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**MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE
INSPECTION PANEL INVESTIGATION REPORT**

ALBANIA:

**POWER SECTOR GENERATION AND RESTRUCTURING PROJECT
(IDA Credit No. 3872-ALB)**

September 18, 2009

**MANAGEMENT REPORT AND RECOMMENDATION
IN RESPONSE TO THE INSPECTION PANEL INVESTIGATION REPORT
OF THE
ALBANIA: POWER SECTOR GENERATION AND RESTRUCTURING
PROJECT (IDA Credit No. 3872-ALB)**

1. Pursuant to paragraph 23 of the Resolution Establishing the Inspection Panel (IBRD Resolution 93-10 and IDA Resolution 93-6), attached for consideration by Executive Directors is Management's Report and Recommendation in response to the findings set out in the Investigation Report No. 49504-AL dated August 7, 2009, of the Inspection Panel on the captioned Project (Albania: Power Sector Generation and Restructuring Project (IDA Credit No. 3872-ALB)).

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ABBREVIATIONS AND ACRONYMS

BP	Bank Procedures
CCGT	Combined-Cycle Gas Turbine
CIDA	Canadian International Development Agency
EA	Environmental Assessment
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia Region
ECSIE	ECA Infrastructure and Energy Sector Unit
ECSSD	ECA Environmentally and Socially Sustainable Development Unit
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EMP	Environmental Management Plan
EMU	Environmental Management Unit
EPC	Engineering, Procurement and Construction
EU	European Union
EU-CARDS	EU Programme for Community Assistance for Reconstruction, Development and Stabilization
EUR	Euro
GWh	Gigawatt hour
IDA	International Development Association
IDF	Institutional Development Fund
IFI	International Financial Institutions
IPN	Inspection Panel
IPPC	EU Directive on Integrated Pollution and Prevention and Control
KESH	Korporata Elektroenergjitike Shqiptare (Albanian Power Corporation)
kWh	Kilowatt hour
MW	Megawatt
NGO	Nongovernmental organization
OMS	Operational Manual Statement
OP	Operational Policy
OPN	Operational Policy Note
PID	Project Information Document
TPP	Thermal electric power plant
UCTE	Union for the Coordination of Transmission of Electricity
UN ECE	United Nations Economic Commission for Europe
USAID	United States Agency for International Development
USD	United States Dollar
USTDA	United States Trade and Development Agency

Currency Unit

(as of September 16, 2009)

1 ALL = USD 0.0107 / USD 1 = 93.14 ALL

1 EUR = USD 1.46 / USD 1 = 0.68

LIST OF OPERATIONAL POLICIES AND OPERATIONAL MANUAL STATEMENTS

OMS 2.20	Project Appraisal
OP/BP 4.01	Environmental Assessment
OP/BP 4.04	Natural Habitats
OP/BP 10.04	Economic Evaluation of Investment Operations
OPN 11.03	Management of Cultural Property in Bank-Financed Projects
OP/BP 13.05	Project Supervision

EXECUTIVE SUMMARY

Background

1. Albania's economic development has been adversely impacted by shortages in electricity supply. This has consistently been highlighted as a major impediment to business. Albania's electricity needs, furthermore, are supplied almost solely by hydropower, which suffers during drought. The electricity crisis has had multiple impacts on the life of Albanians. Firstly, frequent and prolonged electricity load shedding (power cuts) deprives people of light, space heating, refrigeration, and cooking fuel, thereby adversely affecting their quality of life and their health, as well as restricting their access to education. Secondly, expensive electricity imports increase the need for government subsidies, diverting resources from poverty reduction efforts. Thirdly, the crisis adversely affects economic growth, impeding efforts to reduce poverty. With the climate in Albania projected to be significantly warmer and drier in the coming decades, hydropower will likely face further constraints.

2. The Project will use Combined-Cycle Gas Turbine (CCGT) technology for power generation, which achieves significantly higher efficiency than other options for thermal power generation and produces very low air emissions. In the short to medium term, the plant will be fueled by distillate fuel oil. The fuel specifications for the plant provide for low sulfur content of distillate fuel in order to reduce emissions, even though this will add to the operational cost. The TPP is designed to allow conversion to even cleaner natural gas if and when it is imported to Albania.

3. As a result, in early 2002, in response to a request from the Government, the Bank agreed to pursue efforts to secure International Financial Institution investment support in a new thermal power plant. Project preparation for a 100 MW power plant at a site in an industrial zone near Vlora¹, selected by the Government following a siting study that addressed six alternatives, commenced in January 2003. The Project was approved by the Board in April 2004 and became effective in January 2005. The World Bank is providing an IDA Credit of USD25 million, or just over 20 percent of the USD123.3 million total cost of the Project. The European Bank for Reconstruction and Development and European Investment Bank are each providing around 44 percent of total financing with the balance provided by the Government of Albania. Civil works for the Project started in August 2007, and the plant is now in the final stages of commissioning, with operational performance expected to commence before the end of 2009.

Issues Before the Inspection Panel

4. In May 2007 the Inspection Panel registered a Request for Inspection concerning the Albania Power Sector Generation and Restructuring Project that was submitted by the Civic Alliance for the Protection of the Bay of Vlora on behalf of local residents living in Vlora. The Requesters argued that the project would "...destroy environment, tourism,

¹ Following the approach in the Investigation Report, the name Vlora (used in this report) is also frequently spelled Vlore and Vlorë. The three spellings are all interchangeable and do not signify practical difference.

safe fisheries, natural habitat, ecosystem, coral colonies as well as the unique historical and cultural significance of the entire Vlora Bay and Narta Lagoon.” The Requesters expressed a number of concerns regarding the Bank’s compliance with its Operational Policies. Management responded to the claims in the Request on June 1, 2007. In its Report to the Board thereafter, the Panel found the Request eligible and recommended that the Executive Directors authorize an investigation. This was authorized on July 18, 2007, and on August 7, 2009 the Panel issued its report outlining the findings of the investigation.

5. Management appreciates the Panel’s clear and thorough presentation of its findings. Management particularly appreciates that the Panel has concluded that the plant will not exceed applicable air emission and cooling water discharge limits; will not adversely affect the nearby Narta Lagoon; and has not resulted in damage or destruction of any cultural heritage or critical natural habitats. Management also appreciates the Panel’s confirmation that the appropriate technical solution has been selected. In this context, Management believes the Government of Albania is to be commended for selecting the most environmentally acceptable of the technical options for a thermal plant, incorporating efficient generation technology with projected emissions well below European Union standards.

6. Management fully concurs with the Panel’s conclusion that the major remaining risk associated with the plant relates to possible oil spills from delivery of diesel oil to the plant, but clarifies in the report that this is being fully addressed. Management also acknowledges concerns by the Panel regarding the consultation process employed by the Government of Albania on the plant and other investments in the Vlora area, which resulted in a negative finding against Albania by the Compliance Committee of the Aarhus Convention. The Bank is not a party to the Convention, but such deficiencies in access to information in Government decision making do have implications for the effectiveness of Bank Operational Policy implementation. As a result of the Aarhus Committee’s judgment, the Bank and other International Financial Institutions recognize that further guidelines and training for staff are needed. The Bank has consulted with the Compliance Committee in this regard, and Albania is implementing its action plan to improve Aarhus Convention compliance, which is partially supported with Bank funding.

7. The Panel has raised a number of concerns about the quality of project preparation, in particular the environmental assessment (EA) process. One concern is the use by the Government of Albania of the same international consultants for EA as for the feasibility/siting studies. Management agrees with the Panel that it is desirable to have engineering support separate from EA support, and this is the norm in the majority of Category A Bank projects. In the case of this project, the Bank’s alternative approach was used, whereby an independent firm with experience in the sector, but no links to the firm preparing the EA was selected to review documents and provide recommendations for quality assurance. The recommendations from the independent reviewer were taken into account to bolster the final EA.

8. A second concern was the Bank’s focus on project-specific issues following site selection, without expanding attention to broader sectoral and strategic development

questions. Management believes a sectoral or strategic EA approach was not required to conform to Bank policy, especially given the lack of financial or economic linkages and the unconfirmed nature of such investments. Management acknowledges that coverage in the EA on the impacts from additional units at the plant site (to a maximum of 300 MW) was unclear. Management clarifies that while the initial feasibility and siting studies carried out by the Government of Albania did examine this build-out option, the Bank and its co-financiers considered that the financial likelihood of additional units in the near to mid-term to be very low. Management notes this position is still valid nearly eight years later. Management notes nevertheless, that updated environmental analyses show that European Union air and thermal water standards still would be met for the 300 MW scenario. Management provides its perspective in the Report on these and other points; acknowledging some deficiencies in EA, consultation and social risk analysis.

9. The Panel, however, also recognizes that the plant has now been constructed and the focus on the facility should be directed to its future operation. Management agrees with the Panel regarding two areas for consideration. One relates to the risk of oil spills and this is directly addressed in Management's proposed action plan. The second relates to the overall process of planning for the Vlora Bay. With regard to this issue, the Bank, along with other donors, has worked closely with the Government on development of a Territorial Planning Law and this now sets the basis to ensure that appropriate evaluations will be undertaken throughout the country in the future.

Going Forward

10. Management will continue to engage the Government of Albania on improvements in territorial planning. Management, furthermore, is proposing an action plan that includes the following components:

- Focusing efforts to ensure that an Oil Spill Prevention and Response Plan is fully in place before the plant begins operations;
- Ensuring that state-of-the-art environmental monitoring continues at the plant, and information is shared with civil society;
- Assisting the Government of Albania (through an Institutional Development Fund grant) strengthen its capacity to comply with the Aarhus Convention regarding access to information in decision making that relates to the environment;
- Delivering an internal training module to ensure Bank staff are fully cognizant of ways to assist partner governments in meeting their international treaty obligations, especially with the Aarhus and other relevant conventions;
- Working with KESH, the Albanian electricity authority, on development of outreach programs to civil society; and
- Consistent with commitments previously made in the context of the Panel's Report on the Albania Integrated Coastal Zone Management and Clean-Up Project, strengthening internal capacity to deal effectively with social risk issues.

I. INTRODUCTION

1. On May 2, 2007, the Inspection Panel registered a Request for Inspection, IPN Request RQ07/03 (hereafter referred to as “the Request”), concerning the Albania: Power Sector Generation and Restructuring Project (Credit No. 3872-ALB) financed by the International Development Association (IDA). The Request for Inspection was submitted by the “Civic Alliance for the Protection of the Bay of Vlora on behalf of local residents living in Vlora” (hereafter referred to as the “Requesters”).
2. The Executive Directors and the President of IDA were notified by the Panel of receipt of the Request. Management responded to the claims in the Request on June 1, 2007. In its Report to the Board, the Panel found the Request eligible and recommended that the Executive Directors authorize an investigation. The investigation was authorized by the Executive Directors on July 18, 2007.
3. On August 7, 2009, the Panel issued its report outlining the findings of the investigation. Management appreciates the Panel’s clear and thorough presentation of its findings. This report, responding to the findings of the Panel, is organized in four sections. Section II provides background information on the Project. Section III discusses key issues and Section IV presents Management’s Action Plan in response to the Panel’s findings. Section V contains the conclusion. The Panel’s findings, along with the Management’s responses, are described in detail in Annex 1; Annex 2 provides information on air emissions modeling; photographs of the Project site and surroundings are included in Annex 3.

II. PROJECT CONTEXT AND STATUS

CONTEXT

4. Albania suffered from serious electricity shortages from the summer of 2000 through the fall of 2008. This was due to rapid growth in electricity demand and impacts from adverse hydrology on Albania’s predominantly (95 percent) hydropower-based system. A net exporter of electricity until 1997, Albania has since had to import significant quantities of electricity (from 300 GWh in 1998 to 2,700 GWh in 2007 and 2,300 GWh in 2008). Improved hydrological conditions during 2003–2005 and in 2009 resulted in reduced electricity imports and power disruptions but, in the absence of new thermal generation capacity, the vulnerability of Albania’s economy to adverse hydrology has continued to increase. At the end of 2006 and throughout most of 2007 and the first half of 2008 the country suffered from significant power supply disruptions.
5. The electricity crisis has had multiple impacts on the life of Albanians. Firstly, frequent and prolonged electricity load shedding (power cuts) deprives people of light, space heating, refrigeration, and cooking fuel, thereby adversely affecting their quality of life and their health, as well as restricting their access to education. Secondly, expensive electricity imports increase the need for government subsidies, diverting resources from

poverty reduction efforts. Thirdly, it adversely affects economic growth, impeding efforts to reduce poverty. Most of the supply disruptions in Albania affect disproportionately rural and poor areas of the country.

6. The electricity crisis has affected economic performance in a number of ways. A fall in hydropower production is the direct cause of a fall in national output. Electricity imports contribute to a widening of Albania's trade deficit. Load shedding leads to cuts in industrial production, and requires industrial and commercial enterprises to install costly back-up diesel-fueled power generators. In the most recent Investment Climate Assessment survey of 2008, electricity problems were highlighted as one of the two top concerns by businesses of all sizes and types.¹ Widespread electricity supply disruptions over a number of years have prompted businesses and households to invest in power generators that are expensive to operate and maintain, while their extensive use during blackouts contributes heavily to local air pollution and noise.

7. Albania's electricity needs are supplied almost solely by hydropower, which is subject to considerable variability since it is dependent on rainfall. The installed capacity is 1,450 MW, and the average generation in a normal hydrological year is about 4,200 GWh, compared to current demand of about 6,800 GWh. The Drin River cascade, with a total installed capacity of 1,350 MW, provides about 90 percent of the country's electricity generation. The remaining 100 MW of hydropower capacity comes from small plants on other rivers. The problems stemming from excessive dependence on hydropower from a single river are further exacerbated by the fact that the power generation facilities are concentrated in the north of the country, whereas the major load centers are in the center and the south. Since the climate is projected to be significantly warmer and drier in Albania by the middle of this century, hydropower will likely face further constraints.

8. Domestic thermal generation capacity is needed to reduce dependence on imports, diversify domestic generation and promote a more efficient use of existing hydroelectric capacity. A Bank-financed review of electricity supply and demand in Southeast Europe (2002-2012)² concluded that the absence of new generating capacity could lead to shortages, with the price of electricity imports to deficit countries in the region possibly equaling or exceeding the full cost of power from new plants. Additional domestic generation capacity for Albania would reduce excessive dependence on imports and thereby lessen vulnerability to supply disruptions and price increases. Shortages have already begun to appear in the region and the price of electricity imports has increased significantly (the average import price rose from 4.4 Lek/kWh in 2004 to 9.1 Lek/kWh in 2007 and 2008). Albania, especially during dry years, is facing considerable difficulties in obtaining sufficient imported electricity.

¹ *Building Competitiveness in Albania*, World Bank Report No. 47866-AL, forthcoming.

² "Review of Electricity Supply and Demand in South East Europe," World Bank, ECSIE, 2003.

THE PROJECT

9. To address the power sector crisis, the Government developed an Action Plan in late 2000. The Government also adopted a Power Sector Policy Statement in April 2002, setting out the sector reforms to be implemented, and a National Energy Strategy in June 2003, identifying priority investments, financing needs and required reforms for the energy sector. In line with the strategy contained in these documents, the Government made efforts to find financing for new power plants to address the increasing electricity shortage. Various studies commissioned by the Government clearly identified that addition of domestic thermal generation capacity was needed. The addition of thermal capacity would improve the security of electricity supply and thereby facilitate Albania's reconnection with the European network.

10. In January 2002, the Government of Albania met with the World Bank Country Director and asked the Bank to assist in arranging donor financing for a new thermal electric power plant (TPP). As the World Bank had a limited financing envelope for Albania under its IDA allocation, the Bank initiated discussions with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) regarding co-financing of a TPP, and informed the Government that the three International Financial Institutions (IFIs) were prepared to assist it in adding critically-needed thermal generation capacity (about 100 MW nominal capacity). An internationally recognized consulting firm (already retained by the Government of Albania in 2001) prepared a siting and feasibility study of the proposed Project, with financing from the United States Trade and Development Agency (USTDA) in 2002. It also prepared a Project Environmental Impact Assessment (EIA) in 2003. Project appraisal commenced in November 2003.

11. The Vlora TPP is the first new generation plant in Albania in more than 20 years. A contract was awarded for this small TPP of 97 MW capacity in January 2007. The plant is expected to provide about 680 GWh per year (at an availability of about 80 percent). When commissioned, it is estimated to cover about 20 percent of the supply deficit in an average hydrological year. Construction of a thermal plant in the southern part of the country will reduce technical losses and significantly improve the security and quality of supply in the country overall and in particular in the south, which is poorly served at present.

12. The Project consists of:

- (i) A Combined-Cycle Gas Turbine (CCGT) power station fueled by very low sulfur content distillate oil at a six-hectare site about six kilometers north of Vlora adjacent to an old offshore oil tanker terminal; and
- (ii) Technical assistance for:
 - bid evaluation, contract administration and supervision of Project implementation;
 - formation of a subsidiary company of the Albanian Power Corporation (KESH) to own and operate the plant, preparation of a

- power purchase agreement, and assistance in procuring the services of an operator for an initial period;
- follow-up studies required by the Environmental Management Plan (EMP);
- examination of the option of soliciting bids to supply fuel to the plant;
- power sector reforms;
- consumer satisfaction surveys;
- improvements in inventory control; and
- training in procurement and environmental management.

13. The Project will use CCGT technology for power generation. This technology achieves significantly higher efficiency than other options for thermal power generation and produces very low air emissions. CCGT technology is used primarily with natural gas as a fuel but, in the absence of natural gas in Albania in the short to medium term, the plant will be fueled by distillate fuel oil. The fuel specifications for the plant provide for low sulfur content of distillate fuel in order to reduce emissions, even though this will add to the operational cost. *“Fuel sulfur content will be monitored to ensure that it is less than or equal to 0.1 percent by weight. Sampling and analysis should be performed on each delivery received.”*³ The TPP is designed to allow conversion to natural gas if and when it is imported to Albania.

14. The total amount of financing for the contract of the TPP is currently expected to be EUR92 million (approximately USD123.3 million). Based on the awarded Engineering, Procurement and Construction (EPC) contract the cost of the power station Project includes: (i) an offshore oil tanker terminal; (ii) an undersea pipeline; and (iii) fuel storage facilities. It also includes USD4.4 million for a connection to the Albanian transmission system at the Babica 220/110 kV substation located seven kilometers away. The total Project cost also incorporates USD4.85 million for technical assistance and training. The power station will be owned and operated by a separate corporatized enterprise, with all of its shares held by KESH. There will be a power purchase agreement between the company and KESH, with a guaranteed take-or-pay arrangement for a limited period.

15. Financing for the Project is being provided through an IDA Credit of USD25 million equivalent and loans of EUR40 million each (approximately USD54 million) from EIB and EBRD. The three IFIs are providing joint financing, rather than parallel financing, since there is a single supply and install contract (EPC) for the TPP.

16. The Project benefits consist of: (i) increased electricity supply from the new power station that will contribute to an improved balance between hydropower and thermal power; (ii) avoided costs of transmission lines and capacitors to improve electricity service in southern Albania; (iii) lower transmission losses since the plant will be located near demand centers in southern Albania where there is currently a supply

³ From the EMP, which forms the Annex to Contract document (h), Annex 5. Refer to table 8.4, page 21. Use of this low sulfur fuel would be in line with EC directive 1999/32/EC which will require distillate fuels to reduce sulfur content to 0.1% sulfur from January 1, 2008.

shortage; (iv) potential for fulfillment of the condition to connect with the UCTE⁴ system; (v) less load shedding resulting from reductions in non-technical power losses and improved collections, since both lead to lower demand and improve the ability of KESH to pay for imported electricity; (vi) improved power sector financial performance resulting from reductions in transmission and distribution losses, and (vii) implementation by the Government of a clearly defined power sector reform strategy. In addition, increased electricity availability should help to support the growth of tourism in the Vlora area as well as further south.

17. KESH has been managing Project implementation, with a Project Management Unit that had experience with previous power sector projects with the Bank in Albania.

PROJECT STATUS

18. The Project was approved by the World Bank's Board on March 16, 2004. The legal documents were signed on April 6, 2004 and the Project became effective on January 25, 2005. The initial procurement process, however, was subject to considerable delay, first because of the time needed to receive final confirmation from the Government that the Project should go ahead (see Box 1 below) and second because of the complexity of the evaluation process, given the need to compare bids for different size units and incorporate the impact of the proposed maintenance contract component. As a result, the EPC contract was only signed on February 9, 2007 and became effective on May 5, 2007. Engineering design of the facility started immediately after EPC contract effectiveness, while civil works on the Project site started in August 2007.

Box 1: Response to Panel's Comments on "Threat of Suspension"

Management notes the Panel's discussion on the change of Government in 2005 and Management's letters to the Government in April and May 2006, in which the Bank requested confirmation from the new Government of Albania that it agreed with continuation of the Power Sector Generation and Restructuring Project.

Management would like to reiterate that when the Government in Albania changed, following elections in June 2005, the Bank gave time for the new authorities to review the project, recognizing that it had been the subject of political debate and campaigning before the June 2005 elections. Indeed, an ad-hoc committee established by the new Government carried out two meetings in Tirana (October 2005) and a third meeting in Vlora (November 2005) to review the project.

However, by April 2006, the Government's intentions remained unclear. Management then had to decide how to proceed with a Project that had been inactive effectively for 25 months after Board approval and 15 months after effectiveness. Considering the significant delays in implementation and the amount of valuable IDA resources that were committed in a non-advancing Project, Management believes that it was appropriate to request at that time a clear commitment from the Government to either continue or cancel the Project.

⁴ Union for the Coordination of Transmission of Electricity. Note that as of July 1, 2009 the European Network of Transmission System Operators for Electricity (ENTSO-E) has taken over operational tasks of all existing transmission operators in Europe, including the UCTE.

19. Progress on the EPC Contract has faced some delays and while the TPP was initially planned to become fully operational in June 2009, it is currently expected to be transferred to KESH for regular operations in early November of this year. As of September 4, 2009, about 95 percent of the civil works have been completed and the TPP is in its commissioning phase. The Project is 84 percent disbursed, while the remaining undisbursed funds are fully committed. The Project's current closing date is December 31, 2009; however, depending on the actual progress of the EPC Contract, an extension of the closing date of a few more months may be required.

20. Regular supervision missions were carried out by the Project team⁵ after the approval of the Project by the World Bank's Board. Project supervision during construction of the Vlora TPP involved regular site presence by the Project team, while Regional Management for Europe and Central Asia (ECA) -- Vice President, Country Director, Strategy and Operations Director, and Sector Director (ECSSD) -- has visited the construction site during various missions to the country.

21. The most important development regarding the electricity sector in Albania has been the successful privatization of the electricity distribution company in June 2009. Both the International Finance Corporation (IFC) and the World Bank have been involved in this transaction, with the IFC providing advisory services to the Government and the Bank a Partial Risk Guarantee. The Vlora TPP has contributed to this successful reform by addressing investor concerns regarding the availability of enough electricity supply in the country.

III. KEY ISSUES

22. The Investigation Report outlines the Panel's findings in an executive summary, detailed narrative, and matrix, with the latter organized along nineteen major issues under four themes. Management's findings, comments and actions are arrayed alongside these same issues in Annex 1 of this report. The following Key Issues section presents additional background information and context for each of the four themes and is consistent with Annex 1.

Environmental Compliance

23. ***Projected Risks to Human Health and the Environment from the TPP.*** Management is pleased to note the concurrence by the Inspection Panel regarding the expected compliance of the operating TPP with applicable air emission and cooling water discharge limits. Management wishes to take note of the Panel's finding (pages xvi-xvii) that "*atmospheric emissions from the Vlora TPP do not pose a significant harm to either the human population of Vlora or the flora and fauna of the Narta Lagoon.*" Also, "*The localized rise in water temperature from the TPP cooling water discharge...is far below the maximum allowable standard...*" Revised projected air emissions are expected to be well within EU standards for the three principal air quality parameters (nitrogen dioxide, sulfur dioxide, and particulate matter) as noted in Box 2. As will be discussed below,

⁵ See Implementation Status Reports from 9/29/2004.

Management agrees that a remaining concern is offshore oil spills, but believes that significant progress has been made on this issue. Further assurance of such progress is a key element of the Action Plan. Management also agrees that continued air and water monitoring is essential for ensuring the plant meets its strict design standards. The plant includes continuous stack emissions monitoring as part of its operational procedures. Results are required to be submitted to environmental officials, and plans are being put in place to share the information with civil society.

Box 2: Updated Atmospheric Emissions Modeling

KESH's Environmental Consultant –using meteorological and air monitoring data collected by KESH in the Vlora region close to the Project site—calculated expected values of atmospheric emissions from the power plant operations. The results and their comparisons with EU standards are included in Annex 2 (Air Emissions Modeling).

In summary, there is no case where emissions exceed 17 percent of EU allowable standards, while in many cases emissions are expected to be below 10 percent of those standards. Even when the background air quality recorded by KESH in the vicinity of the Vlora plant is added to the worst case predictions of the model, the EU ambient air quality guidelines would not come close to being exceeded.

Modeling of the option with three CCGT units (approximately 300 MW) again shows that the plant would operate within the requirements of the EU Air Quality Directive even when the worst case maximum background concentrations recorded by KESH are added to the model predictions.

It was concluded that neither the operation of the single CCGT nor that of a 3 unit plant would by itself cause a violation of the relevant EU guidelines, even at the locations where values are highest (largely uninhabited mountains to the northeast of the site).

Source: KESH Environmental Report Update, October 2008 and August 2009

24. ***Environmental Assessment and Consideration of Site Alternatives.*** Management acknowledges the Inspection Panel's finding that the Government of Albania selected the site for the TPP (and associated investments) in 2002, before the detailed Environmental Assessment for the Project commenced in 2003. While the Investigation Report finds deficiencies in this approach regarding OP 4.01 compliance, Management believes the Bank's engagement during this stage before Concept Review conformed to Bank policy and acceptable practice. As the Bank had been a partner with the Government of Albania on energy issues for several years, during 2002 the Bank did provide advice to the Government of Albania (and its consultants) on an informal basis as a potential financier of the TPP. The Bank was aware of the preference of the Government of Albania for a TPP site in Vlora, as well as the work of the international consultants preparing the feasibility and siting studies. As part of due diligence, the Bank urged the Government of Albania to consider other alternative TPP sites besides Vlora. This recommendation was accepted, as reflected in the consultant Terms of Reference in April 2002, and was followed thereafter in the siting study, which was finalized on October 21, 2002.

25. During the August 2002 Project Identification Mission, Bank staff provided comments on the preliminary draft siting and feasibility studies regarding technical, environmental, economic and financial aspects. The team visited the Vlora site and noted

some environmental issues that would need to be addressed in the eventual Project EIA, including potential impacts on the Narta Lagoon and establishment of baseline air and water quality data. During the mission, the Government was informed that the Project EIA process would start once the site was selected and noted the two-stage period of consultations on the EIA. Previous interactions with EBRD raised the likely Category A rating for the TPP Project, which was confirmed internally in the Bank in October 2002.

26. The Bank formally started preparing the Project with the issuance of the Project Information Document (PID) on January 2, 2003 and internal Concept Review meeting on January 10, 2003. The first Project Integrated Safeguards Data Sheet was posted in the InfoShop on February 20, 2003, confirming the Category A EA rating.

27. The Concept Review meeting came after the Vlora Council of Territorial Adjustment approval of the Vlora B site on December 21, 2002 and immediately before the Albania Council of Territorial Adjustment approval on February 19, 2003 of the highest ranked site (Vlora B) emerging from the feasibility/siting stage. While actions by the Government of Albania during its site selection process were not in themselves subject to OP 4.01, the Bank believed that the multiple-criteria approach utilized by the international consultants for seven alternative sites⁶ was good practice. The Bank thoroughly reviewed the consultants' report concerning these multiple sites and considered the recommendation of Vlora B to be technically sound. The Bank was aware of the public meeting (held on October 31, 2002) that followed the release of the final siting study, but as noted later in this report, the Bank recognizes that earlier consultation with potentially affected communities would have been desirable.

28. The Bank's due diligence confirmed that the Vlora B site merited the highest ranking and that a Project EIA to investigate its full suitability could commence. Management emphasizes that the EIA thereafter was not to simply endorse the Vlora B site but to assess risks, determine mitigating measures and ensure that Bank policy requirements were met. Subsequently, the results of the siting study (including environmental screening) were included in the required section on alternatives in the EIA, as required under OP 4.01 for a Category A project. Management believes that the Project EIA disclosure and consultation which followed provided significant improvements on Albania's previous procedures.

29. ***Environmental Assessment Instruments and Their Applicability to the Project.*** Following on the above points, Management acknowledges that the Project EIA focused on the risks and mitigating measures for a TPP at the highest ranked site near Vlora. Management wishes to clarify its position regarding other EA instruments which in the Panel's view may be needed for OP 4.01 compliance, given the statement in the Investigation Report regarding "...the omission of a cumulative impact analysis of the thermal plant together with its ancillary equipment (such as the oil terminal in the midst

⁶ The seven sites were Durres, Elbasan, Fier, Korca, Shengjin, Vlora A (contaminated former soda factory) and Vlora B ("greenfield" site eventually selected).

of the Bay's waters) and with follow-up investments already contemplated by the borrowing Government or other investors in the area around the TPP.”⁷

30. **Project EIA.** Management notes that the Project EIA includes the Final Environmental Assessment report and EIA Addendum (including an EMP) for the 100 MW⁸ TPP and associated investments (cooling water intake and discharge; oil supply line; and power transmission line) financed by the Project⁹. The single TPP remained the sole infrastructure investment subject to Bank appraisal and covered by the IDA credit. The Project EIA was approved at the Decision Meeting as meeting OP 4.01 Category A requirements for the TPP, which the Government of Albania agreed to implement. Risks from key associated investments, in particular the oil supply pipeline, were taken into account in Project implementation, as discussed below. Each of the three successive Project EIA documents (Draft, Final and Addendum) reflected consultation inside and outside the Bank in an iterative fashion to strengthen the analysis of whether the Vlora site was suitable to meet Bank, other IFI and Albanian requirements. The iterative approach extended to the EMP, which was included in the Project EIA and thereafter strengthened and augmented in the EPC contract and facility design.

31. **Cumulative Impacts.** Management acknowledges that the Project EIA ought to have been clearer with regard to coverage of the potential cumulative impacts of two generation units in addition to the one unit co-financed by the Bank (thereby expanding the Vlora TPP to the maximum 300 MW that could be accommodated at the site). Management clarifies that while the initial feasibility and siting studies carried out by the Government of Albania did examine both the 100 MW and the 300 MW options, the Bank and its co-financiers considered the financial likelihood of additional units in the near to mid-term to be very low. Management notes this position is still valid nearly eight years later.

32. Despite the stated focus on only one unit, initial calculations of air and water emissions from a 300 MW facility were carried out during the EIA. Management acknowledges, however, that the presentation of cumulative impact data on air and water was not clearly highlighted in the final Project EIA, which contributed to confusion.¹⁰ Management notes that updated calculations of air emissions from a 300 MW unit have been provided by the KESH environmental consultants based on ambient air quality measurements taken before civil works commenced. These calculations suggest that for a 300 MW facility, all key air parameters (particulate matter, nitrogen dioxide and sulfur dioxide) would be within allowable limits relative to the applicable EU or World Bank guidelines (see Box 2 above). Thermal impacts on Vlora Bay from the cooling water

⁷ Investigation Report, page xxxv, bottom.

⁸ The Project EA references a plant of between 90 and 130 MW, which was fitting given the EPC approach, but for ease of presentation the 100 MW designation is used in this Report.

⁹ Available on the World Bank external web page for Albania (<http://web.worldbank.org/external/projects/main?pagePK=51351038&piPK=51351152&theSitePK=40941&projid=P077526>).

¹⁰ The “scaled-up” calculations for a 300 MW unit that were included in the Draft were also included in the Final but not labeled as such, suggesting the calculations only refer to a 100 MW unit.

discharge of a 300 MW facility are projected to be within allowable limits, as also noted by the Panel.

33. **Energy Sector EA Considerations.** Management wishes to clarify its views on the Panel's finding that the EIA did not address "*follow-up investments already contemplated by the borrowing Government or other investors in the area around the TPP.*"¹¹ The Investigation Report suggests that an energy sector EA should have been prepared covering, for example the proposed AMBO¹² pipeline and coastal oil storage terminal (which had been raised in 2002), and mentions the proposed wind-farm on the Karaburun Peninsula and proposed undersea power transmission cables to Italy. Management maintains that as there was no appreciable financial or economic linkage between these investments and the TPP, an energy sector EA was not required. The TPP was justified on its own to partially fill the gap in national energy requirements. Management notes that the concept of the AMBO pipeline has not advanced, the oil depot (constructed and operated by a private consortium called La Petrolifera) was specifically rejected as a sole source supply by the Government for the TPP and largely meets needs other than the TPP, and the proposed wind farm and undersea cable on the Karaburun Peninsula were only raised in 2008. Management maintains there is no policy requirement that obliges borrowers to carry out a sector EA for a range of investments without a clear financial or economic link to specific infrastructure investments under consideration for Bank financing.

34. **Strategic or Regional EA Considerations.** Management notes the Panel's concern that more strategic or regional development issues were not addressed in the Project EIA and wishes to clarify its position in this regard. Apart from the potential energy sector investments noted above, other investments in the Vlora area were proposed during Project preparation and thereafter during implementation. These include the "industrial/energy park" surrounding the TPP, as well as other major strategic development choices proposed for Vlora, such as expansion of fisheries (including aquaculture), expansion of tourism (including tradeoffs with energy/industrial development), the possible expansion of Vlora as a deepwater port and container terminal, a second industrial park, and a major residential complex on the western shore of the Narta Lagoon.

35. Management maintains that while the TPP site is located at the edge of a designated "industrial/energy park," other investments in the park were ill-defined during Project preparation and, except for the above unassociated oil terminal, none have been developed to date. As noted above, the 100 MW Bank-financed TPP is filling a gap in national energy needs and was not intended specifically to serve the needs of a park. Most importantly, as noted earlier on energy sector EA, Management maintains that there was no appreciable financial or economic linkage between these potential investments and the TPP. Therefore a strategic or regional EA was not required to conform to OP 4.01. A few of the potential investment ideas that have been suggested since Project preparation have received initial government approval but many remain unconfirmed.

¹¹ Investigation Report page xxxv.

¹² Albanian Macedonia Bulgarian Oil.

The Government of Albania had not requested any Bank lending or advisory assistance for strategic investment matters in Vlora before or during Project preparation, nor did Management view such engagement as necessary to meet policy requirements for the TPP. Management also believes that advances in Albania's Territorial Planning approach (as discussed later in this report) is an appropriate vehicle for addressing broader development concerns.

36. ***Independence of Project EIA Consultants.*** Management notes the Inspection Panel's finding regarding non-compliance with OP 4.01 on use of the same consulting firm for the feasibility study and EIA. Management agrees with the Panel that it is desirable to have a separation of EA from design/engineering in order to avoid potential conflict of interest and, in fact, this has been the norm in the majority of Category A Bank projects. In the case of this Project an alternative approach was needed as all preparation assistance for the Government of Albania was being provided under one contract financed by USTDA, and, under an EPC approach, project engineering is done during implementation.

37. The Bank approached the Government of Canada, which had been supporting (through its international development agency, CIDA) sectoral work on power supply in Southeast Europe, for assistance in funding an independent review of the EIA report. CIDA selected a consultant to review the draft EIA report, which then provided comments in October 2003 in twelve topical areas to strengthen the documents. These were taken into account by the World Bank, EBRD and the EIA consultant, and reflected in both the Final EIA of October 2003 and a December 2003 Addendum (together the Project EIA) that also included further reviews by Bank staff and EBRD. While Management agrees that this iterative process was not optimal, and notes that it will seek to minimize such arrangements in the future, the use of an independent firm and staff from two IFIs was deemed to be sufficient by Management to meet the intentions of OP 4.01 regarding avoidance of conflict of interest. Management was not aware of any financial or technical link between the consultant selected by CIDA, and the consultant preparing the USTDA-funded EIA. Management viewed the CIDA-supported consultant's experience in the energy sector in Southeast Europe as a valuable qualification in carrying out the independent review of the EIA.

38. ***Other Aspects of the Environmental Assessment Process.*** The sequence of EA steps carried out during Bank formal Project preparation is summarized in paragraphs 39-43 of the Management Response to the Request for Inspection issued on June 1, 2007 and is therefore not repeated here. Management notes with concern the statements in the Investigation Report which question the quality of the EIA and the Bank and partner IFI review processes. Management believes that the Project EIA was certainly of at least adequate quality and reflected a vigorous and professionally sound internal peer review among Bank staff and their counterparts in the co-financing IFIs. The EA process was iterative and in the case of the Project included a Draft EIA report, public consultations on the draft, a Final EIA report and, to reflect further discussion and peer review by Bank and EBRD specialists, an Addendum.

39. Management notes that EBRD's approach to EA is quite comparable to that of the World Bank. On this point, Management notes that the Compliance Review Report of the EBRD Independent Recourse Mechanism (issued April 17, 2008 in response to a complaint on the TPP received on April 19, 2007) did "*not find that the EBRD failed in its obligation to ensure that an adequate EIA was carried out by the Project Sponsor*" and also that "*The Final EIA of October 2003, combined with the EIA Addendum of December 2003, addressed the issues and contained more than the minimum of information required under the EBRD Environmental Policy.*"¹³

40. Management does note that despite the general adequacy of the Project EIA, the Investigation Report highlights several smaller deficiencies in the EA process; clarification by Management on a number of these is provided in Annex 1.

41. ***Oil Spill Prevention and Response.*** Management agrees with the Inspection Panel on the need to ensure that the TPP has in place the correct procedures for preventing "*the potentially serious environmental impact of potential oil spills during fuel delivery.*" In regard to the Panel's view that "*...the medium- and long-term risks to Vlora Bay marine environment and beaches from potential spills when fuel is offloaded are not minimized and are not planned to be minimized before operations may start...*,"¹⁴ Management would like to clarify that the risks of oil spills were well-identified during Project preparation. Explicit references to oil spill risks – both during construction and operation – were made in the EIA of the Project, while management and mitigation measures were incorporated in the EMP. In turn, the EMP formed part of the bidding documents for the EPC Contract (Annex 5) to construct the Vlora TPP. This is common practice to ensure that the Contractor performs works and detailed engineering designs in accordance with the EMP.¹⁵ The EMP explicitly requires the EPC Contractor to prepare: (i) an Oil Spill Prevention Plan (to minimize risks of spilling oil); and (ii) an Oil Spill Response Plan (to clean up oil spills if they occur despite preventive measures). In addition, the Project's legal documents include a specific provision requiring KESH to ensure the implementation of the EMP¹⁶ with the statement that: "*KESH shall take or cause to be taken, all measures necessary for the carrying out of the EMP in a timely manner...*"

42. As of September 3, 2009, the Oil Spill Prevention and Response Plans for the on-shore installations of the Vlora TPP, including equipment and containment structures, are

¹³ Citations from paragraphs 42 and 43; "European Bank for Reconstruction and Development; Independent Recourse Mechanism: Compliance Review Report Relating to the Vlore Thermal Power Generation Project;" 17 April 2008. Available at <http://www.ebrd.com/about/integrity/irm/0701crr.pdf>.

¹⁴ See pages xvii-xviii of the Investigation Report.

¹⁵ Immediate responsibility for the detailed preparation and implementation of the EMP lies contractually with the EPC Contractor, as the EMP forms an integral part of the EPC Contract. For instance, under the EPC Contract Section VI, 1.4.7, the Contractor is obliged to "prepare an Oil Spill Prevention Plan for a potential chemical and/or oil spill scenario during the construction period." Also, according to the EPC Technical Specifications Section VI, Annex V, Table 8.2, "Operation Phase Mitigation," the EPC Contractor has to "submit an oil spill prevention and response plan with necessary response equipment, mitigation measures and a training program for the on-site personnel."

¹⁶ Project Agreement signed between KESH and the World Bank on April 6, 2004; see Schedule 2 Implementation Program, section 3.

in place. Regarding the off-shore facilities, the Oil Spill Prevention Plan is in place, while the Oil Spill Response Plan is being finalized and according to the Credit Agreement with the Bank, must be in place before the plant is operational.

43. The Government of Albania and the Bank recognized that KESH did not have the necessary knowledge and skills required to oversee various environmental aspects of the Vlora TPP Project. For that purpose, another separate consultancy focusing only on environmental issues was also financed under the technical assistance component of the Power Sector Generation and Restructuring Project. An Environmental Management Unit (EMU) was created in KESH to follow environmental aspects of the Project, and since 2006, the Environmental Consultancy has provided specific assistance to this unit. An internationally known consulting firm with specific expertise on oil spills was also brought in under sub-contract. A key task of the firm was to: *“Review an oil spill prevention and response plan to be prepared by EPC Contractor.”*

44. Because of the delay in awarding the EPC contract, the Environmental Consultancy contract remained dormant until April 2007, when KESH and the Consultant declared the contract effective. The EPC Contractor began the actual engineering and construction works on the Project site in May 2007.

45. Based on the progress of the works, starting in October 2008, the Bank’s Project team, along with its co-financiers, requested KESH to provide the Oil Spill Prevention and Response plans. KESH thus requested its EPC Contractor at that time to begin preparation of the Oil Spill Prevention and Response plans. The EPC Contractor submitted the Oil Spill Prevention plan in May 2009. The Environmental Consultant reviewed and provided comments on the Oil Spill Prevention Plan. Management believes that the engineering and construction of the off-shore fuel facilities are of international standards and that oil spill risks during fuel unloading are minimized. Finally, Management notes that the Vlora TPP is expected to take 15 to 20 small (e.g., perhaps 10,000 tons) tankers annually (assuming base load operations of around 80 percent).

46. ***Bank Action to Remedy Deficiencies.*** As the final offshore Oil Spill Response Plan is not yet fully in place, the Bank will oversee the completion of the Plan in advance of routine facility operation (estimated at present to be early November 2009), as required by the Credit Agreement.

Economic Evaluation of Alternatives

47. This section of the report refers to the Panel’s findings largely in the context of compliance with OP 10.04, Economic Evaluation of Investment Operations and OMS 2.20, Project Appraisal.

48. Management notes the Panel’s finding on the Project’s economic analysis, confirming the positive high economic return of the Project for the Albanian economy. It also acknowledges the Panel’s statement that *“(a) adding a technology and cost structure*

like the TPP to the current structure of cost and supply in Albania makes infinitely good sense...”¹⁷

49. **Re-evaluation of the Fier Site’s Economics.** Management notes that the Panel’s report on the economic analysis leading to the selection of the Vlora B site analyzes ex-post the alternative of constructing the same TPP in Fier (the site that came second in order of preference in the consultant’s siting study), but remains inconclusive on whether this site should have been preferred on the basis of the economic cost-benefit analysis. Management would like to clarify certain issues related to the Panel’s analysis of Fier, which tend to indicate that even today—with the benefit of hindsight and knowledge added compared to the time of the Project’s appraisal—on the basis of economic analysis, the Vlora site would still likely be the preferred site. The Panel makes certain adjustments to re-evaluate the levelized costs calculations presented in the siting study comparing the Fier and Vlora B sites. In that regard, Management wishes to note the following. Firstly, the fuel offloading facility built for Vlora B would have also been necessary for the Fier plant. Fier is not on the coast, therefore sufficient fuel would still need to be transported to the site (requiring a lengthy pipeline with associated potential for environmental impacts during construction). Given the proximity of Fier to Vlora Bay and the lack of alternative nearby ports, there is a high likelihood that fuel facilities similar to the existing ones would be needed for Fier. The adjustment of the capital cost for Vlora B should therefore also apply to the Fier option. Secondly, when in 2007 KESH approached its EPC Contractor to negotiate a discount for the possible removal of the off-shore fuel facilities from the Project (considering the Petrolifera alternative), the EPC Contractor indicated that the total Contract value would be reduced only by about USD3 million (not USD6 million noted in the Panel’s report, page 66). Given the above, the adjustments in the Panel’s report lead to an overstatement of the costs of Vlora B. Nevertheless, even with those adjustments, the Vlora B site is clearly the better choice on the basis of ‘internalized’ costs.

50. With regard to external costs, the Panel emphasizes the externalities of: (i) damage to fisheries; and (ii) tourism.

51. **Fisheries.** Management concurs with the Panel’s findings: “(i) *atmospheric emissions do not pose a significant risk of harm to either the human population of Vlora or the floral and faunal populations of the Narta Lagoon;*”¹⁸ and (ii) the marine environment will not be significantly affected by the operation of the plant’s cooling system.¹⁹ It appears therefore, that the only potential harm to fisheries would be a potential oil spill of such an extent that it would irreparably damage fisheries in Vlora Bay. The Panel’s analysis estimates damage to fisheries at an annualized USD843,000.²⁰ Management wishes to note that this amount of damages would require a worst-case scenario (e.g., collision between large tankers) rather than anything associated with TPP routine offloading of fuel at the single point mooring location. In addition, for these

¹⁷ Investigation Report, Annex D, page 115.

¹⁸ Investigation Report, para. 169, page 40.

¹⁹ Investigation Report, paras. 174, 175.

²⁰ Investigation Report para. 296.

annualized costs to occur, a worst case remediation scenario should also be assumed (i.e., the oil spill would not be cleaned up for many years.)

52. Regarding the relative positions of the Vlora B and Fier sites, if such an externality is to be taken into account, Management would like to clarify that oil spill risks would apply equally to the Fier site and to Vlora B, as both would use similar oil fueling facilities. Therefore, the site selection evaluation would not have been affected.

53. That said, Management notes that the risk to fisheries from an oil spill was identified during the EIA and addressed through the EMP. The EMP explicitly requires the EPC Contractor to prepare: (i) an Oil Spill Prevention Plan; and (ii) an Oil Spill Response Plan. The Project also financed a separate Environmental Consultancy to assist KESH with ensuring proper implementation of the EMP. As noted earlier, one of the four specific tasks of this Environmental Consultancy concerns the implementation of the EMP especially regarding Oil Spill Prevention and Response. Bank staff and KESH have met on several occasions with fisherman working out of the port next to the TPP to inform them of progress in reducing these risks and they have been receptive and supportive.

54. Given the Project's design to: (i) minimize oil spill risks (Oil Spill Prevention Plan); and (ii) mitigate any remaining risks (Oil Spill Response Plan), Management believes that the Project's economic analysis correctly placed little value on the externality costs of damaged fisheries.

55. **Tourism.** Management agrees with the Panel's finding:²¹ "*The actual size/footprint of the TPP is not a pristine natural area with high potential to attract tourism. [Zverrneci Island and the Treport headland and the larger part of the Vlora Bay shoreline] none of these locations will be immediately impacted by the TPP...*" The Panel finds, however, that there are risks that the 'sense of place' of the Treport headland and Vlora Bay as a desirable tourist site remains at risk, because of the operations of the TPP and other proposed developments.²²

56. Management acknowledges that there may be some impacts—localized and narrow in the Project area—for tourism. Because thermal power plants require proximity to waterways for quantity fuel transportation and considerable water mass for cooling purposes, it is not uncommon that such plants are located close to the sea. A significant number of islands in the Mediterranean have built power plants on their coasts, but tourism advanced rapidly nonetheless as a result, *inter alia*, of a reliable electricity supply.

57. Management acknowledges that some external costs related to tourism were not taken into account in the Project's economic analysis. However, such costs would not have materially altered the overall economics of the Project, because they would most likely be more than compensated by the benefits for tourism of reliable power supply. In addition, Management would like to clarify that, on an annualized basis, such costs would

²¹ Investigation Report para. 107.

²² *Ibid.*

need to exceed USD1.8 million for the Fier site to be selected over Vlora B. Given the small footprint of the TPP and its lack of immediate impacts on Vlora Bay, as the Panel acknowledges, it is unlikely that potential losses from tourism revenue would be so high as to justify the additional costs of constructing the plant at Fier.

58. Management also acknowledges that should further industrial developments take place in the zone, tourism in the Treport area may be affected. However, this is an issue that is addressed through Albania's new territorial planning law.²³

Compliance with Social and Cultural Policies

59. The Panel found that "the Bank did not seek to obtain information on the presence and role of cultural endowments in the Vlora Area."²⁴ Management acknowledges that a field survey of cultural resources was not carried out during Project preparation and that it erred in suggesting that no sources existed regarding cultural heritage in the area. Bank practice was to trigger OPN 11.03 only when there was reason to suspect that the Project could disturb archaeological remains or other culturally significant resources. As noted by the Panel, a supervision mission in 2006, which included a professionally qualified archaeologist, determined that no archaeological remains were likely to be found there, and this has proven to be the case during plant excavation and construction. With regard to the archaeological sites of Treport Cape/Aulona, Orikum, Kanina Castle and Marmiroi Church, these are all located at some distance from the power plant, which is not visible from most of these locations. No roads, pipelines or transmission lines will traverse or pass near any of these sites. No evidence suggesting that tourists will fail to visit these historical sites because of their proximity to the TPP has been cited by the Requesters or the Panel. Management believes that factors such as road access, site improvements and the availability of amenities such as guides, museums and guidebooks will be more determining of tourist visitation than the presence of a power plant in the vicinity.

Social Assessment

60. The Panel found that "*a flaw in the Bank's work for the Project was the absence of a social assessment during Project appraisal.*"²⁵ The assessment of social impacts is required in OP 4.01, which stipulates that social impacts and opportunities must be taken into account during this due diligence and managed and mitigated using environmental and social action plans. The definition of environment fully incorporates social impacts and opportunities as a key component of the EIA. As part of the EA process, Management believes it is essential to conduct adequate social research and consultations supported by public disclosure, which are needed to identify and manage social impact issues and development opportunities resulting from the investments.

²³ Officially cited as Law No.10 119, dated 23 April 2009, "On Territorial Planning." This was technically effective 15 days following its publication in the Official Gazette Fletore Zyrtare #56 (published on May 8, 2009) though fuller application will take place by September 2010, when Law No. 8405 of 16 September 1998, "On urban planning," will be fully revoked.

²⁴ Investigation Report, para. 224.

²⁵ Investigation Report, para. 227.

61. In Management's view, social issues were not perceived as a prominent feature of the investment during the EA process in 2003 because the TPP was not located in a residential community but rather in a relatively isolated location behind an undeveloped beach, 6 kilometers from Vlora (see Box 3). There did not appear to be major differences among stakeholder groups, ethnic or class distinctions relevant to the power plant. There was widespread agreement that Albania needed to increase its power generation capacity and to diversify its energy sources. There were no social groupings that would appear, *prima facie*, to be relevant for the issue of power plant siting. The only significant users of the area were fishermen and local bathers who use the beach in the vicinity of the power plant site.

62. Although there are good economic and technical justifications for the location of the plant, broader consultations at the start of Project preparation might have revealed differences in public opinion about the plant and its location on Vlora Bay and possibly flagged opposition to it. Wider consultations could also have revealed a broader range of local stakeholders' visions of and aspirations for Vlora. However, these observations only came to light in January 2005, some ten months after signing of the Project Agreement and well after the EA process had been completed. Management acknowledges that these post EIA-issues would have been better managed if the Project had established a public information and outreach facility.

63. Consultation and public participation called for in OP 4.01 should have been sufficient to identify issues of concern to local residents. It is possible that the consultations carried out in 2002 and 2003 may not have included some relevant stakeholders, who later expressed opposition to the Project's design. In hindsight, during 2005, when opposition to the Project first emerged, it may have been appropriate to bring a social scientist into the field to gauge the social situation and the diverse public opinions concerning the Project.

Box 3. The TPP Site

Although tourism is important to Vlora, there are no permanent resorts or hotels located on the beach behind which the TPP is located. It is a stretch of sandy beach with shallow water and gentle surf. The only structure on the beach front in 2003 near the TPP was an abandoned caustic soda plant which today consists of several large crumbling concrete structures, a polluted relic of the communist period. Behind the beach is a stand of pine trees planted some 40 years ago.

Today, there is a small number (about ten) of structures for local tourists, consisting of kiosks and small platforms on which deck chairs are placed. Nowadays, the beach near the TPP is frequented mainly by local families who arrive by car, bicycle or on foot, bringing their own food, drink, and equipment.

The beach presents a contrast with the beaches south of Vlora that are characterized by a sharp coastal drop off, deep water, hotels with elaborate bars, beach chairs, parasols, etc. set up for the comfort of tourists. Entrepreneurs may one day decide to develop hotels or other tourism-related activities on this beach but, to date, all of the dozens of hotels in the Vlora region are located in the city itself or stretching from the city southward along the bay shore.

Construction of the TPP is nearly complete and the beach in front will be returned to its original condition. The plant is located 300 meters from the shoreline, and the buried water and oil pipelines extend considerably offshore which will not interfere with swimming and beach use.

64. The Panel also faults the Bank for failing to carry out a “social risks assessment” and cites OMS 2.20 in this regard. OMS 2.20 provides useful guidance on the appraisal of investment projects, including a section on “Sociological aspects,” which begins, “*The sociological aspects of projects... are particularly important for projects designed to assist particular beneficiaries and/or projects whose success depends on participation by the beneficiaries... They may be less important for projects involving primarily infrastructure and for some projects they have relatively little significance.*”²⁶ (emphasis added). In the preparation of this Project and based on the guidance in OMS 2.20 and Bank practice, Management believes that the EA process was sufficient to identify salient social impacts.

65. **Actions by the Bank.** Management is working with KESH to increase engagement with the residents of Vlora. Activities could include: (i) establishment of a local citizens advisory board; (ii) hiring of an outreach specialist; and (iii) development of outreach programs such as visits to the plant by university students and school children. A draft engagement plan is expected by October 30, 2009, with a final plan expected by December 30, 2009.

66. Management is committed to strengthening the assessment of social and cultural aspects of investments through application of the EA policy as well as related social and operational policies. Going forward, Management will seek to ensure that: (i) salient social impacts are identified early in the Bank’s due diligence; (ii) negative impacts are managed and social opportunities are developed; and (iii) the Bank supervises these aspects throughout the Project cycle. To this end, Management is clarifying the division of labor and responsibilities of social and environmental technical staff with respect to due diligence and supervision and this is expected to be completed by March 2010.

67. With respect to consultation and disclosure, social specialists will be tasked to ensure that the quality, scope and frequency of public consultation are adequate and well documented. Social development staff will receive regular training in this regard starting shortly. Management also notes that improvement in the assessment of social impacts of projects is an Action Item for the ECA Region following the Board review of the Inspection Panel Report for the Albania Integrated Coastal Zone Management and Clean-Up Project. Management will ensure that institutional strengthening in this regard will also apply to major infrastructure and energy projects to enhance their quality and sustainability.

Consultation, Participation and Disclosure

68. The Government held three public consultations on the TPP. The first consultation in late October 2002 focused on the results of the siting study and preceded the Bank’s decision to proceed with formal Project preparation. Newspaper articles describe the consultation as including local and regional officials, academics, nongovernmental organizations (NGOs), intellectuals and others. The discussion raised questions on technology, local impacts and alternative sites.

²⁶ Operational Manual – OMS 2.20, revised 2004, para. 55.

69. The Project EIA thereafter met the minimum 2-stage requirement for consultation under OP 4.01; at the early stage (Terms of Reference for the EIA) and thereafter the Draft EIA Report stage. These consultations were carried out respectively on April 2, 2003 and September 3, 2003. As noted in the Investigation Report timeline, the EIA was first disclosed to stakeholders starting on July 23, 2003 (Draft), followed by the posting of the final EIA that October, and the EIA Addendum in January 2004. The end of the disclosure period for EBRD on these same Project EIA documents was June 7, 2004. Management acknowledges that the Terms of Reference for the April 2003 EIA consultation were not distributed until the time of the meeting and that this was a shortcoming. Regarding the September 2003 consultation, Management notes the Draft was disclosed at several locales in advance of the meeting, and timely updates were made available thereafter. This consultation took place two months before the Project Appraisal date of November 10, 2003, and six months before Board presentation. The Press Release for the approved Project was widely circulated. Management believes the long period of disclosure of the Project EIA and wide coverage of the TPP Project in the media at the time of electricity disruptions provided a number of opportunities for concerned stakeholders to know about the project and access documentation.

70. Public objections to the Project arose around the time of Project effectiveness. Management responded to each written enquiry fairly and diligently. As noted elsewhere, the Bank conducted a specialized mission in response to concerns raised on cultural property.

71. To prepare this Management Report, the Bank carried out a mission in Albania in August/September 2009. This mission had the opportunity to meet with members of eight different local NGOs. In these meetings, Bank staff asked why the protests against the Vlora TPP were not registered with Bank Management until 2005, even though the Project EIA had been disclosed and was thereafter available on the internet and in hard copy, and had been covered by the press since 2003. Several NGO representatives in Vlora stated that they had no information about the Project until about 2005.

72. NGO representatives offered various explanations for the lag in civil society mobilization. One view was that civil society may have been afraid to engage with government. Another view suggested that civil society was “immature” and unused to acting on issues of public concern. Bankwatch (2008)²⁷ in its study of opposition to the nearby Petrolifera oil terminal stated that civil society was slow to respond because of the highly technical nature of the materials available. It is plausible that civil society organizations were not sufficiently mobilized to receive and act on information. According to Bankwatch (2008),²⁸ “[l]ocal response to the project [a]rose in Vlora in 2004 and [was] formalised as the Civic Alliance for the Protection of the Vlora Bay... in March 2005.” When protests finally arose, they occurred in a context that included hard-fought national elections (held on July 3, 2005). Opposition to broad industrial development in Vlora became the banner of one of the political parties, a factor that may have contributed to the increase in public protests. Public opposition to the TPP emerged

²⁷ http://bankwatch.org/documents/FFM_vlora_report.pdf (accessed on Sept. 2, 2009).

²⁸ *Idem*.

some ten months after Board approval (March 16, 2004), as some civil society organizations began to mobilize against industrial development in Vlora in general, and especially with respect to the proposed Petrolifera oil terminal. In sum, opposition to the power plant was influenced by factors that go beyond the plant itself.

73. Bank staff observed during the August/September 2009 mission, however, that opposition to the TPP is not universal and some stakeholders have revised their views. Several local residents and business representatives with whom staff discussed the Project pointed to the power shortages occurring in Vlora and to the adverse effect of blackouts – lasting up to 13 hours on some days in recent months – on tourism and business in general. Others, particularly those who had visited the plant, admired the state-of-the art technology, which they perceived as representing the modernization of Albania. Those who saw the oil spill prevention equipment in the power plant perimeter were favorably impressed. However, some people continued to voice dissatisfaction with the location of the plant in proximity to the beach.

74. **Aarhus Convention.** Management notes that its Response to the Request for Inspection was issued on June 1, 2007, before the findings on Albania’s compliance with the Aarhus Convention on the TPP and other siting decisions (i.e., oil storage terminal, port infrastructure and oil and gas pipeline) in Vlora were made available by the Compliance Committee of the Convention. While the Bank is not a Party to the Convention,²⁹ the focus on “*access to information, public participation in decision-making and access to justice in environmental matters*” was assumed to have implications for Bank consultation and disclosure policy implementation. The Bank responded to the Committee’s requests for information before it issued its report, and was pleased to note its acknowledgement of the Bank’s forthcoming assistance to Albania on Aarhus Compliance, which is continuing.

75. An important element of the Compliance Committee Findings and Recommendations (issued July 31, 2007), reiterated in the Investigation Report, concerns whether there was sufficient public engagement during the site selection process in 2002 and thereafter in the formal Project EIA process. Considering the findings of the Committee, as well as the Investigation Report, Management acknowledges likely deficiencies in meaningful engagement with the public in the site selection process, which prevented: (i) a sound understanding of societal viewpoints on alternative sites and siting criteria; (ii) feedback from the residents of the Vlora region regarding their views on the preferred site in their community, and as a result thereafter; (iii) a more complete discussion of alternatives in the Project EIA. Bank staff did encourage the Government of Albania to examine other potential sites beyond the already preferred location in Vlora, and this approach was accepted by the Government in the siting and feasibility studies.

²⁹ Management notes the Panel’s findings, which rely on the findings of the Aarhus Compliance Committee which, under Article 15 of the Aarhus Convention, has “a non-confrontational, non-judicial and consultative nature.” As the Panel did not articulate the basis for its conclusions of non-compliance on this matter, other than the aforementioned reference to the findings of the Aarhus Compliance Committee, this Report has tried to address the salient points raised by that Committee.

76. Management acknowledges concerns by the Aarhus Compliance Committee regarding documentation on the invitation and noticing process on the two Project EIA consultations (April and September 2003) but also notes the long disclosure period of the EIA documents mentioned earlier, which should have at least mitigated some of these acknowledged deficiencies. Management also notes that the Press Release on Board approval of the Project was widely referenced by national media, yet public objection to the Project only emerged nearly a year later.

77. Regarding the Bank's role in Aarhus Convention compliance, whereas the Committee found deficiencies in the Government of Albania's compliance with selected provisions of the Aarhus Convention, the Bank maintains that it did not "*finance project activities that would contravene such country obligations, as identified during the EA,*" which is a key element of OP 4.01, para. 3. Management notes that specific guidance for IFIs to support partner countries in meeting the obligations of the Conventions of the United Nations Economic Commission for Europe (UN ECE), including Aarhus, were lacking at the time of Project preparation, and are still awaited. This absence of practical guidance was found to be an obstacle to EBRD's role in supporting Albania by the EBRD Independent Recourse Mechanism review (April 2008)³⁰ regarding the EBRD proportion of financing of the Vlora TPP.

78. Management wishes to note several recent developments with regards to Aarhus compliance by Albania in response to the Compliance Committee's 2007 report. Albania was asked to submit annual progress reports, with the last one due in November 2008. A report dated January 30, 2009 was submitted for consideration by the Compliance Committee at their March 31 to April 3, 2009 meeting. While expressing regret on the delay of Albania's progress report on improving compliance, the "*Committee expressed its general satisfaction at the content of the report, which reflected genuine efforts resulting in significant progress.*"

79. One of the action items for Albania was improvement in its environmental regulatory framework (i.e., amendments/completion of the existing environmental laws or drafting of new ones) to make them compliant with the Aarhus Convention provisions. After the approval of the new Law on Environmental Protection, No.8934, dated May 9, 2002, which devoted one Chapter on Environmental Impact Assessment, two new laws were approved, the Law on Environmental Impact Assessment No.8990, dated January 23, 2003 and the Law No. 9424, dated June 10, 2005 on the Ratification of the Strategic Environmental Assessment Protocol. In line with the requirements of the Aarhus Convention and EU Directives, the following acts were also approved:

- Council of Ministers Decision No. 994, dated July 2, 2008 On Drawing Public Opinion in Environmental Decision making which defines the procedures for public information and participation in EIA process and drafting of legal acts and strategies.
- Two Ministerial Regulations respectively Regulation No.1, dated August 17, 2004 on Public Participation in the EIA process and Regulation No. 1, dated March 3, 2009 on

³⁰ Ibid; EBRD report, paragraph 119 (iii) and (v).

Duties of the Environmental Bodies to Ensure Public and NGO Participation in the EIA Process. The objective of the Public Participation Regulation is to define the mandatory rules and procedures that guarantee public participation in the EIA process, while the objective of the Regulation on Environmental bodies is to define the roles of the Regional Environmental Agencies, Directorate of EIA and Environmental Permits and the Commission of Permit Review at the Ministry of Environment, Forestry and Water Administration, in ensuring the participation of the affected public in the EIA and permitting process.

80. Albania's new Law on Territorial Planning,³¹ which has been supported by a number of donors—Council of Europe Development Bank, United States Agency for International Development (USAID) and the World Bank—including through dialogue on policy-based lending and an investment project, marks a significant advance in how territorial planning will be managed in Albania in the future. The new law contains major enhancements in the area of transparency, disclosure and public consultation. The law significantly advances public notification of planning actions under consideration. One of the hallmarks of the new law is the establishment of an internet-enabled “Planning Register,” along with conventional media for public disclosure. The law establishes the Register as the place where local, regional and national governments post proposed as well as approved planning decisions. This includes new spatial plans, development applications and approvals, and national actions pertaining to territorial planning. In addition, this law lays out a clear framework for planning functions at national and local levels. It gives significant responsibility in territorial planning and development control to the local level, and thus finally aligns the territorial planning system with the prevailing decentralization legislation in Albania and subsidiary principle of the EU.

81. In the meantime, as part of the EU-CARDS funded project on the implementation of the national plan for approximation of environmental legislation, three new laws are in the final stages of preparation: the Laws on Environmental Protection, EIA and Environmental Permitting, in line with the IPPC Directive. The three laws make very distinct reference to procedures of public information and participation on EIA as well as re-definition of roles of agencies in this process.

82. **Bank Actions to Remedy Deficiencies.** Management notes that the Bank has responded to the invitation by the Compliance Committee of the Aarhus Convention “to provide advice and assistance to the Party” (i.e., Albania) with respect to enhancing compliance. The Bank has approved a USD370,000 Institutional Development Fund (IDF) capacity-building grant for *Strengthening Aarhus Convention Implementation for Albania*,³² which will begin in September 2009 and build on similar but smaller efforts by the Organization for Security and Cooperation in Europe. Development objectives of the IDF activity include:

³¹ Officially cited as Law No.10 119, dated 23 April 2009, “On Territorial Planning.” This was technically effective 15 days following its publication in the Official Gazette Fletore Zyrtare #56 (published on May 8, 2009) though fuller application will take place by September 2010, when Law No. 8405 of 16 September 1998, “On urban planning”, will be fully revoked.

³² Grant agreement will be disclosed when formally signed by new Government of Albania.

- Build and/or improve the capacity of the Aarhus Center, the regional environmental agencies, civil society, and other stakeholders in understanding the Aarhus Convention requirements and in implementing an updated local Aarhus Convention Strategy and Action Plan;
- Enhance the interaction between civil society and public authorities with respect to public participation and access to justice in government decision-making regarding national and transboundary environment matters, fostering improved compliance with the relevant provisions of the Convention; and
- Improve civil society's watchdog role, by engaging it in a constructive manner with environment-related Government planning processes, through improved monitoring of guidelines and requirements set forth in the Convention.

83. The Bank will continue to support the Government of Albania in the IDF-supported project, which will extend through fiscal year 2011. In addition, the Bank will develop and deliver in spring 2010 a training module for Bank staff on assisting partner governments in meeting their international treaty obligations, including practical implementation (with written guidance) of two UN ECE Conventions (Aarhus and Espoo).

IV. MANAGEMENT'S ACTION PLAN IN RESPONSE TO THE FINDINGS

84. In light of the foregoing, Management has prepared an Action Plan (see Table 1 below) to address key issues, in particular oil spill response, environmental monitoring, analysis of social issues, and communications. A World Bank mission discussed the broad features of the Action Plan with the Requesters and other interested civil society organizations in early September 2009.

85. The Bank also met with the new Government to discuss key elements of the proposed Action Plan on September 14, 2009. While Government has agreed with the key elements, an update will be provided in advance of the Board discussion.

86. Management will provide an update to the Board six months after the Board's consideration of this Management Report and Recommendations.

Table 1. Proposed Management Action Plan	
ISSUE	ACTION
Environmental Assessment and Mitigation Measures	
Marine Environment – Oil Spill Response	As the final offshore Oil Spill Response Plan is not yet fully in place, the Bank will oversee the completion of the Plan in advance of routine facility operation (estimated at present to be early November 2009), as required by the Credit Agreement.
Air and water quality	Management will report on progress by KESH regarding regular monitoring of environmental parameters associated with Project operations, along with corresponding disclosure of monitoring data.
Social Analysis	<p>Management will urge KESH to increase engagement with the residents of Vlora. Activities could include: (i) establishment of a citizens advisory board; (ii) hiring of a full time outreach specialist; (iii) development of outreach programs such as visits to the plant by university students and school children. A draft engagement plan is expected by October 30, 2009, with a final plan expected by December 30, 2009.</p> <p>Management is committed to strengthening the assessment of social and cultural aspects of investments through application of the EA policy as well as related social and operational policies. Going forward, Management will seek to ensure that: (i) salient social impacts are identified early in the Bank's due diligence; (ii) negative impacts are managed and social opportunities are developed; and (iii) the Bank supervises these aspects throughout the project cycle. To this end, Management is clarifying the division of labor and responsibilities of social and environmental technical staff with respect to due diligence and supervision. This is expected to be completed by March 2010.</p> <p>With respect to consultation and disclosure, social specialists will be tasked to ensure that the quality, scope and frequency of public consultation are adequate and that they are well documented. Social development staff will receive regular training in this regard starting in the next two months.</p>
International Environmental Obligations under OP 4.01	<p>The Bank will continue to support the Government of Albania on the IDF-supported <i>Strengthening Aarhus Convention Implementation</i> capacity building project, which will extend through fiscal year 2011.</p> <p>The Bank will develop and deliver in spring 2010 a training module for Bank staff on assisting partner governments in meeting their international treaty obligations, including practical implementation (with written guidance) of two UN ECE Conventions (Aarhus and Espoo).</p>
Cultural Property	The Bank will continue to supervise the Project for any chance finds of cultural property assets through Project closing.

Table 1. Proposed Management Action Plan	
ISSUE	ACTION
Consultation and Disclosure	
Implementation of Public Consultations throughout Project Implementation	<p>Management notes that improvement in the assessment of social impacts of projects is an Action Item for the ECA Region following the Board review of the Inspection Panel Report for the Albania ICZM Project. Management will ensure that institutional strengthening in this regard will also apply to major infrastructure and energy projects to enhance their quality and sustainability (action ongoing).</p> <p>Beginning in October 2009, Management will implement a newly revised Communications Strategy in the World Bank Office in Tirana, Albania. The new strategy includes <i>inter alia</i>: (i) a system for proactive and time-bound responses to complaints from communities, civil society and the private sector; (ii) increased supervision of government-led consultation processes during project preparation and implementation; and (iii) annual briefings to the relevant Parliamentary committees on project implementation and policy reform issues.</p>

V. CONCLUSION

87. Management believes that the Bank team has made every effort to apply its policies and procedures and to pursue its mission statement in the context of the Project. Management notes the Panel’s findings and is committed to fulfilling the Management Action Plan and to following up on its implementation. Management believes that the proposed Action Plan attached to its response addresses the Panel’s concerns.

ANNEX
FINDINGS, COMMENTS AND ACTIONS

No.	Issue / Finding	Para nos.	Comments/Actions
ENVIRONMENTAL COMPLIANCE			
1.	<p>Environmental Impact Assessment</p> <p>Upon completion of Feasibility Study, the same consultant firm was commissioned by the Albanian Ministry of Industry and Energy to undertake the Environmental Impact Assessment for the selected Vlora site. The Panel finds Management failed to ensure compliance with the requirements of OP 4.01 by allowing the Borrower to employ the same consultant that conducted the siting and feasibility studies for the Project [to...] also undertak[e] the Project's Environmental Assessment.</p>	114-129	<p>Comment: Management notes the Inspection Panel's finding regarding non-compliance with OP 4.01 on use of the same consulting firm for the feasibility study and EIA. Management agrees with the Panel that it is desirable to have a separation of EA from design/engineering in order to avoid potential conflict of interest and, in fact, this has been the norm in the majority of Category A Bank projects. In the case of this Project an alternative approach was needed as all preparation assistance for the Government of Albania was being provided under one contract financed by USTDA, and, under an EPC approach, project engineering is done during implementation.</p> <p>The Bank approached the Government of Canada, which had been supporting (through CIDA) sectoral work on power supply in Southeast Europe, for assistance in funding an independent review of the EIA report. CIDA selected a consultant to review the draft EIA report, which then provided comments in October 2003 in twelve topical areas to strengthen the documents. These were taken into account by the World Bank, EBRD and the EIA consultant, and reflected in both the Final EIA of October 2003 and a December 2003 Addendum (together the Project EIA) that also included further reviews by Bank staff and EBRD. While Management agrees that this iterative process was not optimal, and will seek to minimize such arrangements in the future, the use of an independent firm and staff from two IFIs was deemed to be sufficient by Management to meet the intentions of OP 4.01 regarding avoidance of conflict of interest. Management was not aware of any financial or technical link between the consultant selected by CIDA, and the consultant preparing the USTDA-funded EIA. Management viewed the CIDA-supported consultant's experience in the energy sector in Southeast Europe as a valuable qualification in carrying out the independent review of the EIA.</p> <p>Action: No action needed. Should the Bank face a similar exceptional situation in the future a waiver would be sought from the Board.</p>
2.	<p>Consideration of Technological Alternatives</p> <p>The Panel finds it appropriate that non-firm technological alternatives were not considered further in the Environmental Impact Assessment. Although the discussion in the Siting Study is not reproduced in the Final Environmental Assessment, appropriate technological alternatives for the Project were assessed. This is in accord with OP 4.01.</p>	131-132	<p>Comment: Management notes the Panel's finding of compliance.</p> <p>Action: No action needed.</p>
3.	<p>Consideration of Site Alternatives</p> <p>The Panel finds that the Environmental Assessment, containing <i>post hoc</i> justification for site selection, contributed nothing to improving Project selection,</p>	133-139	<p>Comment: Management acknowledges the Inspection Panel's finding that the Government of Albania selected the site for the TPP (and associated investments) in 2002, before the detailed Environmental Assessment for the Project commenced in 2003. While the Investigation Report finds deficiencies in this approach regarding OP 4.01 compliance, Management believes the Bank's</p>

No.	Issue / Finding	Para nos.	Comments/Actions
	<p>siting, planning, or design. The Panel notes that the purpose of the Vlora EA was thus reduced to improving Project implementation after decisions to proceed had been taken. This process was not compliant with OP 4.01 paragraphs 1, 2 and 3.</p> <p>The Panel concludes that Management did not comply with OP 4.01 paragraph 5 in accepting studies that failed to meet the fundamental purpose of the Environmental Assessment policy. The Bank failed to insist on further appropriate studies to remedy shortcomings.</p>		<p>engagement during this stage before Concept Review conformed to Bank policy and acceptable practice. As the Bank had been a partner with the Government of Albania on energy issues for several years, during 2002 the Bank did provide advice to the Government (and its consultants) on an informal basis as a potential financier of the TPP. The Bank was aware of the preference of the Government of Albania for a TPP site in Vlora, as well as the work of the international consultants preparing the feasibility and siting studies. As part of due diligence, the Bank urged the Government to consider other alternative TPP sites besides Vlora. This recommendation was accepted, as reflected in the consultant Terms of Reference in April 2002, and was followed thereafter in the siting study, which was finalized on October 21, 2002.</p> <p>The Bank formally started preparing the Project with the issuance of the PID on January 2, 2003 and internal Concept Review meeting on January 10, 2003. The first Project Integrated Safeguards Data Sheet was posted in the InfoShop on February 20, 2003, confirming the Category A EA. The Concept Review meeting came after the Vlora Council of Territorial Adjustment approval of the Vlora B site on December 21, 2002 and immediately before the Albania Council of Territorial Adjustment approval on February 19, 2003 of the highest ranked site (Vlora B) emerging from the feasibility/siting stage.</p> <p>While actions by the Government of Albania during the site selection process were not in themselves subject to OP 4.01, the Bank believed that the multiple-criteria approach utilized by the international consultants for seven alternative sites was good practice. The Bank thoroughly reviewed the consultants' report concerning these multiple sites and considered the recommendation of Vlora B to be technically sound. The Bank was aware of the public meeting (held on October 31, 2002) that followed the release of the final siting study, but the Bank recognizes that earlier consultation with potentially affected communities would have been desirable.</p> <p>The Bank's due diligence confirmed that the Vlora B site merited the highest ranking and that a Project EIA to investigate its full suitability could commence. Management emphasizes that the EIA thereafter was not to simply endorse the Vlora B site but to assess risks, determine mitigating measures and ensure that Bank policy requirements were met. Subsequently, the results of the siting study (including environmental screening) were included in the required section on alternatives in the EIA, as required under OP 4.01 for a Category A project. Management believes that the Project EIA disclosure and consultation which followed provided significant improvements on Albania's previous procedures.</p> <p>Action: No action needed. Lessons learned from this Inspection Panel case will be incorporated into guidance to staff on safeguards.</p>
4.	<p>Omission of Social Analysis</p> <p>Based on its analysis of the Project documents, the Panel concludes that a large array of social issues and potential economic risks to the area's population, resulting from design, siting, and impacts,</p>	140-147	<p>Comment: In Management's view, social issues were not perceived as a prominent feature of the investment during the EA process in 2003 because the TPP was not located in a residential community but rather in a relatively isolated location behind an undeveloped beach, 6 kilometers from Vlora. There did not appear to be major differences among stakeholder</p>

No.	Issue / Finding	Para nos.	Comments/Actions
	<p>were not considered in the Project's preparation and EAs; this is not compliant with Bank policy.</p> <p>There was also no integration between biophysical and social studies and between Environmental Assessment and economic and technical studies. In all these respects Management has failed to ensure that the substance of OP 4.01 was complied with in the preparation and appraisal of the Vlora TPP.</p>		<p>groups, ethnic or class distinctions relevant to the power plant. There was widespread agreement that Albania needed to increase its power generation capacity and to diversify its energy sources. There were no social groupings that would appear, <i>prima facie</i>, to be relevant for the issue of power plant siting. The only significant users of the area were fishermen and local bathers who use the beach in the vicinity of the power plant site.</p> <p>Although there are good economic and technical justifications for the location of the plant, broader consultations might have revealed differences in public opinion about the plant and its location on Vlora Bay and possibly flagged opposition to it. Wider consultations could also have revealed local stakeholders' visions of and aspirations for Vlora, including the role of tourism. However, these observations only came to light in January 2005, some eight months after signing of the Project Agreement and well after the EA process had been completed. Management acknowledges that these post EIA-issues would have been better managed if the Project had established a public information and outreach facility.</p> <p>Actions: Management will urge KESH to increase engagement with the residents of Vlora. Activities could include: (i) establishment of a citizens advisory board; (ii) hiring of a full time outreach specialist; (iii) development of outreach programs such as visits to the plant by university students and school children. A draft engagement plan is expected by October 30, 2009, with a final plan expected by December 30, 2009.</p> <p>Management is committed to strengthening the assessment of social and cultural aspects of investments through application of the EA policy as well as related social and operational policies. Going forward, Management will seek to ensure that: (i) salient social impacts are identified early in the Bank's due diligence; (ii) negative impacts are managed and social opportunities are developed; and (iii) the Bank supervises these aspects throughout the Project cycle. To this end, Management is clarifying the division of labor and responsibilities of social and environmental technical staff with respect to the due diligence and supervision. This is expected to be completed by March 2010.</p> <p>With respect to consultation and disclosure, social specialists will be tasked to ensure that the quality, scope and frequency of public consultation are adequate and that they are well documented. Social development staff will receive regular training in this regard starting in the next two months.</p> <p>Management also notes that improvement in the assessment of social impacts of projects is an Action Item for the ECA Region following the Board review of the Inspection Panel Report for the Albania ICZM Project. Management will ensure that institutional strengthening in this regard will also apply to major infrastructure and energy projects to enhance their quality and sustainability (action ongoing).</p>
5.	<p>Narta Lagoon and Bank Policy on Natural Habitats</p> <p>The Panel concludes that Management was correct in its determination that the Vlora TPP did not trigger OP 4.04. The Panel finds that there is no reason to anticipate that TPP will be harmful to</p>	148-160	<p>Comment: Management notes the Panel's finding.</p> <p>Action: No action needed.</p>

No.	Issue / Finding	Para nos.	Comments/Actions
	natural habitats.		
6.	<p>Impacts on Air Quality</p> <p>Emissions to the atmosphere from the Vlora TPP have been calculated with due regard to the World Bank Pollution and Prevention Handbook. The model inputs for the operational phase are appropriate. However, no evidence can be found that any attempt has been made to use atmospheric dispersion modeling to optimize the height of the TPP stacks. The Panel finds that atmospheric emissions from Vlora TPP do not pose a significant risk of harm to either human population of Vlora or the floral and faunal populations of the Narta Lagoon.</p>	161-169	<p>Comment: Management notes the Panel's finding with respect to the expected absence of significant risk to the health of local residents and the community, or to the flora and fauna of the Narta Lagoon protected area. Management wishes to clarify that the nature of the EPC contract means that performance is set at the bid stage and design details (such as stack height) are determined thereafter.</p> <p>Action: Management will report on progress by KESH regarding regular monitoring of environmental parameters associated with Project operations, along with corresponding disclosure of monitoring data.</p>
7.	<p>Impacts on the Marine Environment</p> <p>The EIA is silent on the significance of potential impacts to the marine environment during the construction phase. The EIA places responsibility on the EPC contractor to ensure minimal environmental and social impact. However, the EIA recommends no mechanism for ensuring EPC contractor compliance. There is no requirement for approval of method statements and no standards that must be met have been specified. The EIA is deficient in this regard.</p> <p>Additionally, the Panel finds that failure to give consideration in both the Final EIA and the Addendum to medium- and long-term risks associated with construction phase and the alternative ways of delivering fuel to Vlora TPP in the operational phase is a serious shortcoming and renders the Final EIA non-compliant with the OP 4.01 requirement that: "EA evaluates a project's potential environmental risks and impacts in its area of influence," where 'area of influence' is defined as the "area likely to be affected by the Project, including all its ancillary aspects, such as power transmission corridors, pipelines..."</p> <p>The Panel is concerned that, due to this deficiency in the Final EIA and its Addendum as well as in the [Project Appraisal Document], medium- and long-term risks to the Vlora Bay marine environment and beaches from potential spills when fuel is offloaded are not currently minimized and are not planned to be minimized before operations may start. The Project documents examined by the Panel do not require the borrower to</p>	170-180	<p>Comment: Management agrees with the Inspection Panel on the need to ensure that the TPP has in place the correct procedures for preventing "<i>the potentially serious environmental impact of potential oil spills during fuel delivery.</i>" In regard to the Panel's view that "...<i>the medium- and long-term risks to Vlora Bay marine environment and beaches from potential spills when fuel is offloaded are not minimized and are not planned to be minimized before operations may start...</i>," Management would like to clarify that the risks of oil spills were well-identified during Project preparation. Explicit references to oil spill risks – both during construction and operation – were made in the EIA of the Project, while management and mitigation measures were incorporated in the EMP. In turn, the EMP formed part of the bidding documents for the EPC Contract (Annex 5) to construct the Vlora TPP. This is common practice in to ensure that the Contractor performs works and detailed engineering designs in accordance with the EMP. The EMP explicitly requires the EPC Contractor to prepare: (i) an Oil Spill Prevention Plan (to minimize risks of spilling oil); and (ii) an Oil Spill Response Plan (to clean up oil spills if they occur despite preventive measures). In addition, the Project's legal documents include a specific provision requiring KESH to ensure the implementation of the EMP: "KESH shall take or cause to be taken, all measures necessary for the carrying out of the EMP in a timely manner..."</p> <p>The Government of Albania and the Bank recognized that KESH did not have the necessary knowledge and skills required to oversee various environmental aspects of the Vlora TPP Project. For that purpose, another separate consultancy focusing only on environmental issues was also financed under the technical assistance component of the Power Sector Generation and Restructuring Project. An Environmental Management Unit (EMU) was created in KESH to follow environmental aspects of the Project, and since 2006, the Environmental Consultancy has provided specific assistance to this unit. An internationally known firm with specific expertise on oil spills was also brought in under sub-contract. A key task of the firm was to: "Review an oil spill prevention and response plan to be prepared by EPC Contractor."</p> <p>Based on the progress of the works, starting in October 2008, the Bank's Project team, along with its co-financiers, requested KESH to provide the Oil Spill Prevention and Response plans.</p>

No.	Issue / Finding	Para nos.	Comments/Actions
	incorporate counter-risk measures and monitor their effectiveness.		<p>KESH thus requested its EPC Contractor at that time to begin preparation of the Oil Spill Prevention and Response plans. The EPC Contractor submitted the Oil Spill Prevention plan in May 2009. The Environmental Consultant reviewed and provided comments on the Oil Spill Prevention Plan. Management believes that the engineering and construction of the off-shore fuel facilities are of international standards and that oil spill risks during fuel unloading are minimized. Management notes that the Vlora TPP is expected to take 15 to 20 tanker deliveries annually (assuming base load operations of around 80%).</p> <p>As of September 3, 2009, the Oil Spill Prevention and Response Plans for the on-shore installations of the Vlora TPP, including equipment and containment structures, are in place. Regarding the off-shore facilities, the Oil Spill Prevention Plan is in place, while the Oil Spill Response Plan is being finalized and must be in place before the plant is operational.</p> <p>Environmental issues associated with power transmission lines are addressed in the Project EIA.</p> <p>Action: As the final offshore Oil Spill Response Plan is not yet fully in place, the Bank will oversee the completion of the Plan in advance of routine facility operation (estimated at present to be early November 2009), as required by the Credit Agreement.</p>
8.	<p>Cumulative Impacts</p> <p>The Panel finds that Bank staff should have insisted on a Sectoral EA and the associated cumulative effects analysis in addition to the Project-specific Environmental Assessment.</p> <p>The Panel notes that the omission of cumulative impact assessment of possible expansion of the Vlora TPP from the final EIA is not in accord with the Bank's own Guidelines for new thermal power stations.</p>	181-194	<p>Comment: Management acknowledges that the Project EIA ought to have been clearer with regard to coverage of the potential cumulative impacts of two generation units in addition to the one unit co-financed by the Bank (thereby expanding the Vlora TPP to the maximum 300 MW that could be accommodated at the site). Management clarifies that while the initial feasibility and siting studies carried out by the Government of Albania did examine both the 100 MW and the 300 MW options, the Bank and its co-financiers considered the financial likelihood of additional units in the near to mid-term to be very low. Management notes this position is still valid nearly eight years later.</p> <p>Despite the stated focus on only one unit, initial calculations of air and water emissions from a 300 MW facility were carried out during the EIA. Management acknowledges, however, that the presentation of cumulative impact data on air and water was not clearly highlighted in the final Project EIA, which contributed to confusion. Management notes that updated calculations of air emissions from a 300 MW unit have been provided by the KESH environmental consultants based on ambient air quality measurements taken before civil works commenced. These calculations suggest that for a 300 MW facility, all key air parameters (particulate matter, nitrogen dioxide and sulfur dioxide) would be within allowable limits relative to the applicable EU or World Bank guidelines. Thermal impacts on Vlora Bay from the cooling water discharge of a 300 MW facility are projected to be within allowable limits, as also noted by the Panel.</p> <p>Management believes that an EIA whose scope extends beyond the TPP and its associated investments (fuel supply, cooling water pipelines and transmission line) to include alternative sites and/or nearby industrial or energy investments (real or proposed), or other energy facilities in the Vlora area, was not required to conform to OP 4.01. A detailed rationale is provided in the Key Issues section and includes the lack of financial or</p>

No.	Issue / Finding	Para nos.	Comments/Actions
			<p>economic linkages and the unconfirmed nature of such investments.</p> <p>Action: No action needed. Lessons learned from this Inspection Panel case will be incorporated into guidance to staff on safeguards.</p>
SOCIAL AND CULTURAL COMPLIANCE			
9.	<p>Assessment and Management of Cultural Property: Project Appraisal</p> <p>The Panel finds that from the early feasibility stages and up to Project appraisal, the Bank did not seek to obtain information on the presence and role of cultural endowments in the Vlora area. The Bank did not ensure that the studies consider the likely risks and negative impacts of locating an industrial thermal plant in an area dependent on cultural and beach tourism. The resulting Project concept and design overlooked these risks.</p> <p>Based on these findings, the Panel concludes that the Project preparation, including both the feasibility and EIA processes, and Project appraisal, did not comply with the requirements of OMS 2.20 on the appraisal of projects, on risk analysis and with the procedural requirements of the Bank's Policy on Management of Cultural Property in Bank-Financed Projects (OPN 11.03).</p> <p>[I]t is the Panel's opinion that, in accordance with OPN 11.03, a brief reconnaissance survey should have been undertaken in the field by a specialist. The Panel finds that this was not done.</p>	195-226	<p>Comment: Management acknowledges that a field survey of cultural resources was not carried out during Project preparation and that it erred in suggesting that no sources existed regarding cultural heritage in the area. Bank practice was to trigger OPN 11.03 only when there was reason to suspect that the Project could disturb archaeological remains or other culturally significant monuments. As noted by the Panel, a supervision mission in 2006, which included a professionally qualified archaeologist, determined that no archaeological remains were likely to be found there, and this has proven to be the case during plant excavation and construction.</p> <p>Action: No action needed. Lessons learned from this Inspection Panel case will be incorporated into guidance to staff on safeguards.</p>
10.	<p>Assessment and Management of Cultural Property: After Project Appraisal</p> <p>From its review of the Project documents, the Panel observes that Management narrowed its analysis to the Project's impact on the small patch of land (6 hectares) covered by the TPP itself, rather than assessing the potential implications of the TPP siting on the greater Vlora area.</p> <p>While the Panel acknowledges that this [July 2006 supervision] mission was sent in recognition of the absence of a reconnaissance survey in an earlier phase, the Panel notes that such a retrospective mission—carried out after the approval of the site by the Government and the Bank—does not allow cultural property considerations to</p>	247-255	<p>Comment: Management acknowledges the Panel's findings and reiterates that as of September 2009 when the vast majority of excavations and civil works had been completed on site, no chance findings of archaeological or cultural nature were encountered in the site works, which affirms the expectation of the July 2006 mission.</p> <p>With regard to the archaeological sites of Treport Cape/Aulona, Orikum, Kanina Castle and Marmiroi Church, these are all located at some distance from the power plant, which is not visible from most of these locations. No roads, pipelines or transmission lines will traverse or pass near any of these sites. No evidence suggesting that tourists will fail to visit these historical sites because of their proximity to the TPP has been cited by the Requesters or the Panel. Management believes that factors such as road access, site improvements and the availability of amenities such as guides, museums and guidebooks will be more determining of tourist visitation than the presence of a power plant in the vicinity.</p> <p>Action: The Bank will continue to supervise the Project for any chance finds of cultural property assets through Project closing.</p>

No.	Issue / Finding	Para nos.	Comments/Actions
	influence the TPP siting decision and its potential longer term impacts. The positive finding that during excavations for TPP's foundation no archaeological chance finds were identified removes the concern that the TPP footprint itself may forever cover significant archaeological relics, but does not eliminate the long-term risks and impacts that the presence and operations of the TPP bring to the larger Vlora Bay and its potential for cultural tourism development, as well as to the incomes and livelihoods of the local population. These risks and impacts are still to be addressed and mitigated.		
11.	<p>Lack of Social Assessment and Absence of Social Risk Analysis</p> <p>The Panel finds that a broad range of social issues was not considered at all during preparation and appraisal, and corresponding social and economic analyses were not integrated into the fabric of the Project. Management failed to undertake the necessary sociological analysis and risk analysis of the Project's potential long-term impacts and thus did not ensure compliance with OMS 2.20 on Project Appraisal.</p> <p>The Panel finds that these policy violations directly affected the decision about the Vlora TPP's location.</p> <p>They deprived Management of the understanding of what the presence of a thermal plant and of its ancillaries may entail in reducing the flow of cultural-and-beach tourists to Vlora Bay's areas/assets, in reducing the area's productive activities and incomes, and its potential for further development.</p> <p>The Panel also concludes that Management is not in compliance with the Bank's requirements for carrying out a risk analysis and for incorporating precautionary approaches and measures to prevent and reduce risks. The absence of a "formal risk analysis" as explicitly provided by OMS 2.20, and especially of the Project's medium and long-term social and economic risks to the local populations, left an important gap in the Project's design and left the local population unprotected against the long-term risks to its businesses and incomes.</p>	227-238	<p>Comment: Please refer to Item 4 above.</p> <p>Action: Please refer to Item 4 above. Management will urge KESH to increase engagement with the residents of Vlora. Activities could include: (i) establishment of a citizens advisory board; (ii) hiring of a full time outreach specialist; (iii) development of outreach programs such as visits to the plant by university students and school children. A draft engagement plan is expected by October 30, 2009, with a final plan expected by December 30, 2009.</p> <p>Management is committed to strengthening the assessment of social and cultural aspects of investments through application of the EA policy as well as related social and operational policies. Going forward, Management will seek to ensure that: (i) salient social impacts are identified early in the Bank's due diligence; (ii) negative impacts are managed and social opportunities are developed; and (iii) the Bank supervises these aspects throughout the Project cycle. To this end, Management is clarifying the division of labor and responsibilities of social and environmental technical staff with respect to the due diligence and supervision. This is expected to be completed by March 2010.</p> <p>With respect to consultation and disclosure, social specialists will be tasked to ensure that the quality, scope and frequency of public consultation are adequate and that they are well documented. Social development staff will receive regular training in this regard starting in the next two months.</p> <p>Management also notes that improvement in the assessment of social impacts of projects is an Action Item for the ECA Region following the Board review of the Inspection Panel Report for the Albania ICZM Project. Management will ensure that institutional strengthening in this regard will also apply to major infrastructure and energy projects to enhance their quality and sustainability (action ongoing).</p>
12.	Omitted Analysis on Tourism	239-	Comment: Management agrees with the Panel's finding: ¹ "The

¹ Investigation Report para. 107.

No.	Issue / Finding	Para nos.	Comments/Actions
	<p>Contributions</p> <p>{T]he Management Response states that “regarding impacts on tourism potential, this is not an issue covered directly by Bank safeguard policies...” This is clearly not a reason for omitting real life impacts, since the Bank’s projects are subject not only to safeguard policies but to all operational policies. Social impact risks and economic risks are covered in such policies as OMS 2.20 and OP/BP 10.04, both of which apply to the Project.</p> <p>The Bank’s Project rationale did not place the Project in its surrounding social, economic, and demographic context, and left such risks outside of its purview.</p>	<p>246</p>	<p><i>actual size/footprint of the TPP is not a pristine natural area with high potential to attract tourism. [Zverneci Island and the Treport headland and the larger part of the Vlora Bay shoreline] none of these locations will be immediately impacted by the TPP...</i>” The Panel finds, however, that there are risks that the ‘sense of place’ of the Treport headland and Vlora Bay as a desirable tourist site remains at risk, because of the operations of the TPP and other proposed developments.²</p> <p>Management acknowledges that there may be some impacts—localized and narrow in the Project area—for tourism. Because thermal power plants require proximity to waterways for quantity fuel transportation and considerable water mass for cooling purposes, it is not uncommon that such plants are located close to the sea. A significant number of islands in the Mediterranean have built power plants on their coasts, but tourism advanced rapidly nonetheless as a result, <i>inter alia</i>, of a reliable electricity supply.</p> <p>Management acknowledges that some external costs related to tourism were not taken into account in the Project’s economic analysis. However, such costs would not have materially altered the overall economics of the Project, because they would most likely be more than compensated by the benefits for tourism of reliable power supply. In addition, Management would like to clarify that, on an annualized basis, such costs would need to exceed USD1.8 million for the Fier site to be selected over Vlora B. Given the small footprint of the TPP and its lack of immediate impacts on Vlora Bay, as the Panel acknowledges, it is unlikely that potential losses from tourism revenue would be so high as to justify the additional costs of constructing the plant at Fier.</p> <p>Management also acknowledges that should further industrial developments take place in the zone, tourism in the Treport area may be affected. However, this is an issue that is addressed through Albania’s new territorial planning law.</p> <p>Action: No action needed. Lessons learned from this Inspection Panel case will be conveyed to staff.</p>

ECONOMIC ASSESSMENT

<p>13.</p>	<p>Economic Analysis of Alternatives</p> <p>The Panel finds that as a result of errors in the incorporation of levelized cost measures and improper accounting for social and environmental impacts in the decision matrix, Management failed to comply with the requirements of OP 10.04 and OMS 2.20 in terms of preparing an economic appraisal that identifies and quantifies all costs, including opportunity costs, associated with the Project.</p>	<p>257-283</p>	<p>Comment: Management concurs with the Panel’s findings: “(i) <i>atmospheric emissions do not pose a significant risk of harm to either the human population of Vlora or the floral and faunal populations of the Narta Lagoon</i>”³ and (ii) the marine environment will not be significantly affected by the operation of the plant’s cooling system.⁴ It appears therefore, that the only potential harm to fisheries would be a potential oil spill of such an extent that it would irreparably damage fisheries in Vlora Bay. The Panel’s analysis estimates damage to fisheries at an annualized USD843,000.⁵ Management wishes to note that this amount of damages would require a worst-case scenario (e.g., collision between large tankers) rather than anything associated with TPP routine offloading of fuel at the single point mooring location. In addition, for these annualized costs to occur, a worst case remediation scenario should also be assumed (i.e., the oil</p>
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² Ibid.

³ Investigation Report, para. 169, page 40.

⁴ Investigation Report, paras. 174, 175.

⁵ Investigation Report para. 296.

No.	Issue / Finding	Para nos.	Comments/Actions
			<p>spill would not be cleaned up for many years.)</p> <p>Regarding the relative positions of the Vlora B and Fier sites, if such an externality is to be taken into account, Management would like to clarify that oil spill risks would apply equally to the Fier site and to Vlora B, as both would use similar oil fueling facilities. Therefore, the site selection evaluation would not have been affected.</p> <p>Given the Project's design to: (i) minimize oil spill risks (Oil Spill Prevention Plan); and (ii) mitigate any remaining risks (Oil Spill Response Plan), Management believes that the Project's economic analysis correctly placed little value on the externality costs of damaged fisheries.</p> <p>Management notes that the Panel's report on the economic analysis leading to the selection of the Vlora B site analyzes ex-post the alternative of constructing the same TPP in Fier (the site that came second in order of preference in the consultant's siting study), but remains inconclusive on whether this site should have been preferred on the basis of the economic cost-benefit analysis. Management would like to clarify certain issues related to the Panel's analysis of Fier, which tend to indicate that even today—with the benefit of hindsight and knowledge added compared to the time of the Project's appraisal—on the basis of economic analysis, the Vlora site would still likely be the preferred site. The Panel makes certain adjustments to re-evaluate the levelized costs calculations presented in the siting study comparing the Fier and Vlora B sites. In that regard, Management wishes to note the following. Firstly, the fuel offloading facility built for Vlora B would have also been necessary for the Fier plant. Fier is not on the coast, therefore sufficient fuel would still need to be transported to the site (requiring a lengthy pipeline with associated potential for environmental impacts during construction). Given the proximity of Fier to Vlora Bay and the lack of alternative nearby ports, there is a high likelihood that fuel facilities similar to the existing ones would be needed for Fier. The adjustment of the capital cost for Vlora B should therefore also apply to the Fier option. Secondly, when in 2007 KESH approached its EPC Contractor to negotiate a discount for the possible removal of the off-shore fuel facilities from the Project (considering the Petrolifera alternative), the EPC Contractor indicated that the total Contract value would be reduced only by about USD3 million (not USD6 million noted in the Panel's report, page 66). Given the above, the adjustments in the Panel's report lead to an overstatement of the costs of Vlora B. Nevertheless, even with those adjustments, the Vlora B site is clearly the better choice on the basis of 'internalized' costs.</p> <p>Action: No action needed. Lessons learned from this Inspection Panel case will be conveyed to staff.</p>
14.	<p>Fier Site</p> <p>Given the Energy Sector Study recommendation not to rehabilitate the old Fier facilities, the decision in the analysis of the TPP to not analyze rehabilitation of the Fier plant(s) as an alternative to the proposed Project is deemed to be consistent with OMS 2.20, para 12.</p>	<p>284-286; 287-293</p>	<p>Comment: Management notes the Panel's finding of compliance.</p> <p>Action: No action needed.</p>

No.	Issue / Finding	Para nos.	Comments/Actions
15.	<p>Assessment of Externalities</p> <p>Based on the Panel's investigation, it is apparent that there was reasonable evidence for Management to be concerned about the long-term risks and adverse effects that a TPP at Vlora B site would impose on Vlora's fisheries and tourism industries. The Panel finds that the Management's economic analysis did not account for important externalities which may have a material impact on the levelized cost analysis. Consequently, the Panel concludes that the economic assessment by Management does not comply with OP 10.04 that states: "<i>the economic evaluation of Bank-financed projects takes into account any domestic and cross-border externalities.</i>"</p>	294-306	<p>Comment: See items 12 and 13 above, as well as Key Issues section on the Economic Evaluation of Alternatives.</p> <p>Action: No action needed. Lessons learned from this Inspection Panel case will be conveyed to staff.</p>
CONSULTATION, PARTICIPATION, AND DISCLOSURE			
16.	<p>Design and Facilitation of Public Consultations</p> <p>The Panel concludes that through a deficient EA process, Management failed to ensure meaningful public consultations for Project, which is not in compliance with OP 4.01.</p> <p>Based on review of the Project timeline and analysis of Project documents, and taking into account that the affected parties had only a minimal involvement in critical decisions regarding the Project, the Panel does not agree with Management's view that under Bank Policy such minimal involvement of affected parties after critical decisions regarding Project have been made constitutes "<i>consultation and disclosure of information ... during project preparation in a manner satisfactory to the Bank...</i>"</p> <p>The Panel concludes that Management failed to ensure adequate notification to the Project affected people and local NGOs and to secure their participation in consultation meetings as required under OP 4.01.</p>	333-352	<p>Comment: The Government held three public consultations on the TPP. The first consultation in late October 2002 focused on the results of the siting study and preceded the Bank's decision to proceed with formal Project preparation. Newspaper articles describe the consultation as including local and regional officials, academics, NGOs, intellectuals and others. The discussion raised questions on technology, local impacts and alternative sites.</p> <p>The Project EIA met the minimum 2-stage requirement for consultation under OP 4.01; at the early stage (Terms of Reference for the EIA) and thereafter the Draft EIA Report stage. These consultations were carried out respectively on April 2, 2003 and September 3, 2003. As noted in the Investigation Report timeline, the EA was first made available to affected stakeholders starting on July 23, 2003 (Draft), followed by the posting of the final EIA that October, and the EIA Addendum in January 2004. The end of the disclosure period for EBRD on these same Project EIA documents was June 7, 2004.</p> <p>Management acknowledges likely deficiencies in meaningful engagement with the public in the site selection process, which prevented: (i) a sound understanding of societal viewpoints on alternative sites and siting criteria; (ii) feedback from the residents of the Vlora region regarding their views on the preferred site in their community, and as a result thereafter; (iii) a more complete discussion of alternatives in the Project EIA. Bank staff did encourage the Government of Albania to examine other potential sites beyond the already preferred location in Vlora, and this approach was accepted by the Government in the siting and feasibility studies.</p> <p>Action: Management action in supporting Albania's implementation of the Aarhus Convention is noted below in Item 19.</p>
17.	<p>Disclosure of Documents</p> <p>The Meeting Notes of the September 3, 2003 meeting state that the draft EIA was disseminated on July 20, 2003. However,</p>	353-355	<p>Comment: Management acknowledges that the Terms of Reference for the April 2003 EIA consultation were not distributed until the time of the meeting and that this was a shortcoming. Regarding the September 2003 consultation, Management notes the Draft was disclosed at several locales in</p>

No.	Issue / Finding	Para nos.	Comments/Actions
	<p>this single instance of public notification is insufficient to meet the requirements of OP 4.01. Overall, the Panel finds that Management failed to ensure satisfactory public disclosure of Project information to interested local area stakeholders.</p>		<p>advance of the meeting, and timely updates were made available thereafter. This consultation took place two months before the Project Appraisal date of November 10, 2003, and six months before Board presentation. The Press Release for the approved Project was widely circulated.</p> <p>Management believes the long period of disclosure of the Project EIA and wide coverage of the TPP Project in the media at a time of electricity disruptions provided a number of opportunities for concerned stakeholders to know about the Project and access documentation.</p> <p>Action: No action needed. Lessons learned from this Inspection Panel case will be incorporated into guidance to staff on safeguards.</p>
18.	<p>Implementation of Public Consultations Throughout Project Implementation</p> <p>The Panel finds that, despite increasing public concern and political contention around the Project, Management failed to ensure that the Project-area population and local NGOs were meaningfully consulted throughout the preparation and implementation of the Project on environmental, social, cultural, tourism and health related issues that affect them. This is not in compliance with OP 4.01 and OP/BP 10.04.</p>	356-377	<p>Comment: Management notes that opposition to broad industrial development in Vlora became the banner of one of the political parties, a factor that may have contributed to the increase in public protests. Public opposition to the TPP emerged some ten months after Board approval (March 16, 2004), as some civil society organizations began to mobilize against industrial development in Vlora in general, and especially with respect to the proposed Petrolifera oil terminal. In sum, opposition to the power plant was influenced by factors that go beyond the plant itself.</p> <p>Management notes that the Bank did reply to letters from the Requesters and other interested parties in good faith and in a timely and responsive fashion.</p> <p>Management acknowledges that these post EIA-issues would have been better managed if the Project had established a public information and outreach facility.</p> <p>Action: Management notes that improvement in the social assessment of projects is an Action Item for the ECA Region following Board review of the Inspection Panel Report for the Albania Integrated Coastal Zone Management and Clean-Up Project. Management will ensure that institutional strengthening in this regard will also apply to major infrastructure and energy projects.</p> <p>Beginning in October 2009, Management will implement a newly revised Communications Strategy in the World Bank Office in Tirana, Albania. The new strategy includes <i>inter alia</i>: (i) a system for proactive and time-bound responses to complaints from communities, civil society and the private sector; (ii) increased supervision of government-led consultation processes during project preparation and implementation; and (iii) annual briefings to the relevant Parliamentary committees on project implementation and policy reform issues.</p>
19.	<p>International Environmental Obligations under OP 4.01</p> <p>Panel finds that Management did not ensure that Project preparation activities complied with the consultation and public participation requirements of the Aarhus Convention. This does not comply with OP 4.01.</p>	322-332	<p>Comment: Management notes the Panel's findings rely on the findings of the Aarhus Compliance Committee. As the Panel did not articulate the basis for its conclusions of non-compliance on this matter, other than the aforementioned reference to the findings of the Aarhus Compliance Committee, this Report has tried to address the salient points raised by that Committee. Management acknowledges concerns by the Aarhus Compliance Committee regarding documentation on the invitation and noticing process on the two Project EIA consultations (April and September 2003) but also notes the long disclosure period of the EIA documents mentioned earlier, which should have at least mitigated against some of these</p>

No.	Issue / Finding	Para nos.	Comments/Actions
			<p>acknowledged deficiencies. Management also notes that the Press Release on Board approval of the Project was widely referenced by national media, yet public objection to the Project only emerged nearly a year later.</p> <p>In addition, specific guidance for IFIs to support partner countries in meeting the obligations of the UN ECE Conventions (including Aarhus) were lacking at the time of Project preparation, and are still awaited. This absence of practical guidance was found to be an obstacle to EBRD's role in supporting Albania by the EBRD Independent Recourse Mechanism review (April 2008) regarding the EBRD proportion of financing of the Vlora TPP.</p> <p>Management notes that the Bank has responded to the invitation by the Compliance Committee of the Aarhus Convention "to provide advice and assistance to the Party" (i.e., Albania) with respect to enhancing compliance. The Bank has approved a USD370,000 IDF capacity-building grant for <i>Strengthening Aarhus Convention Implementation for Albania</i>, which will begin in September 2009 and build on similar but smaller efforts by the Organization for Security and Cooperation in Europe.</p> <p>Development objectives of the IDF activity include:</p> <ul style="list-style-type: none"> • Build and/or improve the capacity of the Aarhus Center, the regional environmental agencies, civil society, and other stakeholders in understanding the Aarhus Convention requirements and in implementing an updated local Aarhus Center Strategy and Action Plan; • Enhance the interaction between civil society and public authorities with respect to public participation and access to justice in government decision-making regarding national and transboundary environment matters, fostering improved compliance with the relevant provisions of the Convention; and • Improve civil society's watchdog role, by engaging it in a constructive manner with environment-related Government planning processes, through improved monitoring of guidelines and requirements set forth in the Convention. <p>In addition, one of the action items for Albania was improvement in its environmental regulatory framework (i.e., amendments/completion of the existing environmental laws or drafting of new ones) to make them compliant with the Aarhus Convention provisions.</p> <p>Albania's new Law on Territorial Planning, which has been supported by a number of donors (Council of Europe Development Bank, USAID and the World Bank), including through dialogue on policy-based lending and an investment project, marks a significant advance in how territorial planning will be managed in Albania in the future. The new law contains major enhancements in the area of transparency, disclosure and public consultation. The law significantly advances public notification of planning actions under consideration. One of the hallmarks of the new law is the establishment of an internet-enabled "Planning Register," along with conventional media for public disclosure. The law establishes the Register as the place where local, regional and national governments post proposed as well as approved planning decisions. This includes new spatial plans, development applications and approvals, and national actions pertaining to territorial planning.</p> <p>Action: The Bank will continue to support the Government of</p>

No.	Issue / Finding	Para nos.	Comments/Actions
			<p>Albania on the IDF-supported <i>Strengthening Aarhus Convention Implementation for Albania</i> capacity building project, which will extend through fiscal year 2011.</p> <p>The Bank will develop and deliver in spring 2010 a training module for Bank staff on assisting partner governments in meeting their international treaty obligations, including a module on practical implementation, with written guidance, of two UN ECE Conventions (Aarhus and Espoo).</p>
	<p>SECOND REQUEST FOR INSPECTION ON INTEGRATED COASTAL ZONE MANAGEMENT AND CLEAN-UP PROJECT</p>		
20.	<p>Delineation of Coastal Zones</p> <p>The Panel notes that neither the threefold division of the Albanian coastline nor the determination of the boundaries between them was made by the World Bank. In using these divisions for its Integrated Coastal Zone Management Project, the Bank was following an established practice that had been accepted for almost a decade by the United Nations Agencies and since 2002 by the Albanian Council of Ministers. [...]he Panel finds no policy violation in the Bank's decision to finance the Integrated Coastal Zone Management and Clean-Up Project as a distinct project in the south coastal region, as requested by the borrower.</p>	378-397	<p>Comment: Management agrees with the Panel's finding.</p> <p>Action: No action needed.</p>

ANNEX 2

AIR EMISSIONS MODELING (KESH Environmental Progress Report Update, August 2009, Section 3 on Air Quality)

As required by the scope of works PB Power has undertaken a dispersion modelling exercise on behalf of KESH, to evaluate the environmental and health impacts of the 97 MWe CCGT plant. This exercise was undertaken in late 2007 / early 2008 with the information detailed in the last progress report issued by PBP.

The modelling undertaken has included consideration of emissions of the principle pollutant gases that will be produced by the plant in day to day operation. Consideration was given to the emission of nitrogen dioxide (NO₂) sulphur dioxide (SO₂) and particulate matter (PM₁₀) by the plant and the subsequent impact of the plants operation to overall air quality in the surrounding area.

The assessment of the impact on air quality due to emissions from the plant was based on the predicted changes of the ground level concentrations of pollutants considered with the predicted ground level concentrations compared to European emissions standards laid down in the Air Quality Directive (Directive 99/30/EC).

In considering the impact of the proposed plant and the likely ground level concentrations that will be encountered when the plant commences operation in 2009 PBP considered the background ambient air quality in the vicinity of the project site which has been monitored by KESH for the years 2004 to 2005 for NO₂ and SO₂. Consideration was given to both long and short term pollutant concentrations of these pollutants.

A conservative view of the operation of the plant was adopted for the modelling undertaken so that a “worst case” was assessed and presented. The result of using this pessimistic approach was to ensure that the absolute maximum predicted impact within the potential operating regime of the plant was considered. This ensured that there was a “factor of safety” built into the air quality assessment, giving a high degree of confidence that the actual impacts will be less than those presented in the assessment. To ensure that a worst case was considered it was assumed that the plant operates at full load throughout the year which will in practice not occur as the plant will in fact operate during some periods at reduced load and will also have outages for maintenance during which there will be no operation.

The dispersion modelling was undertaken using Industrial Source Complex model (ISC-3) which has been validated by the Environmental Protection Agency (EPA) of the USA, the Environment Agency of the United Kingdom and numerous other environmental authorities across the world.

The meteorological data used for the modelling exercise was that from the mobile station at the site, supplied by KESH. The data periods considered were the years 2004 and 2005. To allow for the data's use in the ISC -3 model however it was necessary to supplement the data collected by KESH with that of the nearest met station that allows for the calculation of stability classes and mixing heights etc. The nearest met station was found to be located at Kerkyra (Corfu), Greece and it was the data from this site for the years 2004 and 2005 that was used to supplement the KESH data. This is an approach which has been agreed to by the World Banks independent air quality assessor as being appropriate for the purposes of the modelling assessment.

The windroses for the data collected by KESH in 2004 and 2005 can be seen in Figure 1 and 2 below.

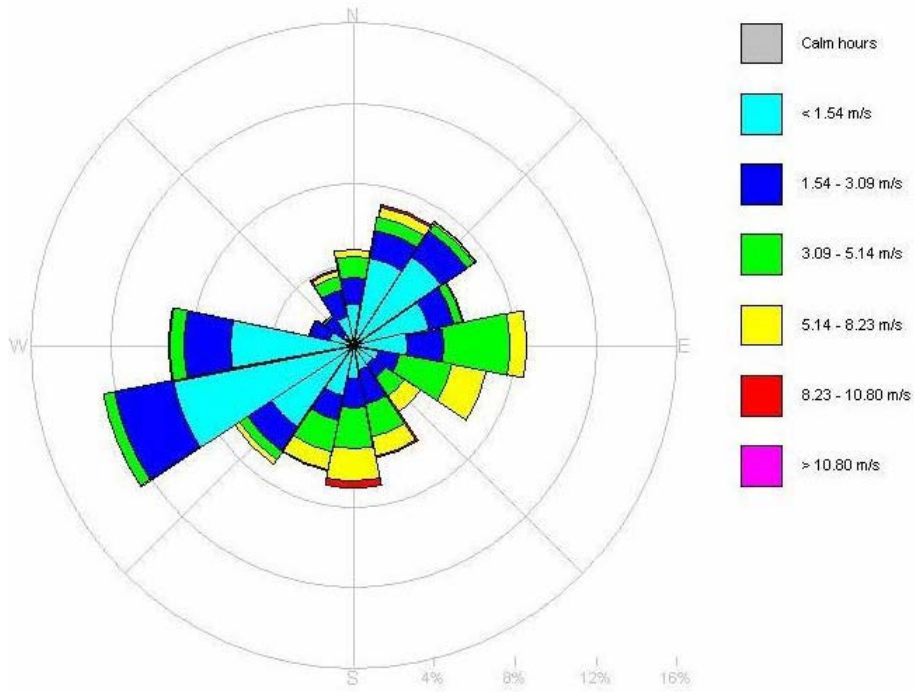


FIGURE 1
WINDROSE FOR THE SITE (2004)

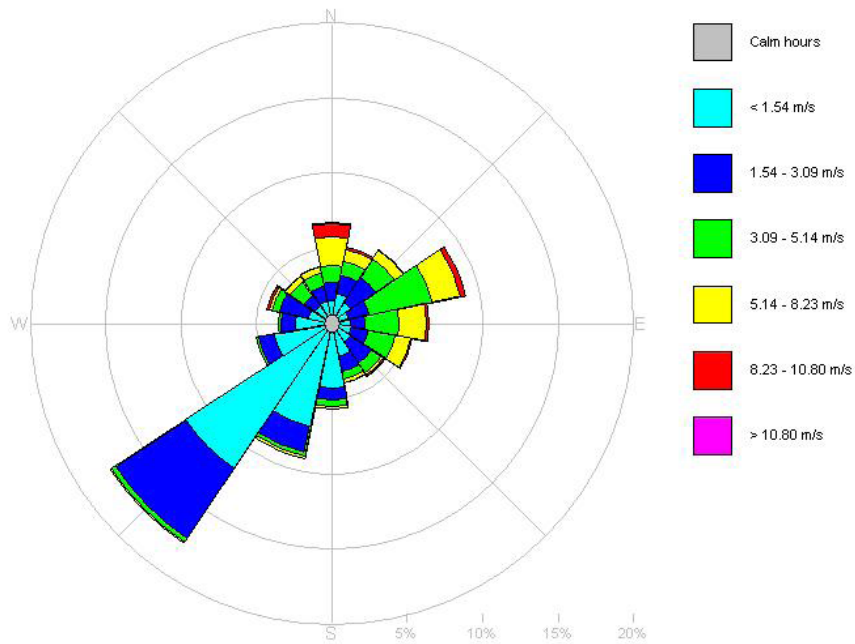


FIGURE 2
WINDROSE FOR THE SITE (2005)

The results of the modelling undertaken were compared to the relevant EU and World Bank / IFC standards. It was found that the plant was not predicted to generate exceedences of the various ambient air quality standards. Key results were as follows

- The annual average NO₂ predicted for the CCGT plant for the worst case year was 1.8 µg/m³. This equates to 4.5 per cent of the EU air quality guideline of 40 µg/m³ with the maxima occurring at 5.3 km to the north-east of the site.
- The worst case 19th highest hourly ground level concentrations for NO₂ were predicted to be 32.7 µg/m³ for the CCGT. This equates to 16.3 per cent of the EU guidelines of 200 µg/m³ with the plume grounding some 5.3 km to the north-east of the site.
- The worst case predicted annual average SO₂ concentrations for the plant was 2.7 µg/m³ equivalent to 3.4 per cent of the World Bank guideline (there is no EU guideline for annual SO₂).
- The 25th highest hourly value for SO₂ produced by the CCGT plant of 58.2 µg/m³. This equates to 16.6 per cent of the 350 µg/m³ EU guideline. The plume was found to ground 5.3 km to the north-east of the stack, in an area of unpopulated, mountainous terrain.
- The annual particulates concentration, for the CCGT were found to be no greater than 2.8 µg/m³, less than 7.0 per cent of the EU guideline of 40 µg/m³, with the maximum being located approximately 7.0 km to the north-east of the site.
- The 35th highest 24 hour maximum ground level concentrations for PM₁₀s were predicted to be just 7.1 µg/m³, with the maximum some 5.3 km to the north-east of the site. This value represents less than 14.2 per cent of the EU guideline of 50 µg/m³.
- In all cases even when the background air quality recorded by KESH in the vicinity of the Vlorë plant is added to the worst case predictions of the model the EU ambient air quality guidelines would not come close to being exceeded.

Modelling of the second option, three CCGT units as was required by the original scope of works, again shows that the plant would operate within the requirements of the EU Air Quality Directive even when the worst case maximum background concentrations recorded by KESH are added to the model predictions.

It was concluded that neither the operation of the single CCGT or a 3 unit plant would in isolation result in exceedences of the relevant guidelines with the maximum values occurring in the largely uninhabited mountains to the north east of the site.

**ANNEX 3
PHOTOGRAPHS**



Photo 1. TPP from Vlora Bay



Photo 2. TPP inside facility area



Photo 3. New transmission line



Photo 4. Continuous air monitoring station near stack



Photo 5. Readout of air monitoring station in operator room (indicative since plant not yet operational)



Photo 6. Mobile air monitoring station; data used to calibrate modeling



Photo 7. Spill containment around oil storage tank



Photo 8. Oil pipeline hook-up at plant (valves and spill containment at base)



Photo 9. New buoy for securing tanker to off-load fuel; plant in distance



Photo 10. Old oil terminal (not part of project)



Photo 11. Vlora city beach (north of city center) on a hot Sunday



Photo 12. Vlora city beach (north of city center); some water quality and maintenance concerns



Photo 13. Vlora city beach (further north towards soda factory)



Photo 14. Fishing harbor next to TPP



Photo 15. Vlora city ferry terminal



Photo 16. Beach south of Vlorë city center



Photo 17. Coastal area further south of Vlorë on the other side of the Karaburun Peninsula