



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 15-Mar-2022 | Report No: PIDC249299



BASIC INFORMATION

A. Basic Project Data

| | | | |
|------------------------------|---------------------------------------|--|--|
| Project ID | Parent Project ID (if any) | Environmental and Social Risk Classification | Project Name |
| P177130 | | Low | Support to Albania Extractive Industries Mainstreaming Process |
| Region | Country | Date PID Prepared | Estimated Date of Approval |
| EUROPE AND CENTRAL ASIA | Albania | 15-Mar-2022 | |
| Financing Instrument | Borrower(s) | Implementing Agency | |
| Investment Project Financing | Ministry of Infrastructure and Energy | Minister of Infrastructure and Energy Mrs. Belinda Balluku | |

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

| | |
|---------------------------|------|
| Total Project Cost | 0.70 |
| Total Financing | 0.70 |
| Financing Gap | 0.00 |

DETAILS

Non-World Bank Group Financing

| | |
|---|------|
| Trust Funds | 0.70 |
| Extractives Global Programmatic Support | 0.70 |

B. Introduction and Context

Country Context

Albania is a small European country with population of 2.9 million (2018). Albania enjoys a favorable geographic location in South- East Europe and valuable natural resources. Its natural resources include significant hydropower potential, large swathes of fertile agriculture land, over 360 kilometers of Mediterranean coastline with excellent tourism and transport potential, and valuable mining deposits. The



country is also close to much larger economies (Greece and Italy) which are important trading partners, hosts of Albanian migrants and sources of investment.

The transition from a centrally planned to a market-oriented economy, together with abundant international aid and other strategic assistance over the past decades, has helped Albania to make economic progress. Due to strong growth performance, Albania grew from the poorest nation in Europe in the early 1990s to middle-income status in 2008, with poverty declining by half during that period.

The country's economic transformation continues to build on its huge potential and opportunities. However, the global financial crisis exposed the weaknesses of its growth model and highlighted the need to shift from consumption-fueled to investment- and export-led growth. The new model will need to help those with less access to economic opportunities to contribute to and benefit from economic growth.

In order to accelerate the pace of equitable growth, Albania needs to implement structural reforms that will raise productivity and competitiveness in the economy, create more jobs, and improve governance and public service delivery. Enhanced regional connectivity and access to regional and global markets, coupled with export and market diversification, can also help to promote faster growth.

Recognizing these challenges, the Government of Albania in recent years has embarked on a broad-based program focused on macroeconomic and fiscal sustainability, financial sector stabilization, energy concerns, pensions, and territorial administration. Significant progress, propelled by the ongoing reforms, has created the conditions for rebounding business confidence and domestic demand, including early signs of increased investment and an export-led recovery. Maintaining the reform momentum and implementation is critical to Albania's continued economic growth and aspirations for European Union (EU) integration.

Sectoral and Institutional Context

Albania is rich in energy resources such as oil, gas, coal, wood, bitumen, and also enjoys a sizable hydropower potential. Combined they contribute in different ways to meet energy demands in the country. Based on preliminary results published by INSTAT, the industrial sector, excluding processing / refining, accounted for approximately 5.1% of GDP in 2017, and 6.1% in 2018[1]. Based on the data reported by INSTAT, production growth in the energy and extractive sectors during 2017 and 2018 and published in EITI Albania 2017-2018 Report was as follows:

- Electric Energy -32% to 57.6%
- Extractive Industry 4.5% to 7.6%

Crude oil comprised the primary source of energy produced in Albania, measured in *toe* (ton of oil equivalent). Crude oil accounted for 57.7% of domestic energy from primary sources in 2017, and 45.6% in 2018. It is followed by the hydropower sector with representing about 23.4% of energy produced from



primary sources in 2017, and 36.8% in 2018[2]. The difference is mostly due to an increase in power production, rather than a drop in the extraction of crude oil.

Throughout 2017 and 2018, the oil and gas sector counted six companies engaged in crude oil extraction and four companies engaged in exploration activities.

The State participated in the upstream oil sector through direct ownership of Albpétrol, a state-owned enterprise engaged in the exploration, development and production of oil and gas. Albpétrol holds shares as a primary licensee in all oil fields discovered up until 1993. In order to pursue efficient operations, Albpétrol sub-granted its rights to private oil companies. Production of crude oil has more than doubled since 2003, when private oil companies started operating in the sector.

Albpétrol reported domestic crude oil production at 837 thousand tons in 2017, and 794 thousand tons in 2018. Bankers Petroleum, operating in the Patos-Marinza oilfield, extracted about 87% of total crude oil output in both reporting years. Whereas, Albpétrol production accounted for about 10% of domestic output.

Oil produced in the country is mostly exported to be refined abroad. Domestic consumption of refined oil is fulfilled through imported refined oil. As shown in chart 4, exports of crude oil were at ALL 15 billion in 2017 and ALL 21 billion in 2018. Crude oil comprised 33% of total exports from the extractive sector in 2017, and 41% in 2018.

Oil and gas

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Mining sector

As a traditional mining country, Albania has an increasing number of medium, small-scale mining and quarry companies, and only a few large-scale industrial mining companies. In December 2018, AKBN reported approximately 600 mining licenses, out of which 165 licenses were reported as passive and not operating.

As per AKBN reporting, domestic mining output, not including the value added through mineral processing, was estimated at ALL 51.61 billion (USD 433 million) in 2017 and ALL 83.14 billion (USD 770 million) in 2018.



The increase in production value in 2018 is mostly due to the resuming of copper extraction activities in 2018. Chromium represented approximately ALL 25 million of the total production value. 2017 and 2018 noted an increase in the domestic processing of chromium, leading to larger exports of ferrochromium.

Mining sector employment, not including processing, accounted for 0.46% of total registered workforce at the end of 2018, whereas chromium sub-sector employed about 64% of mining workforce in both 2017 and 2018.

Hydro-energy sector

The hydropower production in Albania is dominated by the public sector. The State owns and operates the Albanian Electrical Power Corporation (KESH), the Transmission System Operator (OST) and Electricity Power Distribution Operator (OSHEE). The sector is regulated by the Energy Regulatory Authority (ERE), an independent public institution charged with reporting on, governing and monitoring of the energy sector.

KESH is the largest producer in the country. With an installed capacity of 1,350 MW built in a cascade over the Drini River in the north, KESH contributed with 64% of power output in 2017 and 68% in 2018.

Domestic hydropower output in 2017 was about 81% of the total energy consumption; in 2018 output was 146% of total consumption. A substantial portion of the power transmitted is lost in the distribution system because of its poor technical conditions and informal connections to the system. The Government of Albania and OSHEE are actively working on reducing both technical and financial losses estimated at 25% of consumption in 2017 and 23% in 2018. The power sector creates value through multiple activities, including power generation, public supply, transmission, and distribution. Additionally, hydropower companies contribute to the state infrastructure through their operations, including the construction of roads, dams, and the maintenance of riverbeds.

The Government of Albania has constantly sought to benefit from the county's hydrologic potential through concessions and private investments. At the end of 2016, AKBN reported 451 HPPs granted though 244 concessions, where only 33% have started production. AKBN informs that a large number of HPPs granted on concessions have not yet started construction or are still under construction as of the date of this report, showing delays of two or more years.

Currently, Albania is undergoing a power sector reform towards liberalization of the energy market. In July 2016, the Council of Ministers approved the new model of the energy market that will gradually replace the regulated energy market. At the date of this report, the Government is still in the process of drafting the transitional measures for the transition from a regulated market, which were supposed to take effect in 2018. ERE reports on the implemented reforms and issues in their annual report.



Relationship to CPF

The implementation of the Extractives Industries Transparency Initiative (EITI) supports GoA's efforts for improving governance and enhancing transparency in the mining and oil and gas sectors. Through the implementation of EITI, the Government can demonstrate its adherence to an internationally recognized standard and practices of effective, participative, open and responsible corporate governance. Greater transparency in natural resources production data, licenses allocation, payments and revenues will support revenue mobilization, boost prospective investor's confidence, and enhance competition. This could support Albania in consolidating its credibility with international public and private partners. The previous EITI grant to Albania supported one of the five priority areas of the World Bank Group's 2015-2019 Country Partnership Framework (CPF) of enhancing governance, transparency and accountability of government.

EITI implementation in Albania is in line with the five- year Country Partnership Framework (CPF) covering 2020- 2023, and the Systematic Country Diagnostic Update (SCD Update), "Next Generation Albania". The SCD Update for Albania also identifies enhancing governance, transparency, and accountability of government as a fundamental priority in achieving the Bank's twin goals. The continued implementation of EITI in Albania strongly contributes to this policy priority of enhancing governance, transparency and accountability in the extractive sector. Further, one of the keys constrains identified in the SCD were the large regulatory barriers to economic agents that impede growth and job creation. The policy actions recommended for this barrier include cutting the regulatory burden across the board and strengthening the policy, legal and institutional framework. The proposed project will use the EITI platform to strengthen the legal and institutional framework for investments in the mining, oil, and gas sectors with the objective of enhancing the overall growth of transparency in the extractives sector.

C. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective (PDO) is to assist Albania to extend the scope for transparent natural resources management to derive greater benefits from the exploitation of those resources.

Key Results

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

- a) Improved capacity to implement EITI agenda, as measured by the percentage of EITI validation corrective actions addressed;
- b) Number of additional disclosures added to the EITI reporting scope and national transparency portals;
- c) Improved capacity to report on issues associated with transparency and accountability in the extractive and energy sectors measured by the number of new reporting and knowledge platforms created by civil society.



The following key outcomes are expected:

- Improved capacity by the Government to manage the extractive sector and communicate results from public programs;
- Increase of fiscal and non-fiscal benefits from transparency and accountability of the natural resources;
- Foster private sector confidence to invest in large infrastructure projects.

With respect to the EGPS Indicators the following Indicators were chosen from the EGPS instructions manual:

- o Capacity-building activities to strengthen CSO capacity to advocate for transparency and accountability in 10 countries, including activities to close the gender gap (baseline 0) - output indicator
- o 25 EITI implementing countries achieve or maintain satisfactory or meaningful progress, on the 2019 EITI Standard, with EGPS support (baseline 0) - outcome indicator
- o EGPS supports the implementation of EITI mainstreaming in 15 countries (baseline 0)- output indicator

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D. Preliminary Description

Activities/Components

The following activities will help to achieve the project's development objective.

Component A. Support to streamlined EITI reporting (US\$ 190,000)

This component will support the activities essential to EITI reporting and to meet and maintain its EITI compliant status obligations, including:

- (i) Annual EITI report for Albania (US\$ 60,000). Recruitment of an independent administrator to oversee the preparation of the annual EITI report covering all extractive industries for the calendar year 2021 and 2022.
- (ii) Assessment of gaps for EITI mainstreaming in Albania (US\$50,000)
- (iii) Consultancy services for the inclusion of renewable energy and gas in EITI reporting (US\$ 30,000)
- (iv) Consultancy services for development of standards for local reporting (US\$ 30,000)



(v) Maintenance of the Open Data portal for EITI Data (US\$ 10,000)

(vi) Maintenance of the Mining Cadaster Portal (US\$ 10,000)

Component B. Capacity Building (US\$ 150,000)

This component will include provision of technical assistance and core training on EITI and natural resources management through:

(i) Training for MSG members, National Secretariat staff and stakeholders for their involvement in the EITI process; tailored training from well-known agencies, participation of stakeholders in international forums and workshops focused on natural resource governance (US\$ 100,000)

(ii) Participation of EITI and MSG members in events organized by International EITI and other implementing countries to share the Albanian experience, to connect with other implementing countries in order to share knowledge and effective ways of implementation. (US\$ 50,000)

Component C. Communication and Outreach (US\$ 70,000)

This component will support the implementation of the 2021-2022 EITI Communication and Outreach strategy:

(i) Communication and Outreach for 2021 – 2022 regarding media outreach campaigns, Internet and social media activities, awareness raising events (US\$ 70,000)

Component D. Assessment of EI Impacts on Local Content (US\$ 105,000)

This component will include provision of support for the improvement of access to EITI data through:

(i) Consultancy services for assessment of EITI impact in the framework of EITI Transparency Week (US\$ 30,000)

(ii) Consultancy services for assessment of impact of the Albania Beneficial Ownership Law (US\$ 20,000)

(iii) Consultancy services for analyzing advantages and disadvantages of foreign investment in Albania (US\$ 25,000)



(iv) Consulting services for analyzing the impact of oil industry in the areas where it operates (US\$ 30,000)

Component E. Revision of current Legislation and recommendations for improvement (US\$ 50,000)

This component will include provision of support for analyzing, assessing and identification of changes to be made in order to improve the current legislation:

(i) Consultancy services for the revision of current legislation for reporting on a project basis (US\$ 20,000)

(ii) Consulting services for the assessment of current legislation on work safety in extractive industries (US\$ 30,000)

Component F. Gender and Extractives (US\$ 80,000)

This component will include provision of support on analyzing, report participation of women in the extractive sector and develop a strategy and stakeholder’s capacity building of women in the extractives and creating a reporting template for gender disaggregated data in the extractive sector:

(i) Scoping study for gender reporting and women participation in the extractive sector (US\$ 80, 000)

Component G. Project Management (US\$ 45,000)

This component will support strengthening the EITI National Secretariat’s capacity to carry out Project management through:

(i) Recruitment of the services of a procurement and FM consultants on a contractual basis (US\$ 30,000)

(ii) Financing of ad hoc Operating Costs to be cleared by the Bank (US\$ 15,000)

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Environmental and Social Standards Relevance

E. Relevant Standards

| ESS Standards | | Relevance |
|---------------|---|-----------|
| ESS 1 | Assessment and Management of Environmental and Social Risks and Impacts | Relevant |



| | | |
|--------|---|------------------------|
| ESS 10 | Stakeholder Engagement and Information Disclosure | Relevant |
| ESS 2 | Labor and Working Conditions | Relevant |
| ESS 3 | Resource Efficiency and Pollution Prevention and Management | Not Currently Relevant |
| ESS 4 | Community Health and Safety | Not Currently Relevant |
| ESS 5 | Land Acquisition, Restrictions on Land Use and Involuntary Resettlement | Not Currently Relevant |
| ESS 6 | Biodiversity Conservation and Sustainable Management of Living Natural Resources | Not Currently Relevant |
| ESS 7 | Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities | Not Currently Relevant |
| ESS 8 | Cultural Heritage | Not Currently Relevant |
| ESS 9 | Financial Intermediaries | Not Currently Relevant |

Legal Operational Policies

| Safeguard Policies | Triggered | Explanation (Optional) |
|---|-----------|------------------------|
| Projects on International Waterways OP 7.50 | No | |
| Projects in Disputed Areas OP 7.60 | No | |

Summary of Screening of Environmental and Social Risks and Impacts

The only perceivable risk would be the insufficient consultation of the CSO and the potential willingness of the operators to cooperate. Though, until now there is a good track of cooperation of operators.

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Borrower/Client/Recipient

Borrower : Ministry of Infrastructure and Energy

Implementing Agencies



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