ICRR 11647
Report Number : ICRR11647

ICR Review
Operations Evaluation Department

1. Project Data: Date Posted : 09/30/2003

		Appraisal	Actual
PROJ ID : P034491			
Project Name : Power Transmission & Distribution	Project Costs US$M) (US$M)	116.6	92.4
Country : Albania	Loan/ Loan US$M) /Credit (US$M)	Credit: 29.5	Credit: 17.7
Sector (s): Board: EMT - Power (93%), Central government administration (7%)	Cofinancing US$M) (US$M)	87.1	74.7
L/C Number : C2826			
	Board Approval FY) (FY)	96	
Partners involved : EBRD, JBIC (previously OECF), Govt of Italy, Govt of Switzerland	Closing Date	06/30/2001	01/31/2003

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2. Project Objectives and Components

a. Objectives

The Albania Power Transmission and Distribution (T&D) project had the following six objectives :

1. Improve the overall standard, reliability and efficiency of electric power supply and enhance the efficiency of electricity interchanges with neighboring countries;
2. Reduce unbilled electricity consumption;
3. Establish a regulatory framework for the power sector;
4. Begin the process of privatizing the Albanian Power Corporation (KESH) in an efficient and non-disruptive way;
5. Ensure the financial viability and institutional strength of KESH and the pilot Power Corporations of Elbasan, Shkoder and Vlore; and
6. Encourage energy conservation and efficiency in electric appliances and buildings .

b. Components

1. Power sector regulatory reform and actions leading to privatization and institutional strengthening;
2. Technical assistance (TA):
3. Critically needed T&D investments

The proposed financing by IDA, EBRD, Italy, JBIC and Switzerland of US$ 87.1 million equivalent was to finance a range of subcomponents, including rehabilitation, transmission system control, TA (including environmental management, engineering services, staff regulatory training), and other facilities.

Revised Components :

After effectiveness there were two reallocations of IDA financing of distribution investments : (i) to finance additional meters and accessories (US$ 1.6 million) in order to reduce illegal use of electricity; and (ii) to finance emergency repairs of damages to distribution facilities (US$ 0.9 million) caused during the breakdown of public order in 1997 (see below, section 3).

When the project suspension was lifted in June 2001, IDA funds were again reallocated to finance additional meters (US$ 8.7 million) as well as further TA for a comprehensive study to define future investment needs and reforms of the Albanian energy sector (US$1.8 million).

Several reallocations were also made to investments financed by the cofinanciers .

c. Comments on Project Cost, Financing and Dates

Both the SAR and the ICR set out project costs by procurement arrangements rather than by component, as below :

Component	Appraisal (US$ million)	Actual /Latest Estimate (US$ Million)
Civil Works	2.20	0.00
Transmission facilities	46.30	42.00
Distribution facilities	55.60	43.50
Spare parts	2.40	0.00
Project management	5.20	2.20
Technical assistance	4.90	4.70
Total Project Costs	116.60	92.40

The project was suspended between November 24, 1998 and June 13, 2001 mainly due to the failure of the Government to comply with a number of the provisions of the Credit and Project Agreements, such as the failure to meet the non-technical losses reduction targets (billing collections actually fell from 75% in 1996 to 64% in 1998, with accounts receivables increasing to 14 months in 1998 against a target of 2 months). The suspension was only lifted after the Government signalled its renewed commitment through the Action Plan of 2000. As a result, the project - and a majority of the physical investments - was severely delayed. As such, the above table also includes the expected costs of the activites that are yet to be completed with the assistance from the cofinanciers. The ICR, hence, mainly evaluates the impact of the IDA Credit rather than that of the project as a whole, which is still continuing.

The closing date was extended twice until January 31, 2003.

3. Achievement of Relevant Objectives:

Due to major destabilizing events (such as the breakdown of public order following the collapse of several pyramid schemes in 1997, as well as the influx of refugees during the Kosovo conflict in 1999), and the project's suspension, most of the project's physical investments will only be completed by the project's cofinanciers after the closing of the IDA Credit. Thus, the objectives contingent upon the successful implementation of the physical investments - which account for more than 90% of project costs - were not achieved by IDA Credit closing . As a result, the economic rate of return could not be calculated at this stage . Achievements thus far, however, were the following :

1. Improve the overall standard, reliability and efficiency of electric power supply and enhance the efficiency of electricity interchanges with neighboring countries . This objective was not achieved . Most transmission and

distribution investments will only be implemented after the closing of the IDA Credit . The number and duration of transmission and distribution system interruptions has been reduced somewhat since 1995, but this is largely the result of improved maintenance by KESH and investments outside the project by KESH and other donors . Even after these slight improvements the current situation is still unsatisfactory .

2. Reduce unbilled electricity consumption . This objective was partially achieved . Since the Government developed and began implementing the Action Plan in 2000, some improvements have been made : Billed collections have increased from 61.5% in 2000 to 84.5% in 2001 and 89.5% in 2002, meeting the targets set out in the new Action Plan. The receivables to revenue ratio has also improved from 6.1 months in 2000 to 6.0 months in 2001 and 5.6 months in 2002, though this is still much higher than the original covenanted level of 2.0 months (though this target was deemed unrealistic and too optimistic by the QAG review of supervision carried out in 2002, in light of the instability of country conditions). KESH has improved much more radically, however, than the three partially privatized pilots. Making little progress in reducing unbilled consumption and nonpayment of electricity bills, the three pilots themselves have also been delinquent in their payment to KESH for electricity purposes : in 2001, Elbasan paid 81% of the amount billed to it, whilst Vlore paid 25% and Shkoder only 2%.

3. Establish a regulatory framework for the power sector . This objective was partially achieved . A regulatory body, the Electricity Regulatory Authority (ERE), was established, but was largely ineffective - due to lack of staff and financial resources, as well as Government interference - until 2002-2003 when its powers were increased by Parliament, and it received funding from USAID for staffing purposes . In the absence of the unbundling and privatization of KESH (see objective 4 below), however, the de facto powers of the regulatory body may remain somewhat limited.

4. Begin the process of privatizing the Albanian Power Corporation (KESH) KESH) in an efficient and non -disruptive way .
This objective was not achieved . 30% of the shares of the three pilot companies were sold under the mass privatization program. But moves towards further privatization were halted after the civil disturbances in 1997 which adversely affected the investment climate in Albania . Donor-disagreements over what to do instead led to a deadlock which coincided with the suspension of the project . Hence, only since 2000/2001 when the suspension was lifted and the donor community agreed on a management assistance contract for KESH (awarded to the Italian utility, ENEL) has some level of progress been made . The minority privatization of the three pilot distribution companies also did not bring about many of the potential efficiency benefits initially expected (as noted under objective 2 above). The result of this is that the three pilot companies are actually expected to be re -incorporated into KESH sometime in 2003.

5. Ensure the financial viability and institutional strength of KESH and the pilot Power Corporations of Elbasan, Shkoder and Vlore . This objective was partially achieved . The failure to deal with objectives 1 and 2 above, in particular, contributed directly to financial difficulties for KESH and the pilot companies, as well as indirectly by failing to curb the growth in demand for electricity . This problem became particularly serious from 2000 onwards when the lack of rainfall led KESH to incur large costs for imported electricity which could only be sustained through an operating subsidy from the Government . Since 2001 and 2002, however, as a result of the tariff adjustments and the improvement in collections, the financial performance of KESH has improved somewhat . Indeed, KESH met both the self-financing and debt service coverage covenants in those years, though the receivables to revenue ratio is still far from the original covenanted level of 2.0 months (see objective 2 above).

6. Encourage energy conservation and efficiency in electric appliances and buildings . This objective was partially achieved. This objective depended on carrying out UNDP -financed studies on appliance efficiency and energy conservation in buildings and on implementation of the recommendations of those studies . A study on energy conservation in buildings only was completed, which led to a law in 2002 prescribing insulation standards in buildings. Nothing was done on appliance efficiency, however .

4. Significant Outcomes/Impacts:

Although the project was initially suspended, the donors in general, and the Bank in particular, should be recognized for their supervisory efforts, which were instrumental in renewing Government commitment and ownership of the project after 2000, encouraging the development and implementation of the Action Plan, and decreasing both technical and non-technical losses (for both distribution and transmission).

5. Significant Shortcomings (including non-compliance with safeguard policies):

Whilst the project has seen a decrease, recently, in non -technical losses, there were no mechanisms in place to address the potential equity and social impacts of the associated service disconnections (which amounted to as many as 15,400, though 2,800 of these were converted to legal connections). Monitoring and evaluation (M&E) systems, with appropriate equity indicators should, hence, have been incorporated alongside efficiency indicators, to appropriately assess the social and economic impact of reducing non -technical losses.

Whilst there have been clear improvements recently in reducing unbilled electricity consumption, less attention has been given to implementing the demand -side management (DSM) elements of the project. This is particularly acute given that the SAR claims that appliance inefficiency may be one of the main reasons for the rapid growth in household electricity demand since the late 1980s. Addressing DSM appropriately could also help reduce household expenditures on electricity, which in turn could help reduce non -technical losses.

6. Ratings :

	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Unsatisfactory	Whilst the Bank credit has closed, most of the project's physical investments are yet to be completed by the cofinanciers . The project is still continuing, making it difficult to assess overall benefits . In fact, the ICR did not calculate the economic internal rate of return. All that can be assessed at this stage is the process of project implementation rather than the project's actual outcomes .
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	Government commitment was also initially high following the 'electricity emergency of 1994' (see SAR), but faded as hydropower production increased as a result of increasing rains. Hence, there is a risk that government commitment shown since 2000 may again fade as the current electricity crisis becomes less urgent.
Bank Performance :	Satisfactory	Satisfactory	Borrower and some cofinanciers considered Bank supervision more than satisfactory; QAG rated it as best practice, but argued that some of the financial covenants of the project were unrealistic or at best very optimistic.
Borrower Perf .:	Satisfactory	Unsatisfactory	Whilst the pyramids schemes and the Kosovo conflict were unforeseen events, the ICR itself acknowledges that the lack of Government ownership and commitment to implementing the reforms was the main factor leading to the project's suspension and modest achievement of project objectives . Moreover, the Borrower's performance until 2000 was similar to the unsatisfactory nature of Borrower performance during the earlier Power Loss Reduction project (C2677), where the Borrower showed little willingness to reduce non-technical losses.
Quality of ICR :		Satisfactory	

NOTE:
NOTE ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Government commitment and ownership of power reforms are paramount for the project to yield real benefits and for objectives to be successfully achieved .
2. Careful balancing of "carrots and sticks" (i.e. constructive engagement and suspension of project) in Bank supervision is key, especially when Government commitment is lacking .
3. Appropriate monitoring and evaluation systems, that incorporate social and equity indicators alongside efficiency-related indicators, are important for highlighting the impact of Bank -supported power projects and reforms on the economy and on the poor, and help bring focus on role of efficient and equitable electricity and

energy more
generally as a means to sustainable development and poverty reduction .
4. Power projects that address the efficiency and reliability of transmission and distribution facilities should place an
equal emphasis on demand-side management to improving the supply of electricity .
5. Whilst voucher privatization can be a useful way to attempt to spread the potential benefits of privatization (as well
as increase its social acceptance), minority privatization (i.e. keeping majority Government ownership) may not
ensure the benefits which private ownership has the potential to bring about .
8. Assessment Recommended? Yes No
9. Comments on Quality of ICR:
The ICR was satisfactory, though in places it provided insufficient information to sustain its ratings . Given that the
majority of the physical investments of the project are still being undertaken, it is difficult to rate the overall outcome
of the project in relation to its objectives . As such only the process of project implementation - the responsibility of the
Borrower - can be assessed. Due to the suspension of the project midway and associated delays, this implementation process was unsatisfactory . The Borrower's role in the suspension of the project, provides evidence
for an 'unsatisfactory' rating of Borrower performance, despite the Government's recent and renewed commitment to
the project.