depreciation & amortization	186,017	65,027	15,787	21,016	31,272	47,373
Operating Result (EBIT)	(292,936)	(213,580)	(84,534)	(42,972)	(40,871)	(44,039)
Financial expenses	113,398	11,581		892		0
Financial revenues	0	0	9	0	24	18
Ordinary result	(406,334)	(225,162)	(84,525)	(43,865)	(40,846)	(44,021)
Extraordinary revenue/expenses	0	0	0	0	0	0
Profit before Tax	(406,334)	(225,162)	(84,525)	(43,865)	(40,846)	(44,021)
Corporate Tax	-	0	-	19		
Net result	(406,334)	(225,162)	(84,525)	(43,884)	(40,846)	(44,021)

Source: KPMG Audit Report

Equally important is the fact that the three companies are incurring capital cash shortage¹ and therefore cannot cover as well capital expenses for replacement and network expansion in the future.

¹ The Capital Cash Shortage is calculated as operating cash shortage minus the depreciation and the net financial expenses.

A summary of the financial performance indicators is presented in Table 2 below.

Table 2: Summary of Financial Performance Indicators

	Unit	2002 (Base Year)	2008	
			PAD	Actual
DURRES				
Domestic water tariff	Lek/m ³	21.0	56.2	38.0
Billed revenues	Lek million	211	809	431
Collected revenues	Lek million	74	679	238
Collection ratio	%	35	84	55
Cash operating expenses	Lek million	350	566	531
Working ratio		4.8	0.8	2.2
Current ratio		1.1	4.0	
Receivables/collected revenues	months	10	2.1	
Payables/cash operating expenses	months	6.2	1.6	
LEZHE				
Domestic water tariff	Lek/m ³	15.0	54.5	39.0
Billed revenues	Lek million	19	135	59
Collected revenues	Lek million	6	112	39
Collection ratio	%	34	83	66
Cash operating expenses	Lek million	43	91	67
Working ratio		6.7	0.8	1.7
Current ratio		0.7	4.1	
Receivables/collected revenues	months	11.0	1.7	
Payables/cash operating expenses	months	1.1	1.7	
SARANDA				
Domestic water tariff	Lek/m ³	15.0	45.3	40.0
Billed revenues	Lek million	13	102	47
Collected revenues	Lek million	5	84	35
Collection ratio	%	34	83	76
Cash operating expenses	Lek million	27	75	61
Working ratio		6.1	0.9	1.7
Current ratio		0.6	2.7	
Receivables/collected revenues	months	15.3	1.8	
Payables/cash operating expenses	months	5.0	1.7	

Source: MWWP, PAD, pg. 55, PICC Review, October 2008, IR, pages 26, 29.

Detailed Analysis.

The failure of the companies to achieve the anticipated financial and operations targets by the end of the project implementation was because they did not accomplish the anticipated measures, as follows: (a) adjusting the tariffs as assumed in the Management Contract (MC) and proposed by the Private Operator (PO), (b) reducing non-revenue water, (c) increasing collection efficiency, and (d) improving electricity and personnel costs efficiency.

Operating Revenues. Table 3 below shows the trend of the water production and sales.² According to the table below, the non-revenue water for the three companies on average was 70% in 2002; while in 2009 it went up to 73%. The water production and sales have increased by around 25% and 13% respectively in 2009 compared with the base year for all three companies.

Table 3: Water production and sales ('000 M³)

Indicator	DURRES		LEZHE		SARANDE	
	2002	2009	2002	2009	2002	2009
1. Water Production	26,950	32,200	2,616	2,244	4,452	8,045
2. Water sales	8,395	9,209	1,157	1,040	661	1,245
3. Non revenue water	69%	71%	56%	54%	85%	85%

Source: *Implementation Completion Report, Independent Reviewer, June 2008, and Monitoring and Benchmarking Unit of the GDWS/MPWTT.*

The increase of the volume of water sales in the three companies is reported by the Independent Reviewer (IR) to be mainly due to the increase of the number of billed customers. The IR Report indicates that the increase of billed customers is: in Durres 69%, in Lezhe 72%, and in Sarande about two times the level of 2002.

The implementation of the metering program is believed to have had reduced water sales. The anecdotal evidence indicates that in Durres, Fier and Sarande during 2nd half of 2007, the metered consumption per family declined on average between 33% and 37% compared to flat rate consumption before meter installation³. The same trend was observed in the decline of the invoiced revenue during the same period. Although the information from the Private Operator reports and the IR reports is limited to make the analysis of the effect of the metered billed consumption for a longer period, the above evidence is a typical result of a metered consumption (at least in short term).

Billing and collection revenues. Based on the volume of water sales increase and of higher tariffs the PAD has assumed a substantial increase of invoiced revenues in the operating revenue. The result would be an increase in utilities' operating revenues to exceed the operating expenses (Table 4 below).

The three companies were able to generate in 2009 more than two times the amount of operating revenue of 2002. Table 4 below shows that, while in 2002 the billed and collected revenues covered 58% and 20% respectively the operating cost, in 2009 the coverage rate went up to 69% and 39% respectively for all three companies.

The main reason for the low collection as reported by the Independent Reviewer and the Private Operator was lack of support by the local authorities to improve collection from

² The base year (2002) reported by the IR differs from what is estimated in the PAD, which uses the KPMG Study's data. The IR data are based on the Base year Data Report prepared by the Private Operator in 2004. The volume/physical assumptions in financial analysis presented in Annex 5, Table 7 of the PAD are given for 2001 and 2007, based on the KPMG Study prepared in 2002.

³ Note, this does not necessarily reflect a literal decrease in consumption, as the flat rate assumed consumption to be 150 l/c/d, but did not measure actual consumption.

domestic customers, which remained at the lowest level of collection rate compared with public and private institutions. The collection revenues of the four utilities were affected by the low-revenue collection from the rural population in the service area, where the communes were unwilling to support the utilities in the revenue collection.

Table 4: Billing and Collections (million Lek)

Indicator	DURRES		LEZHE		SARANDA	
	2002	2009	2002	2009	2002	2009
1. Invoiced revenues	211	437	19	65	13	65
2. Collected revenues	74	234	6	42	5	47
3. Collection rate	35%	54%	34%	65%	34%	73%
4. Operating expenses	350	648	43	87	27	83

Source: Implementation Completion Report, Independent Reviewer, June 2008, and Monitoring and Benchmarking Unit of the GDWS/MPWTT.

Tariffs. Domestic water tariffs although increased in Sarande 54%, in Lezhe 39%, and in Durres 9%, compared with 2003, remain much below the anticipated targets. The main reason was the reluctance of the municipal authorities and of the national water regulator to approve progressively higher tariffs as proposed by the private operator.

Table 5: Domestic Water Tariffs (Lek/m³)

	2003	2008	2009
DURRES			
Actual	35.0	38.0	38.0
LEZHE			
Actual	28.0	39.0	43.0
SARANDE			
Actual	26.0	40.0	40.0

Source: Implementation Completion Report, Independent Reviewer, June 2008, and Monitoring and Benchmarking Unit of the GDWS/MPWTT.

Table 6 below shows that average weighted tariffs in 2008 resulted in 2-3 times the level of 2002, and yet those are below the unit operating costs (Table 6).

Table 6: Tariffs and unit operating costs (Lek/m³)

Indicator	DURRES		LEZHE		SARANDE	
	2002	2009	2002	2009	2002	2009
1. Average weighted tariff	26	47	21	63	9	52
2. Unit operating cost	43	70	46	84	51	67
3. Tariff cost recovery	60%	67%	46%	75%	18%	78%

Source: Implementation Completion Report, Independent Reviewer, June 2008, and Monitoring and Benchmarking Unit of the GDWS/MPWTT.

Operating and maintenance cost. The project implementation expected that the private operator would be able to turn around operating inefficiency of the companies. This did not happen as shown in Table 7.

Table 7: Operating Expenses (million Lek)

Indicator	DURRES		LEZHE		SARANDE	
	2002	2009	2002	2009	2002	2009
Operating expenses	350	647	43	87	27	83
a) Electricity	178	437	23	46	8	35
b) Personnel	101	142	17	31	17	26
c) Chemicals & materials	33	27	2	2	2	3
d) Repair & Maintenance	20	24	0.5	6	0	13
e) Other expenses	18	18	0	2	0	6

Source: *Implementation Completion Report, Independent Reviewer, June 2008, and Monitoring and Benchmarking Unit of the GDWS/MPWTT*

Because the water systems of the four utilities rely on pumped water production, the portion of electricity costs in the operating costs is the highest cost item, accounting for 42% to 67% of operating expenses. The project did not meet the anticipated reduction of the electricity consumption per cubic meter produced. One of the reasons was the higher increase of the electricity price than anticipated at appraisal.

Reducing the share of personnel expenses in the operating costs was another objective of the project, which showed progress at the end of the implementation. Durres, Lezhe and Sarande companies reduced this share respectively from 29% to 22%; 40% to 36%, and 63% to 31% during 2002-2009. This is explained by the improvement of staff productivity ratio as Table 8 shows:

Table 8: Staff productivity ratio and electricity efficiency⁴

Indicator	DURRES		LEZHE		SARANDE	
	2001	2009	2001	2009	2001	2009
1. Utility personnel (No.)	387	481	91	86	94	80
2. Staff /1000 connections	10.4	6.9	28	14.5	37.5	11.5

Source: *PAD MWWP, Annex 5, Table 7, Volumetric/Physical Assumptions in Financial Analysis, pg. 59, and the IR Implementation Completion Report, June 2008. Monitoring and Benchmarking Unit of the GDWS/MPWTT*

(b) Projections of Financial Statements of the three Companies

The projections of financial statements follows on the cost recovery approach of the financial forecasts of the Municipal Water and Wastewater Project⁵ that by the end of the project life span the Companies will become financially viable (Attachment to Annex).

⁴ These assumptions are taken in the PAD for the year 2001 and 2007. The IR data refer to the 5th year (2008) of the MC. The base year for staff productivity ratio for Fier utility is taken the data from IR Report for 2002, because of the additional staff added to the utility after taking over the wells and water production operation.

⁵ According to the financial projections all four utilities were projected to break even in 2007, i.e. their collected revenues would cover 100% operating expenses.

The financial statements forecast for the companies of Durres, Fier and Sarande for the period 2010-2014 has taken the following assumptions.

- Operating cost break-even target⁶ that was assumed to be achieved not later than 2008 under the IWEMP, is moved to 2011.
- Full-cost recovery target, which was assumed to be achieved not later than 2010 under the IWEMP, is moved to 2012.
- The weighted average tariffs level assumed to achieve the cost recovery are adjusted for this projection.
- Collection ratios need to be raised substantially for Durres and Lezhe and slightly less for Sarande from the level of 2009 on.
- Under the IWEMP the debt service was assumed to start in 2008. In this projection, the three companies would have to reschedule the debt service on the sub-loans starting in 2012.
- The sewerage capital investment cost assumed to be financed by EIB loan is going to be financed by EU/IPA grant funds.
- The WWTP capital investment cost for the three cities has resulted about 265% higher than anticipated at appraisal.
- The three WWTPs of Durres, Lezhe and Sarande will start their operations in 2011, but not at full capacity.

The projection of financial statements (Income Statement and Sources and Applications of Funds) will have to be discussed with the respective companies and local authorities to get their views, feedback, and commitments on the measures required to achieve the financial viability targets.

Tariffs for the three WWTPs

The operating cost of the WWTPs was assumed to be covered through their tariffs. The scenario developed is that the WWTPs should be able to cover their cash operating cost through new tariffs from 2011 till 2015 as a first phase towards final sustainable financial viability of their operations. The source of the data is Giovanni Putignano & Figli S.r.l., which is constructing the plants in Durres, Lezhe and Sarande.

The total capital investment costs of the three WWTPs were increased two times compared with the estimation at appraisal. Table 9 below present the final cost of the investment that resulted during the implementation.

⁶ Working ratio not greater than 1.00

Table 9: Capital Investment Cost for WWTP

	Durres	Lezhe	Sarande	Total
CAPEX	10,903,251	4,823,540	4,118,912	19,845,702
Tax & Duties	2,180,650	964,708	823,782	3,969,140
Sub - Total 1	13,083,901	5,788,248	4,942,694	23,814,842
Physical contingency	N/A	N/A	N/A	N/A
Design & supervision	660,660	102,960	94,380	858,000
	13,744,561	5,891,208	5,037,074	24,672,842

Note: Physical contingency at appraisal was assumed 15% of cost estimate, and during the contract amendments was assumed to be included in the CAPEX.

For the estimation of the WWTP tariffs the cash cost recovery approach has been applied to calculate revenue requirements that are needed to cover the cash operating cost during the period 2011-2015, when the plants are expected to be operational. The three plants are expected to work under their capacities over the first five years of operation. The main reason is that a number of households are not connected to the sewage network, and in particular those located in the outskirts of the cities and new hotels, summer houses and restaurants in the beach areas. A detailed assessment of the customer data base of the water supply customers would help to understand the differences between those billed for potable water and for wastewater services. In addition, a physical registration of those properties not yet in the customer data base is required to come up with a sound data information of the sewerage connections investments required in the future

Two cases for tariffs cash cost recovery are developed as follows: (a) 100% recovery for each year starting from 2011 on; and (b) progressively increasing cost recovery for each year, 100% in five years.

Table 10: WWTP Tariffs for Durres, Lezhe and Sarande

Scenario Cash Cost Coverage	2011	2012	2013	2014	2015
DURRES					
Cash O & M expenses (Euro)	487,286	456,601	456,601	456,601	744,208
Hydraulic Load [m ³ /year]	3,504,000	3,504,000	3,504,000	3,504,000	7,358,400
<i>Case A: 100% recovery for each year,</i>					
Weighted average tariffs (euro/m ³)	0.14	0.13	0.13	0.13	0.10
Weighted average tariffs (lek/m ³)	18.8	17.6	17.6	17.6	13.7
<i>Case B: Progressively increasing cost</i>					
recovery for each year, 100% in 5					
years (2015)	50%	60%	75%	80%	100%
Weighted average tariffs (lek/m ³)	9.4	10.6	13.2	14.1	13.7
LEZHE					
Cash O & M expenses (Euro)	181,457	223,101	223,101	223,101	284,475
Hydraulic Load [m ³ /year]	700,800	700,800	700,800	700,800	700,800
<i>Case A: 100% recovery for each year,</i>					
Weighted average tariffs (euro/m ³)	0.26	0.32	0.32	0.32	0.41
Weighted average tariffs (lek/m ³)	35.0	43.0	43.0	43.0	54.8
<i>Case B: Progressively increasing cost</i>					
recovery for each year, 100% in 5					
years (2015)	50%	60%	75%	80%	100%
Weighted average tariffs (lek/m ³)	17.5	25.8	32.2	34.4	54.8
SARANDE					
Cash O & M expenses (Euro)	197,703	237,423	237,423	237,423	308,082
Hydraulic Load [m ³ /year]	700,800	700,800	700,800	700,800	700,800
<i>Case A: 100% recovery for each year,</i>					
Weighted average tariffs (euro/m ³)	0.28	0.34	0.34	0.34	0.44
Weighted average tariffs (lek/m ³)	38.1	45.7	45.7	45.7	59.3
<i>Case B: Progressively increasing cost</i>					
recovery for each year, 100% in 5					
years (2015)	50%	60%	75%	80%	100%
Weighted average tariffs (lek/m ³)	19.0	27.4	34.3	36.6	59.3

Source: Putignano s.r.l

Note: Euro : Lek 135 constant through 2015

(c) Incremental cost analysis

This ICR cannot confirm the achievement of the project goals based on outcome per GEF dollar invested, because the construction of the wastewater treatment plants in Durres, Lezhe and Sarande is expected to be completed and become operational in 2011, while the GEF Grant Funds were fully committed and disbursed following the closing date of the Grant Agreement, i.e. December 31, 2009.

As explained in the previous chapters, this project is a GEF-blended operation; the GEF grant has helped leverage funds from EIB for additional activities related to the construction of the wastewater treatment plants. This constituted the basis for the incremental cost analysis. The incremental cost for achieving sustainable global environmental benefits at appraisal was estimated at US\$11.8 million; this amount has increased to around US\$28.6 million at the closing date of the GEF Grant Agreement. This is expected to be the final cost at the completion of the project in 2011. Of this amount, the GEF portion of financing remains the same amount set out in the Grant

Agreement, while the European Investment Bank will finance US\$17.5 million and the Government of Albania will finance US\$6.19 million⁷, upon the project completion (see Table 11 below).

Table 11: Sources and Financing

	GEF (US\$ million)		EIB (US\$ million)		GOA (US\$ million)		Total (US\$ million)	
	<i>Appraisal</i>	<i>Grant closing</i>	<i>Appraisal</i>	<i>2011</i>	<i>Appraisal</i>	<i>2011</i>	<i>Appraisal</i>	<i>2011</i>
Sewage Pollution Reduction	3.96	4.04	6.29	17.5	0.68	6.19	10.93	27.73
Environmental Management & Monitoring	0.70	0.73	0.0	0.0	0.0	0.0	0.70	0.73
Public Communication and Replication	0.13	0.00	0.0	0.0	0.0	0.0	0.13	0.00
Project Management, M & E	0.08	0.10	0.0	0.0	0.0	0.0	0.08	0.10
Total	4.87	4.87	6.29	17.5	0.68	6.19	11.84	28.56

In spite of the higher incremental cost, the project aims to capture global benefits by reducing land-based pollution from the three cities and protect and restore endangered coastal and marine habitats which will most probably be achieved upon the completion of the wastewater treatment plants in the cities of Durrës, Lezhë and Sarandë. The Removal Efficiency (RE%) set out at appraisal is expected to be achieved upon the completion of the plants⁸ (Tables 12 and 13 below).

Table 12: Quality of wastewater in Durrës, Lezhë, Sarandë after project intervention on Project CTW basic scheme-fully natural solution

Main Parameter	Assumed Sewage Inlet concentration (mg/l)	Expected median of RE %	Expected median Outlet concentration (mg/l)
BOD	250-200	70%	75-60
N-total	60-50	50%	30-25
P-total	27-20	25%	20-15

⁷ This amount does not include the VAT

⁸ Removal Efficiency (RE%) is the ratio of the out-let concentration versus the in-let concentration of the wastewater pollutant.

Table 13: Quality of wastewater in Durres, Lezhe, Sarande after project intervention on Project CTW option with aerated ponds

Main Parameter	Assumed Sewage Inlet concentration (mg/l)	Expected median of RE %	Expected median Outlet concentration (mg/l)
BOD	250-200	85% (range 30%-95%)	50-30
N-total	60-50	75% (range 20%-80%)	15-10
P-total	27-20	65% (range 20%-70%)	15-10

According to the analytical calculation at appraisal, the following Removal Efficiency (RE%) are expected: BOD 70%, and fecal coliform removal of 95%, studies show the CTW are effective at removing nutrients such as nitrogen (Re=50%) and phosphorous (Re=25%).

Attachment to Annex 3

Durres Water And Sewerage Company - Financial Statements (000 Lek)

	Actual		Projection				
	2009	2010	2011	2012	2013	2014	2015
INCOME STATEMENT							
Revenues							
Drinking Water	389,623	479,554	741,810	906,656	1,097,054	1,316,465	1,465,122
Sewerage & WWTP	47,139	58,019	155,532	171,334	194,369	220,915	290,270
Total invoiced revenues	436,762	537,573	897,342	1,077,990	1,291,424	1,537,380	1,755,392
Other revenues	135,774	122,197	44,867	53,900	64,571	76,869	87,770
Total revenues	572,536	659,770	942,209	1,131,890	1,355,995	1,614,249	1,843,161
Collection ratio (%)	54%	60%	89%	92%	93%	94%	95%
Collected revenues	234,001	444,740	843,501	1,045,650	1,265,595	1,522,006	1,755,392
Expenses							
Electricity	437,356	450,477	499,715	502,568	516,905	531,673	565,613
Personnel	141,505	145,750	168,915	175,298	179,936	184,714	193,394
Chemicals and materials	26,866	27,672	32,491	34,696	35,577	36,484	40,443
Repairs & maintenance	24,199	24,925	29,576	34,041	34,835	35,652	49,808
Contract services	8,232	8,479	8,733	8,995	9,265	9,543	9,829
Other cash expenses	10,045	10,346	14,032	14,351	14,681	15,020	15,369
Total cash operating expenses	648,203	667,649	753,462	769,950	791,199	813,086	874,456
EBITDA							
	(75,667)	(7,879)	188,747	361,940	564,795	801,163	968,705
Depreciation	69,678	148,735	202,839	202,839	202,839	202,839	202,839
Provision for bad debt	-	-	98,708	86,239	90,400	92,243	87,770
Total operating expenses	717,881	816,385	1,055,009	1,059,028	1,084,438	1,108,168	1,165,065
Operating result (EBIT)	(145,345)	(156,615)	(112,800)	72,861	271,557	506,081	678,096
Financial expenses	25,506	25,000	25,000	25,000	25,000	25,000	25,000
IDA debt interest and financial charges (at 1.50%)	-	-	46,669	21,205	20,527	18,582	16,491
EIB subloan interest charges to DWSC (at 1.50% upto 2008, 4.85% after)	-	-	81,453	84,778	79,438	74,623	69,809
Total cost	743,387	841,385	1,208,131	1,190,012	1,209,403	1,226,373	1,276,365
Net income before tax	(170,851)	(181,615)	(265,922)	(58,122)	146,592	387,876	566,796
Corporate tax	-	-	-	-	-	-	-
Net income after tax	(170,851)	(181,615)	(265,922)	(58,122)	146,592	387,876	566,796
Sources & Applications of Funds							
Sources							
Net Income	(145,345)	(156,615)	(112,800)	72,861	271,557	506,081	678,096
Depreciation	69,678	148,735	202,839	202,839	202,839	202,839	202,839
Provision for bad debt	-	-	98,708	86,239	90,400	92,243	87,770
Change in working capital	-	-	(20,338)	(9,756)	(10,294)	(12,246)	(7,756)
1) IBRD Loan	562,538	187,513	187,513	-	-	-	-
2) GEF-Grant	224,818	-	-	-	-	-	-
3) GOA -Grant	204,556	68,185	68,185	-	-	-	-
4) GOA -Taxes	170,091	56,697	57,248	-	-	-	-
5) EU/IPA -Grant	-	-	388,596	-	-	-	-
Total Sources	1,086,336	304,516	481,355	352,184	554,502	788,917	960,949
Applications							
1. Capital Expenditures	1,162,003	312,395	701,542	-	-	-	-
2. Debt Service	-	-	227,388	205,250	328,348	321,588	314,683
a) Interest on total subloan including capitalization	-	-	128,122	105,983	99,965	93,205	86,300
IDA Credit	-	-	46,669	21,205	20,527	18,582	16,491
EIB Loan	-	-	81,453	84,778	79,438	74,623	69,809
b) Annual repayment of principal to the Government	-	-	99,266	99,266	228,383	228,383	228,383
IDA Credit	-	-	-	-	129,116	129,116	129,116
EIB Loan	-	-	99,266	99,266	99,266	99,266	99,266
Total Applications	1,162,003	312,395	928,931	205,250	328,348	321,588	314,683
Annual Cash Balance	(75,667)	(7,879)	(447,576)	146,934	226,154	467,329	646,266

Lezhe Water And Sewerage Company - Financial Statements (000 Lek)

	Actuals		Projection				
	2009	2010	2011	2012	2013	2014	2015
INCOME STATEMENTS							
Revenues							
Drinking Water	56,236	66,737	80,752	132,607	145,868	170,687	201,239
Sewerage & WWTP	9,143	11,176	38,425	53,677	56,811	62,289	77,471
Total invoiced revenues	65,379	77,913	119,177	186,284	202,678	232,976	278,710
Other revenues	11,800	10,620	11,918	18,628	20,268	23,298	27,871
Total revenues	77,179	88,533	131,095	204,913	222,946	256,274	306,581
Collection ratio (%)	65%	70%	80%	90%	93%	94%	96%
Collected revenues	42,545	54,539	107,259	186,284	208,759	242,295	295,432
Expenses							
Electricity	46,447	47,840	58,884	62,284	63,807	65,375	69,873
Personnel	30,997	31,927	43,253	45,276	46,292	47,339	50,490
Chemicals and materials	1,597	1,645	2,849	2,899	2,952	3,006	3,061
Repairs & maintenance	6,417	6,610	7,474	10,341	10,552	10,768	14,321
Contract services	-	-	-	-	-	-	-
Other cash expenses	1,813	1,867	4,623	4,681	4,741	4,802	4,865
Total cash operating expenses	87,271	89,889	117,083	125,482	128,343	131,290	142,610
EBITDA							
Depreciation	29,000	29,000	55,975	55,975	55,975	55,975	55,975
Provision for bad debt	-	-	23,835	18,628	14,187	13,979	11,148
Total operating expenses	116,271	118,889	196,893	200,085	198,505	201,243	209,734
Operating result (EBIT)	(39,092)	(30,356)	(65,798)	4,827	24,441	55,031	96,847
Financial expenses	-	15,000	15,000	15,000	15,000	15,000	15,000
IDA debt interest and financial charges (at 1.50%)	-	-	2,002	2,030	1,951	1,765	1,580
EIB subloan interest and financial charges to LWSC	-	-	35,317	36,540	34,049	31,985	29,922
Total cost	116,271	133,889	249,212	253,655	249,505	249,994	256,235
Net income before tax	(39,092)	(45,356)	(118,117)	(48,742)	(26,559)	6,280	50,346
Corporate tax	-	-	-	-	-	-	-
Net income after tax	(39,092)	(45,356)	(118,117)	(48,742)	(26,559)	6,280	50,346

Sources & Applications of Funds	2009	2010	2011	2012	2013	2014	2015
Sources							
Net Income	(39,092)	(30,356)	(65,798)	4,827	24,441	55,031	96,847
Depreciation	29,000	29,000	55,975	55,975	55,975	55,975	55,975
Provision for bad debt	-	-	23,835	18,628	14,187	13,979	11,148
Change in working capital	-	-	(112)	(3,470)	(964)	(1,513)	(1,864)
1) IBRD Loan	238,995	79,665	79,665	-	-	-	-
2) GEF-Grant	96,411	-	-	-	-	-	-
3) GOA -Grant	87,426	29,142	29,142	-	-	-	-
4) GOA -Taxes	75,247	25,082	69,473	-	-	-	-
5) EU/IPA -Grant	-	-	231,685	-	-	-	-
Total Sources	487,986	132,533	192,179	75,961	93,640	123,471	162,107
Applications							
1. Capital Expenditures	498,078	133,889	409,964	-	-	-	-
2. Debt Service	-	-	79,867	81,117	90,920	88,671	86,423
a) Interest on total subloan including capitalization	-	-	37,319	38,570	36,000	33,750	31,501
-IDA Credit	-	-	2,002	2,030	1,951	1,765	1,580
-EIB Loan	-	-	35,317	36,540	34,049	31,985	29,922
b) Annual repayment of principal to the Government	-	-	42,548	42,548	54,921	54,921	54,922
-IDA Credit	-	-	-	-	12,373	12,373	12,373
-EIB Loan	-	-	42,548	42,548	42,548	42,548	42,549
Total Applications	498,078	133,889	489,831	81,117	90,920	88,671	86,423
Annual Cash Balance	(10,092)	(1,356)	(297,652)	(5,157)	2,720	34,800	75,684

Sarande Water And Sewerage Company -Financial Statements(000 Lek)

	Actual		Projection				
	2009	2010	2011	2012	2013	2014	2015
INCOME STATEMENTS							
Revenues							
Drinking Water	57,239	79,127	123,438	149,771	178,014	208,276	240,675
Sewerage & WWTP	7,844	14,594	50,332	62,393	70,196	79,255	99,283
Total invoiced revenues	65,083	93,721	173,770	212,165	248,209	287,531	339,958
Other revenues	14,154	12,739	8,689	10,608	12,410	14,377	16,998
Total revenues	79,237	106,460	182,459	222,773	260,620	301,907	356,956
Collection ratio (%)	73%	78%	85%	89%	92%	93%	95%
Collected revenues	47,499	73,102	156,393	199,435	240,763	281,780	339,958
Expenses							
Electricity	26,482	26,482	38,363	41,399	42,242	43,110	47,330
Personnel	34,590	34,590	46,352	48,493	49,594	50,728	54,041
Chemicals and materials	3,097	3,097	4,850	4,946	5,045	5,146	5,251
Repairs & maintenance	12,923	12,923	13,829	16,301	16,712	17,135	21,640
Contract services	-	-	-	-	-	-	-
Other cash expenses	6,020	6,020	8,901	9,087	9,278	9,476	9,679
Total cash operating expenses	83,112	83,112	112,295	120,226	122,871	125,595	137,941
EBITDA	(3,875)	23,348	70,164	102,547	137,749	176,312	219,015
Depreciation	48,000	48,000	63,543	63,543	63,543	63,543	63,543
Provision for bad debt	-	20,619	17,377	12,730	7,446	5,751	-
Total operating expenses	131,112	151,731	193,215	196,499	193,860	194,889	201,484
Operating result (EBIT)	(51,875)	(45,271)	(10,756)	26,274	66,760	107,018	155,472
Financial expenses	1,836	1,836	1,840	1,840	1,840	1,840	1,840
IDA debt interest and financial charges (at 1.50%)	-	-	2,002	2,030	1,951	1,765	1,580
EIB subloan interest and financial charges to SWSC	-	-	30,197	31,242	29,112	27,348	25,583
Total cost	132,948	153,567	225,252	229,581	224,812	224,077	228,907
Net income before tax	(53,711)	(47,107)	(42,793)	(6,808)	35,808	77,831	128,049
Corporate tax	-	-	-	-	-	-	-
Net income after tax	(53,711)	(47,107)	(42,793)	(6,808)	35,808	77,831	28,049
Sources & Applications of Funds							
	2009	2010	2011	2012	2013	2014	2015
Sources							
Net Income	(51,875)	(45,271)	(10,756)	26,274	66,760	107,018	155,472
Depreciation	48,000	48,000	63,543	63,543	63,543	63,543	63,543
Provision for bad debt	-	20,619	17,377	12,730	7,446	5,751	-
Change in working capital	-	-	(90)	535	159	164	833
1) IBRD Loan	215,426	71,809	71,809	-	-	-	-
2) GEF-Grant	75,133	-	-	-	-	-	-
3) GOA -Grant	68,131	22,710	22,710	-	-	-	-
4) GOA -Taxes	64,255	21,418	44,189	-	-	-	-
5) EU/IPA -Grant	-	-	118,845	-	-	-	-
Total Sources	419,070	139,285	208,782	103,083	137,908	176,476	219,848
Applications							
1. Capital Expenditures	422,945	115,937	257,552	-	-	-	-
2. Debt Service	-	-	68,577	69,651	79,815	77,865	75,915
a) Interest on total subloan including capitalization	-	-	32,198	33,272	31,063	29,113	27,163
-IDA Credit	-	-	2,002	2,030	1,951	1,765	1,580
-EIB Loan	-	-	30,197	31,242	29,112	27,348	25,583
b) Annual repayment of principal to the Government	-	-	36,379	36,379	48,752	48,752	48,752
-IDA Credit	-	-	-	-	12,373	12,373	12,373
-EIB Loan	-	-	36,379	36,379	36,379	36,379	36,379
Total Applications	422,945	115,937	326,130	69,651	79,815	77,865	75,915
Annual Cash Balance	(3,875)	23,348	(117,348)	33,432	58,093	98,611	219,848

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Andreas Rohde	Team Leader/Sanitary Engineer	ECSIE	
Claudio Purificato	Water and Sanitation Engineer	ECSIE	
Arben Bakllmaja	Consultant	ECSIE	
Takao Ikegami	Senior Sanitary Engineer	ECSIE	
Manuel Marino	Water and Sanitation Specialist	ECSIE	
Juderica Dias	Program Assistant	ECSIE	
Rita Cestti	Environmental Specialist	ECSSD	
Hermine De Soto	Social Specialist	ECSSD	
Olav Christensen	Financial Management Specialist	ECSCS	
Junko Funahashi	Counsel	LEGEC	
Rohit Mehta	Finance Officer	LOAG1	
Salim Benouniche	Procurement Specialist	ECSPS	
Ahmet Jehani	Counsel	LEGEC	
Artan Guxho	Project Officer	ECSIE	
Daniele Calabrese	Communication Associate	EXTCD	
Grazia Atanasio	Communications Officer	EXTCD	
Ede Ijjasz-Vasquez	Peer Reviewer/Senior Environmental Specialist	ENV	
Phillip Brylski	Peer Reviewer/Senior Biodiversity Specialist	ECSSD	
Paul Mitchel	Peer Reviewer/Manager	EXTCD	
Maria Teresa R. Lim	Program Assistant	ECSIE	
Susanne Szymanski	Consultant	ECSIE	
Kishore Nadkarni	Financial Analyst	ECSIE	
Jennifer Ngaine	Program Assistant	ECSIE	
Supervision/ICR			
Michael John Webster	Task Team Leader/ Senior Water & Sanitation Specialist	ECSS6	
Lynette Alemar	Senior Program Assistant	ECSSD	
Arben Bakllmaja	Consultant	ECSSD	
Salim Benouniche	Lead Procurement Specialist	MNAPR	
Hermine De Soto	Consultant	EASVS	
Majed El-Bayya	Lead Procurement Specialist	ECSC2	
Elona Gjika	Financial Management Specialist	ECSPS	
Artan Guxho	Projects Officer	ECSS5	
Elda Hafizi	Program Assistant	ECCAL	
Bekim Imeri	Social Scientist	ECSS4	
Enkelejda Karaj	Program Assistant	ECCAL	
Maria Teresa R. Lim	Program Assistant	ECSSD	
Shelley Mcmillan	Water Resources Spec.	AFTWR	
Ida N. Muhoho	Senior Financial Management Specialist	ECSC3	
Norval Stanley Peabody	Consultant	EASIS	
Claudio Purificato	Consultant	EASCS	
Amelito Velasco	Procurement Assistant	ECSC2	
Ulrich Zeidler	Consultant	ECSSD	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY02		40.72
FY03		97.54
FY04		83.61
FY05		-0.02
FY06		0.02
FY07		0.00
FY08		0.00
Total:		221.87
Supervision/ICR		
FY02		0.00
FY03		0.00
FY04		17.92
FY05		79.41
FY06		67.57
FY07		66.37
FY08		98.84
Total:		330.11

Annex 5. Beneficiary Survey Results

Not applicable

Annex 6. Stakeholder Workshop Report and Results

Not applicable

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

No comments were received.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

No comments were received.

Annex 9. List of Supporting Documents

- Country Assistance Strategy for Albania for FY02-05, June 20, 2002
- Country Assistance Strategy for Albania for FY06-09, January 10, 2006
- Project Information Document
- Project Appraisal Document, Report No. 27957, February 24, 2004
- Grant Agreement
- Feasibility studies and Consultants reports (Various)
- Environmental Assessment
- Financial Management Supervision Reports
- Investment Plans (Various)
- Project Management and Audit Reports (Various)
- Aide memoires
- Implementation Status and Results Reports
- Monthly and Quarterly Project Progress Reports

