1. Country and Sector Background

Transport demand has changed radically since 1991 due to structural changes in the economy: The road fleet has grown from almost zero to 185,161 vehicles in 2000, the number of flights at Rinas Airport continues to grow rapidly, and traffic at Durres Port has more than doubled since 1995. On the other hand, both rail freight and passenger traffic have fallen to about 10% of their pre-1991 peak. Albania has responded to the change in transport demand by investing in transport and privatizing a number of transport operations. Road investments, mostly donor financed, initially concentrated on the main East-West (TEN Corridor 8) and North-South corridor north of Durres, and most sections are now either complete or under construction or preparation. These investments were complemented by donor financed projects directed at rehabilitating other sections of the primary and secondary road networks, or community based improvements in the tertiary road network. Road maintenance was not emphasized initially because pre-1991 roads were not designed for heavy traffic and had to be rehabilitated before they could be efficiently maintained. Significant investments were also undertaken at the ports of Durres and Vlora, and at Rinas Airport. Limited investments were made in Albanian Railways. While the condition of transport infrastructure has improved as a result of these efforts, much remains to be done. For example, only 10% of the national road network is presently in good condition, with only an additional 22% in fair condition. The Government presently spends about 2% of GDP on transport (11.7 billion Lek in 2000). The Bank assisted the Government in preparing a Medium-Term Expenditure
Framework (MTEF) in 2000, and as part of that exercise recommended that the Government increase its level of transport expenditure to about 3% of GDP, in part to continue catching up with this road rehabilitation backlog.

The Government has also established a number of market-based policies since 1991 with the objective of increasing transport efficiency and coming into harmony with European Union (EU) regulations. Albania has adopted a satisfactory Road Act and has increased its road maintenance budget in stages. All road works (excluding routine maintenance) are carried out by contractors selected on a competitive basis. Inter-city road transport is fully deregulated and the Government has initiated road vehicle registration and inspection systems. The Government is currently updating the 1988 Railway Law to make it more consistent with the EU regulations. The new law is expected to be passed by the end of 2002. The Albanian Railways, responsible for the 440 km long railway network, has been transformed into a joint stock company (JSC). The only railway international connection, with Montenegro, has been recently reestablished from the border up to Bajza (reconstruction of the missing link, between Bajza and Shkoder, is expected to be completed by late 2002). A potential international connection with Macedonia would require the construction of 67.6 km of new lines at high cost (2.6 km in Albania and 65 km in Macedonia). An independent Port Authority has been established at Durres, a Seaport Law is under preparation, and port operations are being progressively transferred to the private sector. The Government has also created independent JSCs to manage Rinas Airport and operate the air traffic control system, and subscribes to most international air traffic conventions.

The Government's transport policy has evolved iteratively with support from the donor community. Government/donor coordination meetings for the transport sector are held about once each year. The Government's transport policy, as summarized in the MTEF, is satisfactory. The main policy directions for the road sector are:

- The North-South and East-West road corridors should be completed;
- Road maintenance should be given priority;
- The road maintenance budget should be increased from US$7.6 to US$10 million per annum;
- Road vehicle inspection centers should be rehabilitated, a vehicle registration information system introduced, and driver education further improved; and
- The Inter-ministerial Road Safety Council should be strengthened

The Government gives increased prominence to road maintenance because recently rehabilitated roads need to be maintained with modern methods, a nascent contracting industry has developed to do the work, and road organizations have matured to the stage where they can make the transition from force account to contract maintenance. The Government's road maintenance strategy is elaborated in a letter sent to the Bank at the time the Emergency Road Repair Project was approved (Cr. 33030, December 7, 1999, Annex 8). The Government declared that: (i) national roads (3,221 km, essentially the primary road network) would be the responsibility of GRD while rural roads (about 11,800 km of secondary and tertiary roads, including 4,220 km transferred from GRD in 1996, plus 1,000 km of urban streets) would be under the responsibility of the Commune Councils or Municipalities reporting to MLGD; (ii) new rural road organizations would be established; (iii) all routine and periodic maintenance would be carried out by contract in the future; (iv) maintenance management personnel would be trained and salaries set to compete with the private sector, and (iv) private contractors would be trained. This strategy was confirmed at negotiations and provides the framework for the project.

Under the project the condition of the national and rural road networks would be improved by (i) carrying out periodic and routine works by contract under the project, as discussed below, and (ii) assuring an adequate budget for future road maintenance. The National Roads are financed via the state
The Regional Road Directorates (RRD) prepare requests for annual budgets that are collected and vetted by GRD. GRD, through MOTT, then submits a combined road budget to the Parliament for approval. After approval of the Government budget, the Ministry of Finance sends funds to GRD and directly to most RRDs. Rural Roads are financed through the state budget and local budgets in some cases supplemented by foreign funding. Only limited central government resources are being made available for rural roads at present (Annex 11). Urban roads and streets are financed by the Commune Councils and the Municipalities through the state budget. Besides funding from the national budget the GRD has funding from foreign loans and aids. The country's present tax structure is generally in alignment with EU requirements, but still needs some adjustments (see Country Report Albania-Road Transport Charges, NEI Transport for PHARE, 1999). Overall tax collection for general government revenue needs to be greatly improved and a mechanism established that assures adequate funding for the road authorities to maintain the desired performance of the public network. At this stage the Government is not pursuing the establishment of a Road Fund for Albania and the Bank concurs with this approach. In order to improve road maintenance funding, (i) the Government confirmed its intention at negotiations to increase by 5% per year its maintenance budget; and (ii) the project includes technical assistance to help design an improved road user charges system.

Road management and maintenance practices would be improved by (i) contracting out routine and periodic maintenance using modern techniques on a demonstration basis and (ii) preparing to reorganize the RRDs and RuRDs, respectively under the responsibility of GRD and MLGD, to carry out maintenance by contract rather than by force account. GRD has successfully reduced its staff from 5,405 in 1995 to about 1,500 in 2002 without social disruption. This was achieved by separating about 1,900 persons and by transferring about 2,000 persons to RuRDs under the responsibility of MLGD in 1996. The staff reductions were successful in part because the domestic contracting industry was developing at the same time that GRD was reducing its staff. However, the RRDs are still significantly overstuffed. There were no private civil works contractors in Albania in 1991. Now there are more than 50, several of which are qualified for pavement works. These contractors developed their skills and expanded their business under prior donor and IDA-financed projects. The project includes technical assistance and training to help with the transition to contract maintenance, and to assess its impact.

The development of the local road construction and consulting industries would be helped with contracts financed under the project, the reorganization of RRDs/RuRDs and substitution of contract maintenance for force account works discussed above, improvements in the system of road maintenance finance, and training in modern business and maintenance practices.

Traffic safety is a significant social, economic and public health issue in Albania. The annual fatality rate, based on official statistics which are probably understated, has been slowly decreasing over the past six years as drivers gain experience, roads are improved, old vehicles are replaced, and the traffic safety campaign begins to take effect. Nonetheless the fatality rate in 2000 was the highest in central/eastern Europe and about ten times the average rate in the EU (Annex 11).

The Government has recognized the serious road safety situation and has taken steps to introduce a new Road Code (based on the Italian Code) and supporting Regulation for its implementation. In addition, Ministerial support has been given for the establishment of a high-level National Road Safety Council (NRSC) to give leadership to the Road Safety Program developed under the IDA National Roads Project. The NRSC was established through Order No. 13, Council of Ministers, Republic of Albania, of January 15, 2002. Coordination of the Program will be the responsibility of the Directorate for Road Safety (DRS) within MOTT, that also acts as NRSC Secretariat. Within the traffic police, a specialist police accident unit is to be established to strengthen the development of the traffic accident database. The national insurance company, INSIG, is supporting government initiatives in road safety, has provided
financial support to the Municipality of Tirana (for new traffic signal equipment), and has an agreement
to assist the traffic police (with equipment to improve law enforcement activities). The Ministry of
Health has identified traffic accidents as one of the top three major causes of death in Albania, while
injury victims of traffic accidents are significant users of hospital emergency services. The traffic police
perceive that the main causes of accidents include poor road condition, lack of safety features (e.g., signs,
pavement marking, operating traffic signals), high speed, and high alcohol levels of drivers. The police
have no appropriate accident reporting and analysis system, and no speed radar or alcohol-testing
equipment at this time. The project includes 'accident black spot' improvements, equipment for the traffic
police, and technical assistance and training to further improve road safety.

2. Objectives
The project development objective is to reduce transport costs on priority sections of the main road
network, reduce accident rates, and provide better accessibility to rural areas and essential social
services.

3. Rationale for Bank’s Involvement
Albania has received substantial amounts of financial support for road construction and rehabilitation
from the European community and from international and bilateral organizations. The Bank’s broad
experience in assisting in institutional strengthening of road administrations to better manage and
maintain national and rural road networks, support and implementation of traffic safety policies, and its
ability to coordinate with a large number of co-financiers puts it in a unique position to fill this role
Also, its experience with road financing arrangements and the execution of high level and influential
road safety awareness seminars will provide useful background for assisting the Government in these
areas. Thus the Bank has a comparative advantage in undertaking the project.

4. Description
The project consists of two components. (i) Maintenance of National and Rural Roads, and (ii) Traffic
Safety, each comprising works, goods, and technical assistance sub-components The proposed project
seeks to improve the overall maintenance of Albania’s road network, including both the national and rural
roads, both in the near term and on a continuing basis. Measures to increase general road safety
awareness and strengthen coordination of road safety programming would support the establishment of
an appropriate environment for a multidimensional, sustainable Road Safety Program. The introduction
of targeted enforcement strategies, combined with integrated road safety campaigns and remedial
measures at accident black spots, would aim to reduce the number of traffic accidents and minimize the
offsetting effects of improved road conditions and expected higher traffic speeds.

The priority road sections for maintenance will include access to at least one of the regional hospitals
recently upgraded under the IDA-financed Health Services Rehabilitation Project (Credit No AL 26590).
This will provide an opportunity to compare accessibility to the hospital before and after maintenance of
the access roads. Technical assistance will fund an assessment of project impact on rural and health
facility accessibility. In addition, traffic counts and surveys for this purpose will be included in the
project’s overall program of counts and surveys.

Contracting out of routine maintenance will be introduced through the project. GRD will begin letting
private routine maintenance contracts for a portion of the overall network in various locations to test and
demonstrate the feasibility of this procedure. Nevertheless the total amount of contracting out will not,
during this project, be so large as to cause reductions in GRD employment beyond normal attrition (a
common standard for attrition is usually 2-3% per year so here in five years 10% can reasonably be
expected). However, the project will include an assessment of the organizational, social and financial
impacts of a generalization of the proposed approach to the whole network, as it is expected that this
The project will set up a counter-example of quality maintenance being performed under contract and that will lead to further expansion of contracting out in the future.

The project will include the following components:
1. Maintenance of National and Rural Roads

WORKS: About 500 km of roads and bridges of the national road network and about 500 km of roads and bridges of the rural road network.
GOODS: Equipment for road surveys; office equipment, vehicles and supplies for effective project implementation; equipment for road database development and implementation.
TRAINING AND TECHNICAL ASSISTANCE: restructuring of the national and rural road management; assessing impact on rural and health facility accessibility; recommending appropriate road user charges based on funding needs; services to prepare the engineering design and carry out supervision of road works; training for the private road construction industry; consultant services for PIU operation; consultant services for environmental management, training and public information campaigns; project audits.

2. Traffic Safety

WORKS: physical measures to improve safety selected priority areas and accident black spot locations.
GOODS: traffic control devices; data storage/retrieval and analysis system for Traffic Police accident unit and for the MOTT General Directorate of Road Safety; safety enforcement equipment.
TRAINING AND TECHNICAL ASSISTANCE: road safety awareness seminar for senior GOA and other officials; consultant services and training for MOTT to support implementation of the DRS and its working procedures; consultant services and training for GRD; consultant services and training for MLGD; consultant services and training for the Traffic Police.

5. Financing

Source (Total (US$m))
BORROWER ($3.85)
IDA ($17.00)
Total Project Cost. $20.85

6. Implementation

The cooperating agencies would include the GRD under MOTT, MLGD, and the Traffic Police under Ministry of Public Order (MPO). The Project Implementation Unit (PIU) already established for ongoing road projects in GRD would be responsible for project management, including procurement, for all components of the project. MLGD would be represented in all matters concerning the rural road network.

For the implementation of the rural road works, the PIU will keep a high level of involvement of the regional and municipal governments, including asking them to appoint the members of the Bid Evaluation Committee for works carried out in areas under their jurisdiction. All legal issues and the actions of the two Ministries (MOTT and MLGD) will be coordinated through a Memorandum of Understanding (MOU). The road safety component, excluding civil works, would be the responsibility of the DRS under the guidance of the NRSC, with support from MOTT, GRD, MLGD and the Traffic Police.
The project would have one Project Implementation Unit (PIU) under GRD and would include at least one staff from the MLGD. The PIU would consist of about six persons with skills in general management, procurement, highway engineering, environment, and accounting. The IDA financed Roads PIU within GRD, currently implementing the Emergency Road Repair and the National Roads Projects will implement the proposed project. This avoids creating a new PIU. Moreover, the PIU capacity will not be overstressed because the National Roads Credit will be closed on June 30, 2002, i.e. before the RMP implementation starts up. It is also expected that GRD will collaborate with MLGD to gradually establish project implementation capacity on all aspects of rural and municipal roads within MLGD, as GRD already has experience in implementing Bank-financed projects. The road safety component, excluding civil works, would be the responsibility of the DRS but all procurement would be carried out by the IDA financed Roads PIU within GRD. The PIU will contact directly each entity for matters relating to that entity in order to ensure an efficient implementation of the project.

During project preparation, an assessment of the GRD’s capacity to conduct procurement was carried out. The PIU has a core of qualified staff with experience in Bank procurement. The agency has benefited from years of assistance by international consultants in project monitoring, procurement, and supervision. However, the experience so far with prior and post review of the PIU’s procurement activities has indicated that the procurement procedures are not always transparent and that the PIU is subject sometimes to outside pressures. Therefore, the agency is rated high risk. In order to address the deficiencies identified during the capacity assessment, an action plan was prepared and agreed at negotiations (see Annex 6).

7. Sustainability
The sustainability of the project will depend on the degree of Government commitment to the restructuring of the road maintenance and the performance of the NRSC and its supporting Secretariat (DRS) in carrying out road safety measures. The project will address the issue of road management capacity, road maintenance efficiency, and prioritization of activities according to economic criteria. However, it will not, beyond the project implementation period, provide leverage to ensure that sufficient resources are being allocated to the conservation of road assets, and that only economically sound road construction projects are being undertaken. These two specific aspects should continue to be monitored through other Bank activities such as follow-on projects or adjustment lending.

8. Lessons learned from past operations in the country/sector
The World Bank has had extensive experience in road maintenance in many places around the world, and in many of the Eastern European countries as well. One important lesson learned many years ago is the importance of giving priority to maintenance over new construction when financing is constrained, based on the superior rates of return that almost invariably are achieved by the maintenance operations. As a number of the Eastern European country operations are now at or near completion, there are a number of other important lessons that emerge.

First among these is that contracting is more efficient than force account operations. Virtually all Bank/IDA operations now provide for periodic maintenance to be carried out on a contract basis. Routine maintenance is more problematic since the tasks are more difficult to define precisely. Nevertheless, there is growing experience in European countries such as Finland and Sweden where routine maintenance is being carried out on a contract basis, frequently with significant savings compared to the force account operations that preceded the change. It is now timely to consider contracting for routine maintenance more widely. Furthermore, the successful use of performance-based specifications in several countries have indicated that this approach may be preferable under certain circumstances, to the traditional "bill of quantities" approach to contract out routine maintenance. While contracting out
routine maintenance will be introduced under the proposed project, adoption of performance-based specifications is reserved for future operations when the local contracting industry has acquired more sophisticated knowledge of contractual procedures.

The Bank’s experience with the provision of financing for road maintenance is more mixed, but several lessons are clear. First, it is important that road users be assessed for the cost of maintaining the roads, just as other basic infrastructure charges for its services (as in the case of electric power or telephone service). The most appropriate charges are those most directly related to the use of the roads, with fuel taxes as the largest contributor in most cases. Second, while there are frequently conceptual objections from the IMF to the establishment of a Road Fund, with specific road user charges dedicated to placement in the Fund for use only for roads, it is clear that this mechanism leads to a higher level and more consistency in financing than if the funds are provided from the general budget. The agreement reached between the World Bank and the IMF for conditions under which Road Funds could be considered acceptable should be given attention when using this mechanism. While establishing a Road Fund is not a required condition under the proposed project, it may be an option to be considered by the Government in the future.

The volatility of the Albanian civil service (frequent changes in project officials, including PIU) affecting the project day-to-day decision-making process hampered the implementation of previous projects. This was improved by the establishment of an energetic and competent "independent" PIU during project implementation. The selected PIU members were domestic consultants, paid in accordance with local market rates, and acting with the delegation and autonomy defined in the appraisal and credit agreement documents. This lesson has been applied to this project.

The World Bank has had extensive experience in traffic safety in many places around the world. Designing and implementing a Road Safety Program is a difficult and long term process requiring strong political support and commitment. From all the involved agencies as well as other government bodies, it requires: (i) increasing awareness of traffic safety issues, (ii) good coordination, (iii) strong ownership, and (iv) adequate funding. There is also an opportunity in Albania to develop community-based road safety initiatives making use of cross-sector linkages via other ongoing IDA projects involved with education, health, social services and community works.

From the perspective of safety, public road transport needs special attention. In 1993 a World Bank study was launched to analyze the road safety situation in Central Europe and give recommendations how to stop the negative trend. Hungary was among the countries covered by the study (the other countries were: Bulgaria, Poland, Romania, Czech Republic and Slovakia). The study assessed the financing needs of road safety in the six countries at US$ 414 million over three years. It recommended actions, as well as investments in the areas of user behavior, road infrastructure and checks and vehicle safety inspection. The assumption was that if all multi-disciplinary measures are implemented, the deteriorating safety conditions could be reversed and injuries reduced by 10-15%, fatalities by 15% in 3 years. If the implementation is stringent this could even lead to a 25% improvement. One country, Hungary, has implemented the recommended program and has even achieved better results.

Experience in implementing IDA and other donor-financed projects in Albania points to common issues as summarized in the Report of Donor Coordinators’ Meeting of February 16, 2001:

- Feasibility and detailed engineering studies need to be completed to good standard before a project begins;
- Current land use and/or transport/urban master plans (with utility locations) are required before detailed designs can be prepared,
Land expropriation arrangements need to be completed before civil works contracts start;
Where appropriate, a timely and firm commitment from the Government to reimburse VAT/customs duties is required; and
It is important for the Government to assure the continuity of key personnel in Ministries and transport organizations.

All of these lessons have been taken into consideration in the design of this project.

9. Environment Aspects (including any public consultation)

Issues: In accordance with World Bank Safeguard Policies (OP/BP/GP 4.01 Environmental Assessment) the project is rated environmental category B and an Environmental Management Plan (EMP) has been prepared by the Borrower (see Annex 8). The project is expected to have only minor negative impacts on the environment, as it will focus on road maintenance and rehabilitation activities, such as filling and patching potholes and areas of bituminous pavement that have become loose/dislodged; fixing and painting parts of the drainage structures, culverts and pipes; replacing lost material on shoulders, improving road safety conditions by posting hazard warning signs and physical barriers at high risk spots. All works will be carried out on the existing road, with no resettlement or land acquisition activities anticipated.

Slight negative impacts primarily of a temporary nature are associated with the construction phase and would be restricted to road works related to movements of men, and materials (asphalt, rocks, dust, noise etc.), excavation of borrow pits, disposal of construction wastes, and handling and storage of materials (concrete, asphalt, lubricants, fuels, paints). After completion, the project will have positive indirect impacts on human health and safety through decreased number of accidents; reduced air pollution from more even travel speeds on rehabilitated road sections; cleaning up of solid waste from roadside drains; and reduced water pollution resulting from rehabilitated drainage systems. Materials (e.g. asphalt, stone, etc.) would be supplied only from sources with approved licenses, permits, and/or approvals for environment and worker safety, and any equipment used during construction would meet internationally recognized standards for environment and worker health and safety.

A significant issue that has emerged is the dumping of solid wastes into highway drainage channels. During the initial surveys it was found that in and around settlements, drainage channels and right-of-way on rural as well as national roads all over the country are being used as receptacles for garbage, plastic bags, broken machinery and household appliances and other trash. The practice while being detrimental to public health, is also instrumental in deteriorating the condition of the roads due to reduced drainage capacity. A number of such sites have been identified under the project, some constituting major dumping grounds requiring significant clean up efforts. Therefore, while pursuing a policy of doing no harm, the project will also pursue opportunities for environmental improvement by cleaning up waste from roadside drains and organizing public awareness campaigns on solid waste management.

Currently, the tax structure for gasoline in Albania favors the use of leaded gasoline as this is cheaper than unleaded gasoline. A higher tax rate for leaded gasoline to reflect the social costs of the negative health impacts caused by lead is needed.

The EMP prepared by the Borrower addresses these issues and has been discussed in public meetings held in each of the 12 Prefectures in Albania. The EMP was also released in-country in the local language.
10. List of factual technical documents:
Report No.23818-ALB - Project Appraisal Document

11. Contact Point:

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

Comment: The updated PID was prepared to include a Supplemental Credit of US$13 million equivalent that will be used to return the investment program for the Road Maintenance Project to its original size, improving about 1,000 km of the national road network and about 1,000 km of the rural road network. No changes to the originally negotiated credit are proposed.