

## Ex Post-Evaluation Brief Albania: Water Supply Elbasan



<b>Programme/Client</b>	Economic development through expanding municipal infrastructure in Elbasan 1998 658 33 (investment)	
<b>Programme executing agency</b>	'Elber' utility company	
<b>Year of sample/ex post evaluation report: 2011*/2011</b>		
	Appraisal (planned)	Ex post-evaluation (actual)
<b>Investment costs (total)</b>	EUR 20.7 million	EUR 10.6 million
<b>Counterpart contribution (company)</b>	EUR 8.7 million	EUR 1.8 million
<b>Funding, of which budget funds (BMZ)</b>	EUR 12.0 million	EUR 8.5 million

\* random sample

**Project description:** The intention was to rehabilitate and extend the water supply system and, to a limited extent, the wastewater disposal system (including new sewage treatment plant) for the city of Elbasan and the adjacent municipality of Bradashesh. Due to the executing agency's institutional limitations, a concession was awarded to Berlinwasser within the project. However this was terminated, as major contract provisions (most notably tariff increases) were not adhered to. The sanitation component was cancelled as a result, and Financial Cooperation (FC) funding was reduced by EUR 3.5 million. During project implementation, the executing agency was supported through both basic and advanced training measures, principally in the areas of technical operations, customer management and accounting.

### Objective:

Overall objective: To contribute to conserving water resources and to improve community hygiene (*amended overall objective*).

Project objective: To sustainably provide sufficient and safe drinking water (by a competent executing agency) to inhabitants, businesses and public institutions in the Elbasan and Bradashesh supply areas, and to dispose of sewage accruing in the city of Elbasan in a safe and environmentally sound manner.

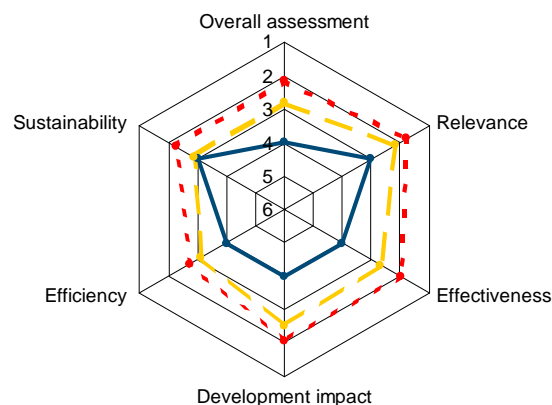
### Overall rating: 4

Project objectives were largely not achieved (e.g. continuing high water losses), with limited developmental impact. Given these shortfalls, the project has been assessed as unsatisfactory.

### Of note:

Under the prevailing circumstances, the concession model chosen for the project proved impractical in retrospect: there was no reliable database, cost recovery was inadequate, and popular acceptance and political support for the introduction of water meters and tariff increases were both lacking.

### Rating by DAC criteria



—●— Project  
- - - Overall average rating - Sector (from 2007)  
- - - Overall average rating - Region (from 2007)

## **SUPPLEMENTARY INFORMATION TO THE PROJECT DESCRIPTION**

The Albanian government had identified private sector participation (PSP) as a vital tool for rectifying local waterworks' operational and administrative shortcomings as well as for mobilising private capital. In that respect, the Elbasan project was to serve as a PSP showcase. Even before FC project appraisal, Berlinwasser International (BWI) had been identified as private investor and the outline of a concession agreement between BWI and its Albanian partners had already been drafted. The high commitment initially shown by BWI, who had been actively lobbying for the project since 1996, provided a major impetus for the project; as BWI had carried out preliminary investigations to that end at their own expense, the concession was not put out to tender.

Investments for this project were to be cofinanced through an FC loan, with additional funding to originate from the concessionaire's own resources and from a subordinate loan by Berlinwasser International (BWI) to the concessionaire. Dedicated training funds were used to finance basic and advanced training for technical personnel (the 66 employees of the waterworks).

From April 2001 to the end of 2006, the project was undertaken in the framework of a concession arrangement: for this purpose, the private utility company Elber was established under Albanian law, whose shareholders were BWI (95%) and the German engineering firm Rodeco (5%). According to the contract, the concessionaire assumed operational responsibility and undertook to upgrade the waterworks services, to maintain the existing facilities and to invest in the rehabilitation and expansion of the infrastructure. This concession contract, planned for a duration of thirty years (including a two-year transition period), constituted the first investment by a private investor in an Albanian utility company. However, the contract was terminated in 2006 due to failure on the part of the awarding party to fulfil its side of the contract (notably tariff adjustments).

Following the concessionaire's withdrawal, ownership of the company was transferred to the Albanian government in December 2006 (the Ministry of Economy, Trade and Energy). The FC project was modified to suit the changed circumstances, and the former main concessionaire BWI now provided support to the executing agency as implementing consultant. In the course of government consultations in March 2007, the loan was reduced by EUR 3.5 million and the wastewater disposal component was dropped.

A technical auditor carried out monitoring activities during the project, checking all planning, tendering and contract documentation submitted, and tracking project progress and operational milestones throughout implementation.

## EVALUATION SUMMARY

### **Overall rating: unsatisfactory, 4**

Project objectives were not reached, and only limited developmental impact can be observed. Technical design was oversized, and water losses remain very high. As a whole, the project's overall rating is regarded as unsatisfactory.

**Relevance:** Improving water supply and wastewater disposal remains a priority area for German-Albanian Development Cooperation. Under its '*National Strategy of Water Supply and Sewerage Service Sector*', the Albanian government continues to make great efforts to improve the poor state of water supply (e.g. in terms of duration of supply and numbers of connections) in both rural and urban areas, striving to incorporate – where appropriate – the private sector.

As the prior water supply and sewerage disposal situation was considered a severe obstacle to development, the project's declared intention was to improve conditions for economic recovery in the region and public hygiene. Given the extremely high water losses of 90% at the time, the inadequacy of the sewers and the constant discharge of sewage into the Shkumbini River, a 'contribution to the conservation of water resources' would have been a more obvious and pertinent objective to accompany the 'improvement in public hygiene' than a 'contribution to economic recovery'. In retrospect, it must nonetheless be noted that the underlying intervention logic can be considered reasonable.

The project was to be carried out by a private operator under a concession. With hindsight, opting for a concession as the PSP instrument of choice is now judged inappropriate, as the necessary conditions (especially in institutional terms) for the successful implementation were largely not in place: There was no reliable database, cost recovery was inadequate, and popular acceptance and political support for the introduction of water meters and tariff increases were both lacking. A management contract would have been a more suitable option under those circumstances. A change of ownership at BWI triggered renewed negotiations, as the above uncertainties implied a high level of implementation risk from the new owners' perspective: subsequently several accommodations were made to BWI in order to mitigate perceived risks: a concession fee was not charged; in addition, grant funding was approved for institutional strengthening (also to be delivered by BWI) in the areas of technical operations, customer management and accounting.

The EUR 3.5 million funding cut following the failure of the concession is understandable from a risk perspective; on the other hand, those funds could have been used for wastewater treatment or for significantly reducing water losses.

The project complies with Albanian and German sector development strategies. As one of the first PSP projects, it was to serve as a model for the Albanian water sector; however, its hoped-for structural impact has failed to materialise. Donor coordination has long been

practiced in the Albanian water sector. A recent survey by the World Bank, which had itself initiated PSP ventures in other Albanian cities, concludes that the Albanian water sector is not yet ready for this kind of operating model.

Taken overall, the relevance of the project is assessed as still satisfactory (Sub-rating: 3).

**Effectiveness:** The project aimed to achieve a water connection rate of 98% in Elbasan and 90% in Bradashesh. It is estimated that a figure of 95% has been achieved in Elbasan. Due to low data reliability, a figure of 98% cannot be ruled out, either. In any case, 95% would still be acceptable. Contrary to the original concept, no project funds were invested in Bradashesh (which has a reported population of 12,400). The connection rate amounts to a maximum of 20-25%. The indicator has thus been only partially met.

The indicator 'reduction in water losses to < 35%' is taken into account additionally, as this can measure the company's capacity and efficiency. Given the persistent excessive water losses of 81% (originally 90%), that figure is far from being met.

A 24-hour supply for at least 300 days per year was not achieved. The current water supply rate is approximately 6 hours per day, which, given the abundant water resources available, is far too low. Compared to 1999, no improvement can be observed, which is caused by extremely high water losses, together with very high water consumption (estimated at between 200 and 400 L per person per day) and low tariff levels. The introduction of water meters and tariff increases would have significantly reduced water losses; however, this could not be implemented in the first few years as planned – due to public opposition and a lack of political support. After the failure of the concession, there was also a lack of funding for necessary rehabilitation work.

Compliance with WHO quality standards is ensured, even though this is only achieved through continuous chlorination. As this (too) high chlorine content negatively impacts on taste, piped water is usually used as drinking water only by the poorer population segments.

For the waste water component, the permanent discharge of untreated sewage into the Shkumbini River from the Elbasan urban area was to be halted. As the waste water component was dropped following the failure of the concession, this target and pertinent performance indicators could not be achieved. A sewer system connection rate of 85% has been achieved, but this cannot be attributed to the project. The contamination of the Shkumbini River and of ground water by sewage discharge continues to be a serious problem.

On the positive side, the operating capacity of the executing agency was strengthened. Relevant processes, standards and structures were improved, principally in the areas of information systems, storage of materials and accounting (to Albanian and international

accounting standards); the management team appears well qualified. However, the absence of an information and outreach strategy has to be noted – explaining, e.g. the necessity for higher water charges and for the installation of water meters more clearly to decision makers and the general public.

Apart from advances made in the area of drinking water quality, hardly any positive effects have occurred; accordingly, the project is assessed as no longer satisfactory (Sub-rating: 4).

**Efficiency:** The specific investment costs of EUR 90 per capita (for 122,000 connected customers) can be considered as appropriate in principle. Considering the overall lack of effectiveness (see above), this assessment has to be put into perspective with regard to allocative efficiency. Added to this, time-consuming negotiations over the concession contract led to delays of approximately 2 years.

Had the high water losses of 81% been reduced to a normal level, the existing water supply system (designed for approx. 400 L per person per day), would have to be regarded as oversized. With energy costs for pumping currently accounting for around 1/3 of operating expenses, substantially less pumping capacity would then have been required. At present, only about half of all households have a water meter installed. Consumption of the remaining households is charged at a flat rate (providing little water saving incentive), which explains the majority of water losses.

Based on dynamic production costs, a cost recovery rate of 112% in operating terms (70% for total costs) was achieved over the whole investment period. Account for the current (2010) collection efficiency of 78% (2003 rate: 50%), however, respective figures stand at 87% and 55%. Tariff revenues cover about 98% of current operating expenditure (excluding interest and amortisation). It is reasonable to assume that the increase can also be attributed to improved revenue collection due to BWI participation.

Overall, however, efficiency was assessed as no longer satisfactory (Sub-rating: 4).

**Overarching developmental impact:** Due to the failure of the wastewater component, the project was unable to improve on public hygiene. Untreated sewage is still discharged into the Shkumbini River, whose downstream water is used for drinking water abstraction and irrigation purposes, following bank filtration. Open sewers are still to be found in the outskirts of the city. It has still not been possible to significantly reduce water losses. The target of conserving resources has therefore not been met. However, the incidence of water-borne diseases in Elbasan has fallen by some 90% since the start of the project, which can be attributed (among other factors) to the permanent chlorination process, and in part to the rehabilitation of the water supply system. This estimate has been confirmed by the responsible health authority. To some extent, the project has therefore contributed to improved public health in the city of Elbasan.

In recent years, Elbasan has undergone an economic recovery. According to figures from the city of Elbasan, the number of businesses has doubled, and turnover has increased by 70%. However, the project's attribution in this respect should be seen as limited at best, especially as this trend reflects the general progress of the national economy.

For the time being, approaches involving private sector participation are not being pursued in the Albanian water sector. The failure of the concession has contributed to this situation. Furthermore, on the Albanian side, it has – at least locally – led to a reputational loss of German companies.

In overall, the result is not satisfactory, despite some positive health impacts (Sub-rating: 4).

**Sustainability:** Up to now, the Albanian central government has been providing - and will continue to provide - energy subsidies to the Elber utility and other water supply companies. Consequently, “financial sustainability” in a broad sense cannot be viewed as seriously endangered. However, tariff increases will be necessary. There is above all a lack of investment funding available to connect households to the partially renewed tertiary network. Furthermore, there can be no improvement in the disposal of sewage without additional (external) funding. Currently, well fields used for drinking water extraction are already threatened with contamination. It remains to be seen as to how far the city of Elbasan supports the tariff increases proposed by the waterworks for 2012.

While Elber's financial resources represent a potential bottleneck, its employees appear to be suitably qualified in principle to operate and maintain the existing water supply infrastructure to an appropriate standard.

The future institutional status of Elber, which is currently owned by the central government, is also uncertain. If the proposed option of transferring it to the city of Elbasan comes to pass, further risks to sustainability will arise, as the threat of political influence affecting both the charges paid by public institutions and decisions on staffing, could in turn affect the dedicated management team at Elber. Resistance on the city's part has been the main reason why a speedy transfer of Elber has not already taken place.

Sustainability has been assessed as still satisfactory (Sub-rating: 3).

## Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being relevance, effectiveness, efficiency and overarching developmental impact. The ratings are also used to arrive at a final assessment of a project's overall developmental efficacy. The scale is as follows:

1	Very good result that clearly exceeds expectations
2	Good result, fully in line with expectations and without any significant shortcomings
3	Satisfactory result – project falls short of expectations but the positive results dominate
4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
6	The project has no impact or the situation has actually deteriorated

Ratings 1-3 denote a positive or successful assessment while ratings 4-6 denote a not positive or unsuccessful assessment

### **Sustainability is evaluated according to the following four-point scale:**

Sustainability level 1 (very good sustainability) The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Ratings 1-3 of the overall rating denote a "successful" project while ratings 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (rating 3).