



Report No: AB90

## Updated Project Information Document (PID)

<b>Project Name</b>	ALBANIA-Second Community Works Project
<b>Region</b>	Europe and Central Asia Region
<b>Sector</b>	Roads and highways (40%); Other social services (20%); Sub-national government administration (20%); General water; sanitation and flood protection sector (20%)
<b>Project ID</b>	P077297
<b>Supplemental Project</b>	
<b>Borrower(s)</b>	GOVERNMENT OF ALBANIA
<b>Implementing Agency Address</b>	ALBANIAN DEVELOPMENT FUND Address: Rr. Durrësit, Instituti i Tokave Laprake, Tirana Contact Person: Maksim Mitrojorgji, Executive Director Tel: 355 4 234 885 Fax: 355 4 234 885 Email: mmit@a-d-f.org
<b>Environment Category</b>	F
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### 1. Country and Sector Background

**Poverty Reduction** - The *National Strategy for Socio-Economic Development* (NSSED -- formerly known as the Growth and Poverty Reduction Strategy and the Government of Albania's designation for its PRSP) is a comprehensive program that aims to address poverty through the following systemic reforms: (i) creating a growth-oriented business environment that attracts investment and creates employment opportunities for the poor; (ii) improving human capital through improved quality and access to social services such as health and education; and (iii) empowering the poor through stronger public accountability and increased participation in decision making. The priority sectors of public actions identified in the NSSED are: (i) health and education; (ii) infrastructure; (iii) improvement of governance; (iv) economic growth; (v) social support; and (vi) macroeconomic stability. The NSSED explicitly mentions tangible improvement of infrastructure and related services (such as supply of potable water, electric power, sewerage, etc.), as well as increasing the access of the poor to these services, as one of the main Government's objectives. The NSSED also underlines the fact that poverty in Albania is a multidimensional and mainly rural phenomenon (about 55 percent of the population and over 80 percent of the poor live in rural areas), accompanied by a significant lack of opportunities for development and low access to infrastructure and services, which is even more problematic in mountainous rural areas. Despite the reforms made in the last decade, the village-town dichotomy continues to be present. The strategic objectives include: (i) poverty reduction through a sustainable growth of production and incomes generated from agriculture, livestock, and agro-processing; (ii)

protection and improved use of natural resources; and (iii) increased access to and quality of rural services (education, health, social protection), potable water, sewage, and rural transport infrastructure; and (iv) diversification of the rural economy and the increase of employment and incomes from nonagricultural activities in rural areas.

**Decentralization** - The environment in which ADF works has significantly changed over the last few years through the Government's decision to deepen decentralization reform and strengthen local government. The last local elections put legitimate local governments in place. The local government law took effect starting January 2001. The main directions of continued decentralization reform include: (i) identification of local public responsibilities and their effective delegation; (ii) balanced expansion of fiscal autonomy and property rights; (iii) enhanced local government capacities; and (iv) increase of the transparency and level of community participation in governance. Note also that the NSSED similarly emphasizes stronger public accountability and increased public participation in decisionmaking to empower the poor.

## **2. Objectives**

The development objective of the Second Community Works Project (CWP II) is to alleviate local bottlenecks hindering development (including infrastructure and services) through processes of participatory local development as a result of: (a) improving access to quality social and economic infrastructure and social services through sustainable micro-projects, and (b) promoting institutional development at the local level. These activities will be carried out by the Albanian Development Fund (ADF), a social investment fund with a proven track record since 1993.

ADF was established in the aftermath of the collapse of Albanian communism in 1990-91. In early 1993, with the financial assistance of the World Bank, the Government launched a rural poverty alleviation program, which included a community-based infrastructure works program to generate employment and inject cash into rural areas, as well as to improve infrastructure on a demand-driven basis and enable economic development. By 2003 ADF had already accumulated 10 years of experience working with local governments and communities through four Bank-financed projects: the Rural Poverty Alleviation Pilot Project (Cr. 2461), the Rural Development Project (Cr. 2680), the Urban Works Pilot Project (Cr. 2770), and the Community Works Project (Cr. 3164 and Cr. 3164-1, the latter being a supplemental credit). ADF had also implemented projects funded by: the European Commission, the International Fund for Agricultural Development, the Islamic Development Bank, the Development Bank of the Council of Europe, and the Governments of Albania, France, Germany, Italy, and Switzerland. Over the course of this decade ADF has developed a reputation as one of the most efficient institutions engaged in development activities in Albania. The proposed CWP II therefore represents a continuation of past support, building upon ADF's strengths and seeking to improve in those areas of relative weakness. In particular, this support will be designed to make ADF a vehicle for the implementation of the Government's National Strategy for Socio-Economic Development (NSSED) as well as its program of decentralization.

## **3. Rationale for Bank's Involvement**

ADF was founded a decade ago with World Bank financing. Although the Bank is no longer ADF's largest donor, it has continued to play a key catalytic role in helping ADF develop as an effective institution for improving the living conditions of the poor in Albania. Most of ADF's donors follow the Bank's lead with respect to programs and procedures. None of ADF's donors provide the same qualitative level of supervision as the World Bank. It follows that no other donor is as well placed or capable of assisting ADF in affecting the changes necessary to strengthen its governance and effectiveness.

#### **4. Description**

##### **Component 1: Community Sub-Projects**

This component will finance an estimated 200 sub-projects aimed at improving local communities' infrastructure. Sub-projects will cover both rural areas (about 120) and suburban areas (about 80). Eligible sub-projects, which will be based on the priorities of communities, will include rural and suburban roads, water supply, sewerage, lighting, pedestrian and rural bridges, market-places, buildings (e.g., health centers, schools, day care facilities, cultural centers), and parks. In some cases, this component will also finance social service activities to be carried out in and around rehabilitated infrastructure. Such programs could include activities for children, youth, the elderly, or other vulnerable groups. Local governments (i.e., communes and municipalities) will contract the implementation of works to local construction contractors. The maximum size of sub-projects will normally be \$100,000 in rural and \$150,000 in suburban areas.

##### **Component 2: Capacity Building**

This component will finance training and technical assistance to strengthen the capacity of local government, communities, and ADF staff. It will include three programs: capacity building for ADF staff; local government and community capacity building, and a participation pilot program. The pilot program will introduce methods of participatory planning and participatory monitoring and evaluation. It is expected that this program would subsequently be rolled out to other parts of the country. The capacity building activities will emphasize hands-on, "on-the-job" training. Often this training will be informal, provided, in the case of local governments and communities by ADF staff or contractors (NGOs and/or consultants) in their on-going contacts with stakeholders, and, in the case of ADF, by ADF's technical assistants. At other times training will be more formal, carried out through (e.g.,) workshops. However formal training will be expected to be closely linked to involvement in ADF's sub-project cycle, so that it would immediately be put to practical use.

##### **Component 3: Project Implementation Support**

This component will support the implementation of the CWP II by ADF by financing a portion of ADF's operating costs (maintenance and operation of equipment procured or used under the project; salaries paid to ADF staff, other than civil servants' salaries, hired for purposes of the project; and consumable office supplies, communications, fuel, travel and per diem allowances). Internal ADF staff, administration, and finance procedures are governed by ADF's Regulations (Administrative and Financial Manual), which will be at all times satisfactory to IDA. Operating costs will be funded on a declining basis over the life of the project.

Community Sub-Projects  
 Capacity Building  
 Project Implementation Support  
 Project Preparation Facility

#### 5. Financing

	Total ( US\$m)	
BORROWER	\$2.88	
IBRD		
IDA	\$15.00	
LOCAL COMMUNITIES	\$2.08	
ITALY: DEV. COOP. DEPARTMENT (MOFA)		\$2.00
<b>Total Project Cost</b>	<b>\$24.20</b>	

#### 6. Implementation

The project is to be implemented over a period of four and 1/2 years.

The primary implementing institution will be the Albanian Development Fund (ADF). As noted above, ADF is a social fund with a decade of experience in financing infrastructure rehabilitation and other developmental activities throughout Albania. ADF is an institution with financial and legal autonomy established by Special Decree of the Council of Ministers. ADF's performance has been generally quite good. Nonetheless, the proposed project will effect a number of significant changes in ADF operations and management, with a view to strengthening and enhancing the developmental impact of sub-projects.

Policy guidance will continue to be provided by ADF's Board. As indicated above, the ADF Board is currently being revised to give a majority to representatives from local governments. ADF reports solely to its Board.

ADF-financed infrastructure sub-projects are carried out by private enterprises contracted, under the guidance of ADF, by communes and municipalities. Implementation of the community social services activities will be sub-contracted to local NGOs and CBOs.

All financial management activities will be carried out by the ADF.

#### *Flow of Funds*

Project funds will flow from: (i) the Bank, either via a single Special Account which will be replenished on the basis of SOEs or by direct payment on the basis of direct payment withdrawal applications; or (ii) the Government, via the Treasury at the Ministry of Finance (MOF) on the basis of payment requests approved by the Treasury Department of the MOF directly to the local supplier for VAT and other taxes. The beneficiaries contribute 10% of the total cost of the sub-projects. This contribution is also managed by ADF. The system applied to secure proper commitment of the beneficiaries and transparent procurement has worked very well in the previous projects. The flow of funds have been an integrated part of the project cycle as described in the Operational Manual revised and based on the experience of implementing sub-projects. The new project will put more emphasis on securing the operation and maintenance of sub-projects after projects are finished.

## 7. Sustainability

Sustainability is potentially a concern at two levels: that of ADF itself and that of the projects implemented through ADF. The long-term sustainability of ADF is less of a concern. Although ADF was not intended to be a permanent institution, it has been active for a decade and will continue to operate as long as funding is available, either through donors or from clients willing to pay for services. The project will contribute to the medium-term sustainability of ADF by investing in capacity building and institutional development and by beginning to withdraw Bank financing for operating costs (as a means of building up Government ownership).

In contrast, the sustainability of the projects implemented through ADF is a critical concern of ADF management, which has carried out a systematic review of the degradation of all previous ADF-funded projects. This review found that one quarter of all projects showed degradation estimated at more than 15 percent. Consequently ADF has, over the last two years, attempted to seriously address this issue, notably by requiring adequate maintenance before considering any new projects at any particular location and by intensifying work with communities to encourage better maintenance. A recent review found that there is a growing awareness of commune/municipality staff for maintenance needs and requirements coupled with strongly growing acceptance among beneficiaries of the need to pay for services through local taxes or user fees. Nonetheless, under the CWP II, these measures would be further enhanced by considering the requirements for operations and maintenance throughout the sub-project cycle, starting with identification, and by working with communities and local governments to develop credible O&M plans. Those institutions that would need to provide funds for operations and maintenance (e.g., municipalities, line ministries) would be required to sign off on sub-projects prior to implementation. It should be noted that, while sustainability of sub-projects is a serious concern, this is a country-wide issue in all sectors and, indeed, ADF is well placed to make progress on this issue.

## 8. Lessons learned from past operations in the country/sector

Despite the clear success of the CWP I, some lessons have been identified that should be reflected in the project design of CWP II. What follows is a short description of the main lessons learned (note that ADF has agreed to implement measures to address these lessons):

**Infrastructure works:** The rehabilitation of infrastructure has created noticeable benefits. However, in many cases, sub-projects appear incomplete due either to some inappropriateness in the design (e.g., an asphalt road that does not reach the whole community instead of a longer gravel road) or because of the limits imposed by financial ceilings (e.g., the repair of a main water supply pipe but not of the secondary pipes that distribute water to the beneficiaries). Both issues should be addressed by better attention to the relative costs and benefits of the various technical solutions appropriate for each sub-project and by formally requesting clearance to exceed the financial ceiling where required.

The supervision of works is another area where improvement is needed, both to ensure high quality results and to strengthen ADF's image. Currently there are no precise TOR for design or supervision, and there is an insufficient definition of the required intensity of the supervisor's presence on site. Moreover, there are typically no technical tests on site, or lab proofs of the quality of materials. Also, while some technical audits have been fielded by various donors including the World Bank, they usually remain quite general and have not focused on compliance with contract specifications. Otherwise there are no external technical audits to verify compliance of works within the foreseen quantities and dimensions.

To address these concerns, ADF has agreed to better define the TOR attached to designer/supervisors' contracts. Part of these provisions will be standardized (per type of work) and completed with other detailed provisions to be drafted specifically for each particular sub-project. These TOR would require a detailed supervision program for each site. Furthermore, formal schedules of site visits and site supervision reports will also be prepared and would be required for each sub-project, based on standards

recommendations and sub-project specific recommendations. These will be required not only from the sub-project designer/supervisor, but also from the commune/municipality, ADF Technical and Social Inspectors, and ADF's Regional Inspector. In addition ADF has agreed to contract independent technical audits to regularly review a sample of sub-projects.

***Social services delivery:*** The experience of ADF with Social Services Delivery has been mixed and generally there is room for improvement, particularly in the area of physical works. Despite a less than perfect experience, improvements have already been noticed during the last phases of the first CWP and beneficiaries have given a very positive assessment of this component. The CWP I has demonstrated that the sustainability of social sub-projects depends on a very careful assessment of community needs and involvement. When community priorities are respected and reliable local partners are identified, sustainability is likely and beneficiaries satisfaction is high. Moreover, this component has helped ADF reach out to local communities. Under the CWP II social services delivery will no longer be treated as a separate component. Rather ADF will experiment in a small way with promoting service delivery linked to the rehabilitation of infrastructure, notably of communal community centers.

***Local government and community capacity building:*** Historically ADF has found it easier to build long-term relations with local governments than with local communities. However, there has been significant progress to correct this over the last two years as the Social Inspectors have been introduced and have developed their work. Despite this there are still some discrepancies between the objectives in ADF's Charter and the situation on the ground. While ADF should be encouraged to continue working with local communities, the Institutional and Managerial Review suggests revising ADF's Charter to clarify that ADF is an executing agency at the service of communal and municipal authorities to facilitate the development of economic and social infrastructure. This would be more in tune with the on-going decentralization process. Also, given the current empowerment process of local governments and the socio-cultural context, it is also appropriate for ADF to focus on building local government capacity in CWP II, supported by community participation, rather than visa versa, and to facilitate development dialogue between local communities and local government, thereby fostering community participation in local development. This would be a significant development of the process started under the first CWP, which was less successful than envisaged, because of the problems outlined above.

***Governance:*** As noted above, there is a need to bring the ADF Board closer to the local level. In fact, while a ministerial Board ensures high visibility, it also represents an unnecessary burden. The current Board is not in line with the on-going decentralization process and room needs to be made for representatives of communes/municipalities and qarks, as well as for local communities. An agreement in principle on Board composition has been reached with ADF and the Government of Albania and ADF's Charter is currently being revised to reflect this agreement (see section C2). Furthermore, the project's mid-term review will review the effectiveness of the new Board composition in preventing politicization of ADF's activities (other topics for examination during the review include the question of whether the level of beneficiary participation is appropriate and the experience of the Participation Pilot).

***Donor coordination:*** ADF is a multidonor implementing agency and one of its biggest challenges is to coordinate all the different donors' activities. Conflicting procedures (particularly with respect to contracting and procurement) have in the past caused confusion among ADF staff, bidders, and beneficiaries. Additionally, ADF has been burdened by a large number of audits, which have been highly disruptive of regular operations. Since 2001 this situation has partly improved, as it was agreed that a consolidated financial audit of ADF would be carried out yearly. Preparation of the CWP II is being carried out in close collaboration with ADF's principal donors.

## 9. Environment Aspects (including any public consultation)

**Issues** : No major environmental issues are anticipated in the project due to small size and rehabilitation nature of the sub-projects. Some of the infrastructure sub-projects (particularly roads, foot bridges, water supply, and sewerage) could have minor environmental impact and/or cause environmental health hazards. Given that specific activities are only to be identified in the course of project implementation, a mechanism for screening and assessing negative environmental impacts as well as developing mitigation plans was developed and implemented under CWP I; this has been reviewed and further strengthened as part of CWP II project preparation. Details of the procedures to be followed for environmental assessments and mitigation plans are available in the Operational Manual.

Key stakeholders include (but are not necessarily limited to): community members at the project site, the municipalities, sub-project designers, ADF -- through its district engineers, and the responsible government bodies, that is, Ministry of Environment, Regional Environmental Agencies, Public Health Directorates, Urban Planning Departments, and Public Enterprises.

## 10. List of factual technical documents:

Implementation Completion Report, Community Works Project, December 2002  
 Procurement Capacity Assessment, March 2003  
 Financial Management Capacity Assessment, April 2003  
 Institutional and Managerial Review, TRANSTEC, September 2002  
 An Evaluation of the Infrastructure Component, Paul Dean, June 2002  
 Consolidated Audit Report, Deloitte & Touche, June 2002  
 Procurement, Technical and Procedural Audit, TRANSTEC, April 2001  
 Beneficiary Assessment, Urban Institute, June 2002

## 11. Contact Point:

### Task Manager

Mark C. Woodward

### The World Bank

1818 H Street, NW

Washington D.C. 20433

Telephone:

Fax:

## 12. For information on other project related documents contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-5454

Fax: (202) 522-1500

Web: [http:// www.worldbank.org/infoshop](http://www.worldbank.org/infoshop)

**Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.**

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