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RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF THE

REPUBLIC OF ALBANIA

INTEGRATED COASTAL ZONE MANAGEMENT & CLEAN-UP PROJECT

APPROVED ON JUNE 21, 2005

AND FINANCED BY

A DEVELOPMENT CREDIT (CREDIT NO. 4083-ALB)

FROM THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

VARIOUS DONORS' CONTRIBUTIONS TO TRUST FUNDS

INCLUDING

JAPANESE GRANT FOR CO-FINANCING NO. TF055065

AND

AUSTRIAN GRANT FOR CO-FINANCING NO. TF055922

November 21, 2012

Sustainable Development Unit
South East Europe Country Unit
Europe and Central Asia Region

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ABBREVIATIONS AND ACRONYMS

CVCD	Coastal Village Community Development Program
CDF	Confined Disposal Facility
GEF	Global Environment Facility
ICZMCP	Integrated Coastal Zone Management and Cleanup Project
IDA	International Development Association
IOC	Incremental Operating Cost
PDO	Project Development Objective
SDR	Special Drawing Rights

Regional Vice President:	Philippe H. Le Houerou
Country Director:	Jane Armitage
Sector Manager:	Kulsum Ahmed
Task Team Leader:	Adriana J Damianova

ALBANIA
INTEGRATED COASTAL ZONE MANAGEMENT & CLEAN-UP PROJECT

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Integrated Coastal Zone Management & Clean-Up Project (ICZMCP)

RESTRUCTURING PAPER

A. SUMMARY

The proposed changes include: (a) reallocation of IDA Credit proceeds among disbursement categories; (b) a third extension of the Project's Closing Date by eighteen months from December 31, 2012, to June 30, 2014, including the closing dates of two Bank-administered co-financing grants: a Japanese Grant (TF055065) and Austrian Grant (TF055922); and (c) extension of the deadline for meeting the requirements of paragraph 2(b)(i) of Schedule 4 of the Development Credit Agreement (DCA) in order to allow additional time for the Republic of Albania (the Recipient) to complete the administrative process for granting legal titles to families resettled from the contaminated site of Porto Romano. Change of the closing date is necessary to allow time for completion of the ongoing infrastructure investments. The adjustments in the IDA funds allocation between disbursement categories are based on the current implementation progress and actual project needs. The proposed level two restructuring does not involve a change of the Project Development Objective (PDO) or associated outcome targets. The overall set parameters of the project restructured in March 2010¹ will not change.

B. PROJECT STATUS

Currently, project implementation remains moderately satisfactory. Many of the project activities are already back on track after the project was restructured in March 2010 and suspension of disbursements lifted in June 2010. As of October 30, 2012, 39.77 percent of the IDA credit proceeds (amount equivalent to US\$7.05 million out of US\$ 17.84 million) have been disbursed. Overall 28 contracts were completed. There are about 22 remaining activities under implementation totaling to US\$ 10.4 million. For the same period 56.66 percent of the Japanese Grant for co-financing (TF055065) equal to US\$ 1,263,464 is disbursed and 9 contracts completed. There have been no disbursements to date from the Austrian Grant for co-financing (TF055922), in the amount of € 19.6 million (equivalent to US\$ 2.5 million), which is now (since the 2010 Project Restructuring) purposed solely for financing of the Bajkaj solid waste infrastructure works and goods for operation of the landfill.

The cleanup of contaminated land and former Lindane plant in Porto Romano community, near Durres, is completed. As a result more than 55,100 cubic meters of contaminated soil and hazardous material affecting the environmental conditions and health of Porto Romano community have been safely disposed and encapsulated. The process was accompanied by a two year public awareness program focusing on the population of the community and using the project results, cleanup works, and environmental monitoring to increase the awareness of local population and build support

¹ Level one restructuring was approved by the Board of Executive Directors on March 23, 2010. Suspension of IDA credit was lifted in June 2010.

for community support to sustain the project results. Furthermore, a capacity building international training on environmental remediation techniques and maintenance of Confined Disposal Facility (CDF) infrastructure was organized for key institutional stakeholder and community representatives that will be involved in monitoring and maintenance of the CDF.

Phase one of the investment program of the Coastal Village Conservation and Development (CVCD) program has been completed. Almost 6000 residents and tourists in 4 coastal communities and 13 villages have benefited from improved water supply and improved access roads. Village roads and water supply investments under Phase two of the Coastal Village Conservation and Development program are being procured. The ongoing Roof and Facades Rehabilitation program raised significant interest among the coastal communities with signed 10 houses with construction contracts.

Rehabilitation works of the Passenger Terminal of the Port of Saranda are progressing. Despite several months of delays caused by slower than anticipated mobilization of the floating equipment for dredging, port rehabilitation works are about 50 percent completed. The construction works of the Bajkaj Municipal Solid Waste Landfill are about to start after the ongoing evaluation of bids for works contractor is completed.

The preparation of the Butrint National Park Protected Area Management Plan in 2010, stakeholder consultations and the accompanying Social Assessment on potential impacts of the proposed park zoning financed by GEF grant have been completed.

Despite some encouraging progress the implementation of certain activities (e.g., CVCD program phase 2; the construction of Bajkaj Landfill), the Saranda water supply and waste water investments are lagging behind schedule due to the time necessary to process approval of engineering designs, review of Environment Impact Assessment (EIA), issuance of environmental and construction permits, and time to complete several rounds of consultations with beneficiary communities, not to mention slow down effect of local government elections during the summer of 2011.

There are no new safeguards issues that may require additional attention during project restructuring. The action on resettlement related to the four families residing on the contaminated site in Porto Romano (covenanted as due by June 30, 2011, pursuant to paragraph 2(b)(i) of Schedule 4 of the DCA, as was amended two times previously) was substantially completed except for one remaining step related to the transfer of ownership titles of the apartments provided to the families. A technical error in the decision of the Durres Municipal Council related to the measurements of the apartments slowed down the completion of the legal process. On November 5, 2012, Durres Municipal Council issued a revised decision which was necessary for proceeding with an amendment of Annex 1 of the Decision of Council of Ministers No. 410 from 2011 approving the processing of the ownership titles by the Albanian Office for Registration of Properties.

A Resettlement Action Plan has been prepared to compensate some 20 project-affected land owners in the Vergo Commune whose plots are being expropriated for the construction of the Bajkaj Landfill serving the coastal communities of Saranda and

Himara. Land acquisition impacts do not affect income streams of affected households; compensation amounts are fully adequate to purchase replacement land, if desired. The construction of the landfill will also provide improvements to local roads and community water supply systems as well as enhancements to village squares in the two communities located in the general area of the landfill.

There are no new implementation risks towards completion of all project activities.

C. PROPOSED CHANGES

Reallocation: To date IDA funds available for commitment under categories “Goods”, “Engineering Services”, “Consultancy Services” and “Training” are in the amount of SDR 896,300. The funds saved under these categories are the result of effective and competitive procurement and lower than anticipated spending under completed or ongoing contracts. Cost estimates of the investment needs for categories “Works”, “Works under Part B.4(a) of the Project” and “Incremental operating cost” (IOC) carried out for the purpose of this restructuring show potential shortage of IDA credit funds over and above the available savings. This shortage is a result of (a) cost of infrastructure investments under categories “Works” and “Works under Part B.4(a) of the Project” are based on technical designs completed after the restructuring in March 2010; (b) additional village infrastructure investments in Vergo commune in relation to the Bajkaj Landfill infrastructure were included in CVCD program phase 2 based on community request; and (c) some currency fluctuations. In a letter from the Borrower dated November 9, 2012, the Government of Albania confirmed its commitment to cover a potential financing gap of about SDR 341,000² (US\$483,000) after IDA credit funds are disbursed.

The proposed reallocation of funds is from categories (1) “Goods”, (5) “Consultancy services”, and (6) “Training” to categories (2) “Works”; (3) “Works under Part B.4(a) of the Project” and category (7) “Incremental operating cost (IOC)”. It is understood that not all investments under category (3) “Works under Part B.4(a) of the Project” would materialize should the necessary community contributions could not be realized prior to signing construction contracts.

The reallocation of Credit proceeds between the different categories of expenditure shall be as follows:

- (i) Reallocate the amount of SDR 278,300 from category (1) “Goods” to category (7) “Incremental Operating costs”,
- (ii) Reallocate the amount of SDR 40,400 from category (1) “Goods” to category (2) “Works”,
- (iii) Reallocate the amount of SDR 50,000 from category (6) “Training” to category (2) “Works”,

² The estimated gap is based on revised financing percentages for categories (2) and (3).

- (iv) Reallocate the amount of SDR 328,100 from category (4) “Engineering Services” to category (2) “Works”,
- (v) Reallocate the amount of SDR 130,300 from category (5) “Consultancy Services” to category (3) “Works under Part B.4(a) of the Project”,
- (vi) Reallocate the amount of SDR 69,200 from category (5) “Consultancy Services” to category (2) “Works”.

The following table shows the current and revised categories, allocations and financing percentage:

Category		Allocation (expressed in SDR)		% of Expenditure to be Financed	
Current	Revised	Current	Revised	Current	Revised
(1) Goods	(1) Goods	620,000	301,300.00	100%	100%
(2) Works	(2) Works	5,093,363.00	5,581,063.00	80%	70% for expenditures incurred after December 1, 2012
(3) Works under Part B.4.(a) of the Project	(3) Works under Part B.4.(a) of the Project	2,450,000.00	2,580,300.00	90%	80% for expenditures incurred after December 1, 2012
(4)Engineering Services	(4)Engineering Services	1,160,000.00	960,500.00	100%	100%
(5)Consultancy services	(5)Consultancy Services	1,470,000.00	1,141,900.00	100%	100%
(6) Training	(6) Training	150,000.00	100,000.00	100%	100%
(7)Incremental Operating Cost	(7) Incremental Operating Cost	620,000.00	898,300.00	100%	80% for expenditures

					incurred after December 1, 2012
(8) Refunding of Project Preparation Advance	(8) Refunding of Project Preparation Advance	136,637.00	136,637.00	Amount due pursuant to Section 2.02(b) of this Agreement	
(9) Unallocated	(9) Unallocated	0	0	-	
Total	Total	11,700,000.00	11,700,000.00		

Extension of the Closing Date: A new closing date of the Project June 30, 2014 is proposed. This is the third extension of the closing date³ that would represent a cumulative extension of 51 months from the original closing date. The new closing date has been requested by the Government of Albania to allow for completion of the remaining actions. Government letters from May 29, 2012 and November 8, 2012 and respective Bank correspondence on the project restructuring is attached. The requirements for the proposed extension of the closing date are met: (i) The project objective continues to be achievable; (ii) the performance of the Borrower is moderately satisfactory; (iii) the Borrower is committed to implement the remaining activities within the proposed new closing date time including to provide the necessary funds for completion of project activities in case of a shortage of IDA credit; and (iv) there are no outstanding audit reports for the Project.

Extension of the co-financing grants: In conjunction with the closing date of the Credit, the Government also requested extension of closing dates of the Japanese Grant for Co-financing of the project (TF055065), and the Austrian Grant for Co-financing of the project (TF055922) from December 31, 2012 to June 30, 2014, via letters of the Ministry of Finance Nos.8260/3 and 8260/1 from May 29, 2012.

Establish a new deadline for completion of the legal process in relation to ownership titles of the resettled families from Porto Romano, Duress Municipality. Resettlement of the families relocated from the contaminated sites in Porto Romano was completed as well as the project activities related to the cleanup of the contaminated sites. The implementation of Porto Romano component was satisfactory and met its development objective. Although actions have been taken, up to date the Borrower could not complete the legal transfer of property titles of the apartments. The proposed change will require an amendment of paragraph 2(b)(i) of Schedule 4 to the DCA with a new deadline of June 30, 2013. The proposed amendment of the DCA is necessary to allow the Borrower to complete the legal process in order to meet the requirements of the paragraph 2(b)(i) of Schedule 4 to the Agreement. This will be the second amendment of the covenant and within the newly proposed extension of the closing date, June 30, 2014.

³ Project original closing date was March 31, 2010. On March 23, 2010, through the Executive Board of Directors' approval of Level 1 restructuring a new closing date, December 31, 2012, was established.

Attachments:

- 1) *Request of GOA for extension of closing date (translation)*
- 2) *Request of GOA for reallocation of credit funds (translation)*
- 3) *Bank letter to GOA*

**REPUBLIC OF ALBANIA
MINISTRY OF FINANCE
GENERAL DIRETORATE OF PUBLIC DEBT MANAGEMENT
BORROWING DIRECTORATE**

Prot no. 8260/2

Tirana, on 29.05.2012
Address: Bulevard “ Dëshmoret e Kombit”, no.1
Tel: +355 42281018;
Fax: +3542228494

To: Mrs. Kseniya Ivovsky
Country Manager
World Bank Office
“Dëshmoret e 4 Shkurtit”, No. 34
Tirana

Subject: Albania – Loan no. 4083ALB on Integrated Coastal Zone Management and Clean Up Project/ Request for extension of deadline

Honourable Madam,

Reference is made to the Development Loan Agreement of 29 June 2005 between Albania and International Development Agency (IDA) on the above mentioned project.

According to the agreement, the deadline for the closure of the loan, an extension of which has been approved by you, is due on 31.12.2012. Until now less than 40% of the loan has been disbursed due to a series of delays which have influenced the slow progress of activities that are under implementation in the framework of this Project. It is planned that within the month of June 2013 the civil works of this project will be completed. Considering the above, as well as in view of the period of one year of responsibilities for any possible shortcomings (defects) during which a part of the Project staff needs be engaged, it is deemed necessary an extension of deadline of eighteen months for the closure of the grant.

With regard to the above, herewith we present our official request for the extension of the deadline until 30 June 2014.

Thanking you for the fruitful cooperation, we are looking forward to your reply.

Sincerely
Ridvan BODE
MINISTER
(signed & sealed)

**REPUBLIC OF ALBANIA
MINISTRY OF FINANCE
SECRETARY GENERAL**

I. Sender Ministry of Public Works and Transport, No. 1930/2, Prot. Date
21.05.2012

Recipient Ministry of Finance, no. 8260, Prot. Date 22.05.2012

**REPUBLIC OF ALBANIA
MINISTRY OF FINANCE
GENERAL DIRECTORATE OF DEBT DEPARTMENT
Debt Department**

Prot.: 16149

Tirana, 9.11.2012

“Dëshmorët e Kombit” Blv.: No. 1

Tel: ++355 4 228 1018:

Fax:++ 355 4 222 8494

**To: Kseniya Lvovsky
Country Manager
World Bank Office,
“Deshmoret e 4 Shkurtit”, No. 34,
Tirana**

**Re: Albania – Credit No. 4083 ALB for the Integrated Coastal Zone
Management and Clean Up Project
Request for changes in the Credit Agreement.**

Dear Mrs. Lvovsky,

I am referring to the Credit Agreement for Development entered into on 29 June 2005 between Albania and the International Development Agency for the abovementioned project.

At this phase of the project, in some of the project categories, the earmarked funds for disbursement have turned out to be insufficient. This is the case with such categories as “Works”, “Works for Part B.4 (a)” and “Operational Costs”. This insufficiency of funds envisaged for the abovementioned categories is due to the supplementary investments made in the infrastructure in Vergo Commune and also to the initial lower cost projections compared to the currently assessed cost. Part of this insufficiency of funds can be met by funds saved in other categories. In this context, we propose the following reallocations:

- Category “Goods” can be reduced by 193,567 SDR;
- Category “Engineering Services” may be reduced by 231,300 SDR;
- Category “Consultancy Services” may be reduced by 408,620 SDR;

- Category “Trainings” may be reduced by 49, 840 SDR;
- Category “Works” may be increased by 677,647 SDR;
- Category “Works” for Part B.4 (a) of the project may be increased with the value of 175,600 SDR;
- Category “Operational Costs” may be increased with a value of 30,080 SDR;

The proposed reallocations shall meet only part of the financial deficit, while the Albanian Government is committed to meet with its own funds the remainder of the necessary funds for the completion of the project.

Thanking you for your fruitful cooperation, we look forward to hearing from you

Sincerely,

Ridvan Bode
Minister