

**Republic of Albania**  
**UKT Tirana Water**  
**Financial and Operational Performance Improvement Programme, Stakeholder**  
**Participation Programme, and Public Service Contract - Terms of Reference**

## **1 BACKGROUND**

Ujesjelles Kanalizime Tirane ("**UKT**", the "**Company**" and "**Client**") is a municipal utility company which provides water supply and wastewater services for the municipalities of Tirana, Vora and Kamza. The Company is majority owned by the Municipality of Tirana with 82.5 per cent share. The Municipality of Kamza owns 14.6 per cent and the Municipality of Vora owns the remaining 2.9 per cent. However, the Municipality of Tirana will own 100 per cent of the Company in the coming weeks. The Company serves around 0.7 million customers.

UKT was established in 1939. In 2016, the Company operated the water distribution network of 1,800 km covering approximately 800 thousand of end users and wastewater network of 590 km. The Company produced 106 million m<sup>3</sup> of potable water but the annual volume of water billed amounts to 31 million m<sup>3</sup>. The existing UKT Tirana service area is supplied from three different sources of water sources: natural springs originating in mountains, ground-water wells and river abstraction.

The Company's water network is in a poor condition and is characterised by a high rate of disrepair which causes an unacceptably high level of interruptions in water supply (on average 8 hours per day) and corresponding poor water quality. In addition, poor infrastructure results in physical water losses in the distribution network (non-revenue water accounted for 68 per cent as of 2015). The Company owns HEC Lanabregasi Sha ("**HEC**") which owns and operates a small 5 MW Hydropower plant. HEC was acquired by the Company in 2012 and the objective of such acquisition was cost reduction through energy savings. At the end of 2016, the Company had 1,150 employees.

UKT was assisted by USAID in the preparation of its five-year Business Plan for UKT, setting out its investment priorities from 2017 to 2021. The Business Plan envisages capital investments upwards of EUR 175 million, of which 30 per cent of total investments will be financed by the Company's own cash flow and the remaining 70 per cent will be financed through external debt. Given the Company's significant investment plans, water tariffs will be increased in phases, the first increase, a 40 per cent increase will come into effect from January 2018.

The Client supported by the Municipality of Tirana (the "**Municipality**") approached the European Bank for Reconstruction and Development (the "**EBRD**", or the "**Bank**") with a request to finance priority investments that will improve the municipal water services in Tirana.

As a result, the Bank has signed a loan of up to EUR 15 million to UKT to finance the following components:

- **Component 1:** construction of a new water pipeline that will transfer water from Bovilla Water Treatment Plant to the western part of the City of Tirana by gravity. Currently, UKT's customers in the western part of Tirana are served by depleting, pumped groundwater supplies; and,

- **Component 2:** extension of the capacity of Bovilla Water Treatment Plant ("WTP") from around 57,000 million m<sup>3</sup>/year to 76,000 million m<sup>3</sup>/ year. Currently, the water flows by gravity, from the dam at Bovilla Reservoir — an abundant resource - to Bovilla WTP through a transmission pipe which will soon be duplicated. The duplication of the transmission pipe will be financed by the Italian Corporation, and would allow more raw water to be fed to the WTP.

The duplication of the transmission line is an associated component of the Project as Components 1 & 2 will rely on the additional capacity provided by it. .

The Project aims to assist the Company in: i) providing a more resilient water system, reaching its objective of providing a 24 hour water supply by 2021, ii) reducing the Company's operational costs by supplying water by gravity versus the high cost of pumping groundwater, and iii) increasing sustainability by removing/reducing the Company's reliance on depleting and polluted wells to supply Bexull.

It is understood that the Company has improved in its operational efficiency and effectiveness since the appointment of the new manager a year ago. In order to support the Company further to build commercial rigor, it will be necessary to (i) support institutional development in the form of operational improvements and financial improvements through implementation of a Financial and Operational Performance Improvement Programme ("FOPIP"), (ii) support preparation and signing of the Public Service Contract ("PSC") between the Municipality and the Company, and (iii) prepare and implement the Stakeholder Participation Programme ("SPP").

## 2. OBJECTIVES

The assignment consists of three main objectives:

### **Part I: Financial and Operational Performance Improvement Programme**

The first objective is to assist in the development of a programme to improve the financial and operational performance of the Company,

The Consultant will assist the Company in developing and implementing a comprehensive FOPIP focusing on:

- Improving the bill collection,
- Improving the cost efficiency of the Company,
- Implementing the EBRD's Environmental and Social Policy 2014 Performance Requirements (PRs 1-8 and 10); Environmental and Social Action Plan ("ESAP") and the Stakeholder Engagement Plan ("SEP") developed by Mott McDonald as part of the Technical, operational, environmental and social due diligence for the Project.
- Review the potential for private sector participation in the Company's non-core activities.

### **Part II: Public Service Contract between the Municipality and the Company**

The second objective is to prepare a PSC that would specify the rights and responsibilities of its parties. It would include but not limited to measurable performance indicators with

clear timetable for their achievements evidencing improvements of the Company's operational efficiency and levels of services rendered to its consumers.

### **Part III: Stakeholder Participation Programme**

The third objective is to develop and implement a SPP aimed at enhancing public ownership by encouraging water conservation, increasing public participation in the provision of water services (service quality, implementation of new projects related to water services, rehabilitation activities, tariffs integrating economically vulnerable<sup>1</sup> and socially disadvantaged people) and raising public awareness on issues related to the project implementation and water use through establishment of the Water Users Committees ("WUC"). The SPP should be designed in a way that it ensures meaningful participation of all concerned stakeholders, men and women alike, in the consultation.

Furthermore, the SPP will integrate economically vulnerable and socially disadvantaged people while introducing the proposed tariff reforms and social support programme, and thereby will assist the Company to improve their corporate governance.

## **3. SCOPE OF WORK**

### **3.1 Part I: Financial and Operational Performance Improvement Programme**

#### **3.1.1 Financial and Operational Performance Improvement Programme**

The Consultant will initially prepare a FOPIP for the Company, which will focus on ensuring that they meet the covenants set forth in the financing documentation with EBRD.

These include:

- Maintaining satisfactory accounting, cost control and management information systems and books of account in accordance with International Accounting Standards starting from a date to be agreed with the Bank in the Loan Agreement (this requires support in converting existing financial reports in an IAS type format);
- Maintaining financial covenants in the project agreements;;
- Collections ratio improvements;
- Debt service coverage ratio improvement as established in the project agreements for the Municipality;
- Implementation of the EBRD's Environmental and Social Policy 2014 Performance Requirements (PRs 1-8 and 10); ESAP and providing the Bank with financial and environmental and social reports as required under the project agreement;
- Development of a Resettlement and Livelihood Restoration Plan.
- Agreeing on performance indicators with the Municipality.

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<sup>1</sup> Definition of vulnerable groups in EBRD ESP (2014): For the purpose of this Policy, vulnerable groups refers to people who, by virtue of gender identity, sexual orientation, religion, ethnicity, indigenous status, age, disability, economic disadvantage or social status may be more adversely affected by project impacts than others and who may be limited in their ability to claim or take advantage of project benefits. Vulnerable individuals and/or groups may also include, but not be limited to, people living below the poverty line, the landless, the elderly, women and children-headed households, refugees, internally displaced people, ethnic minorities, natural resource dependent communities or other displaced persons who may not be protected through national legislation and/or international law.

It is expected that the FOPIP will include both corporate development actions as well as financial and operational improvements. To this end, the Consultant will, *inter alia*, undertake the following:

### **3.1.2 Corporate Development**

#### *i) Control over assets*

Review the Company's control over the fixed assets and the provision of services and agree on obligation and responsibilities relating to use, including maintenance and replacement of assets, service quality and operational performance targets.

#### *ii) Organisation*

- Review and identify development needs related to the Company's current status, management structure, internal and external reporting lines, decision-making bodies, and staff employed.
- Advise on the current organisational structure and prepare an organisation chart with job description and staff qualifications attached to each position or group of positions, with tasks and responsibilities clearly assigned to staff and sections.
- Propose transparent decision-making procedures, bodies, specifying compositions and powers, including a system of delegation of responsibilities and effective internal and external control mechanisms.
- Recommend a personnel development plan, including programmes for recruitment, training, advancement and remuneration.
- Assess the organisation and staff structure with regards to the gender situation with the aim to establish baseline data and to develop a programme for equality between men and women. In connection to this a health and safety programme should be developed.

#### *iii) Management Information System*

- Review and analyse the Company's existing management information systems ("MIS") and procedures, including the extent of automation and computerisation, identifying any immediate shortcoming and development needs.
- Recommend a computer-based MIS that would register, monitor, and provide key management information across all areas of the Company's activities, considering in particular that the system can produce such financial and other information which is required for reporting to third parties (in particular reporting to EBRD and co-financiers as will be defined in the financing agreements), public authorities and the general public.
- Recommend an information technology strategy, which should include hardware and software specifications.

### **3.1.3 Financial Performance Improvement**

#### *i) Accounting, budgeting and cash management*

- Review and analyse the Company's current accounting system and budgeting and financial management practices, and the legal basis relating thereto, identifying any immediate shortcomings and development needs.
- Recommend a system for budgeting, with an integrated budget control system (this should enable the Company to keep accounts and budget for the forthcoming Project separate from the Company's operating account).

- Recommend adequate administrative (authorisation and controls) procedures for cash management and payments.
- Assist the Company in establishing a Debt Service Account in which cash can be deposited to make debt service repayment.

*ii) Revenue Collection Procedure*

- Review the existing billing and collection procedures identifying any immediate shortcomings and development needs.
- Develop a bill collection procedure, including enforcement measures against late and non-payers to help ensure that the Company receives full and timely payments for water charges from all customers. The Consultant shall give special attention to measures that increase the cash revenue collection ratio, and present a plan to gradually eliminate the use of non-cash settlements.
- Assist the Company in meeting cash revenue collection ratio.

### **3.1.4 Operational performance improvement**

*i) Operational efficiency*

- Identify the immediate shortcomings and developmental needs of the Company.
- Recommend an action plan necessary for improving the quality and reliability of services and increasing the operational efficiency and sustainability. The Consultant shall give special attention to measures that reduce physical water losses and energy consumption as well as to ensuring that assets are regularly maintained and replaced. Outsourcing of non-core activities shall be considered.
- Review and improve the water management programme to reduce unaccounted for water and establish a leakage reduction programme.
- Work with the Company to assess future wastewater needs including a sewer condition survey.

*ii) Environmental (or Sustainability) management*

- Review the Environmental and Social Appraisal, Stakeholder Engagement Plan (“SEP”), Environmental and Social Action Plan (“ESAP”), and Non-Technical Summary (“NTS”) currently in place to have an understanding of the current issues associated with the Project and the Company’s activities.
- Review and identify the resource requirements for the implementation of the EBRD’s Environmental and Social Policy 2014 Performance Requirements (PRs 1-8 and 10); and ESAP and include them in the organisational structure and the budget as needed.
- Review the environmental management system currently in place, and recommend short and medium term improvements to bring the system in line with the principles of ISO 14001 standards and OHSAS 18001, and compliance with local and EBRD E&S requirements.
- Identify no/low cost improvement measure, including good housekeeping as well as enhanced service, maintenance and operation of the facilities.
- Assist the Company in the development of a Resettlement and Livelihood Restoration Plan.

### **3.1.5 Review the potential for private sector participation in the Company's non-core activities.**

The Consultant will work with the Company's senior management to review the potential for private sector participation in the Company's operations and draw up a list of options for such participation. This could include, *inter alia*, outsourcing of specific functions, public-private partnership arrangements or a strategic investment in the Company by an experienced, reputable water utility operator. The Consultant will help the Company to review the options and develop and implement a plan to attract private sector participation into the Company.

## **Part II: Public Service Contract between the Municipality and the Company**

### **3.2 Preparation of a Public Service Contract**

The Consultant will work with the Municipality and the Company to prepare a Public Service Contract that reflects the goals and tasks that form the FOPIP. The Consultant will also use the Technical and operational, environmental and social Due Diligence as one of the reference sources. The provisions in the Public Service Contract should include:

- Clearly defining the rights and obligations of the signatory parties to the Contract. This includes tasks related to develop, propose and approve business plans, investment programmes and tariff adjustments. It should identify the reporting obligations and the format and timeliness of public disclosure of company performance measured against KPIs and against performance levels of previous year (in order to show the trend).
- Clearly defining the processes and procedures, including; by which date an existing annual business plan has to be reviewed and updated; by which date or period such plan has to be approved; by which date a tariff adjustment should be requested and by when a tariff adjustment decision has to be concluded. It should also define any relevant grievance and dispute resolution mechanisms.
- The contract should provide both accountability and predictability for the parties involved. It should clearly limit or instruct the Company not to interfere in daily operational decisions of the Company. It should professionalise the governance of the company as much as possible and de-politicise the HR decisions including the hiring and removal of managers.
- Service standards to provide residents, enterprises and organisations in the Project area with drinking water and collection of wastewater under a contractual relationship. The standards should safeguard provision of continuous supply of quality water to all consumers in compliance with the relevant national quality standards and continuous sewerage and wastewater treatment services according to the national discharge standards.
- Technical measures to improve water supply, sewerage and wastewater treatment service to make them fully compliant with EU directives for drinking water, urban wastewater and sludge treatment.
- Obligations to manage and operate the water supply and sewerage facilities efficiently, to implement programmes to reduce water losses in compliance with the agreed targets and to include long-range planning to build in climate adaptation and resilience.
- Usage of assets effectively and efficiently with the aim of realising the target for net profit.

- Development of realistic implementation plans for and supervision of repairs of water supply and sewerage facilities.
- Subsidies calculation mechanism for the lowest income households (if there are affordability issues due to the proposed tariff increase).
- Co-ordination with (i) environmental authorities with the aim of preventing pollution and (ii) relevant social welfare authorities with the aim to ensure subsidies for poorest households.
- Continuing improvement of management, planning, self-financing techniques and increase in labour productivity and production efficiency.
- Development of a remuneration scheme that provides incentives for performance and links management and staff remuneration to performance indicators such as productivity and profitability.
- Strengthening of staff skills, providing for proper working environment, safety and improvement in wage systems with material and morale building incentives.
- Promotion of introduction of new equipment and technology together with health and safety measures.
- Introduction of public information, awareness and accountability.
- Roles and responsibilities of the Municipality and Company in implementation of the strategy for reduction of operating costs.
- The Public Service Contract should also reflect all the targeted measures of the FOPIP. Most importantly, it should provide the appropriate incentives for the Company and its management to achieve the service and cost objectives set out in the Contract. The Consultants should also develop the appropriate capacity within the Municipality to monitor performance under the Contract.

### **Part III: Stakeholder Participation Programme**

#### **3.3 Stakeholder Participation Programme**

In order to raise customer awareness and maintain a constructive relationship with stakeholders through education campaigns, on-going information dissemination and effective grievance management, the Consultant will develop and implement a Stakeholder Participation Programme (“SPP”). The SPP will consider and build upon the Stakeholder Engagement Plan already developed for the Project. The following needs to be considered in the development and implementation of the SPP:

##### **3.3.1 Identification of information needs**

The following information needs have been identified to date (the relevant resources and documentation will be provided by the Bank to the Consultant):

- The purpose of the UKT Tirana Project.
- The environmental, technical and economic need for conservation and rational water use: explanation of the importance of rational and efficient water use and water conservation.
- Cost recovery: an explanation of how water tariffs are linked to quality of service and how they are used to promote conservation and an explanation of the real cost of water service.
- Health aspects: examples of good and bad hygienic practice and increase local understanding of the dangers of water borne diseases.

- Participatory mechanisms: explanation of how each water user has individual responsibility for sustainable and equitable access to water for everyone and water saving in general, and provide water users with the opportunity to engage meaningfully with the Company regarding their needs and concerns.

Before starting the information campaign, the Consultant shall in consultation with the WUCs (see *Section 3.4.3*), local NGOs and any other stakeholders deemed necessary, verify and, if necessary, complement this list. It should be borne in mind that not all groups of the population may have the same information needs and that the target audiences will have to be defined by the Consultant addressing all population groups.

### **3.3.2 Stakeholders**

The SPP will target a broad and diverse stakeholder base including females, as well as economically vulnerable and socially disadvantaged people. Stakeholders include the public and water users.

### **3.3.3 Information campaign**

The information campaign will be conducted via various media channels. The Consultant will have to select the appropriate communication means for each topic and target audience based on his/her experience in the field. Awareness raising campaigns and schedules should accommodate the needs of all stakeholders. The Consultant will develop a method to measure the impact and success of the awareness. Based on the intermediate results, the campaign shall be adjusted if necessary.

### **3.3.4 Creation of and support to Water User Committee (“WUCs”)**

WUCs will be set up at the level of neighbourhood associations. The Consultant will help the neighbourhood associations to create and mobilise the WUCs. An information campaign about the importance and planned roles of the WUCs will be followed by meetings with the communities from each neighbourhood association. In particular, the Consultant shall strongly encourage the neighbourhood association to ensure an equitable representation of all population groups (in particular women and socially vulnerable people) on the WUCs. Women are often absent from WUCs. The Consultant will be expected to review the membership criteria to WUCs and its decision-making procedures, whether certain socio-cultural barriers exist, which prohibit people to voice women’s opinion and needs, task allocation within the WUCs between men and women, the organisational arrangements of WUCs meetings, specifically whether meetings take place at a time convenient for both men and women, and provide suggestions to promote women’s active involvement in WUCs, as appropriate. Furthermore, the Consultant will assist the WUCs with training and provision of material. The training needs to be gender-sensitive and designed and delivered in a way that reaches both male and female users/WUCs members. The main tasks of the WUCs will comprise:

- Gathering concerns and complaints of their area’s private household clients and ensure that they are forwarded to Company and/or the Municipality (e.g. quality of service, affordability of tariffs);
- Representing the clients in the consultation process carried out by the Company and the local authorities on issues related to water provision (e.g. programming of rehabilitation measure, introduction of water meter, tariff changes);

- Assist the Company with the dissemination of information to the clients (e.g. regarding construction works, installation and treatment of meters, water cuts and shortages)

The various WUCs, if any, will meet monthly to share information and co-ordinate and consolidate their position on a municipality-wide basis in a Forum of Water User Committees (“**FoWUC**”). This Forum will also be facilitated by the Consultant. The Forum will decide who represents the WUCs in the Advisory Committee.

The Company will be encouraged to participate in the FoWUC which will expose them to the importance of consumer participation in decision-making and problem-identification in order to have a successful and sustainable water supply system. Existing activities of the Company, if any, in the field of information dissemination carried out by the controllers shall be integrated in the SPP.

### **3.3.5 Creation of an Advisory Committee comprising all major stakeholders**

The Consultant will establish an Advisory Committee in the Municipality, which will meet every three months and which includes all client groups i.e. WUC representatives, local industry and local authorities. The Advisory Committee will discuss any water supply issue that may arise with the Company and the Municipality. To the extent feasible, the Consultant will ensure that both men and women are represented in the Advisory Committee.

Among the key questions that will be discussed will be price setting, infrastructure maintenance, consumer complaints, affordability of tariffs and social hardship caused by tariff reforms. The WUC representatives will play a key role in ensuring that the views and concerns of all population groups balancing gender, age, class, ethnicity, economic and social vulnerability, and other critical dimensions, are fully represented and taken into account in the consultation process. It is expected that the WUC representatives will play a prominent role in the Advisory Committee since the other stakeholders may have a limited interest or other channels of communication via the Municipality (local authorities). The Consultant will facilitate the meetings of the Advisory Committee and participate in an observer role.

### **3.3.6 Transparency in decision-making**

The media will be encouraged to participate in all Forums of WUCs and Advisory Committee meetings. Minutes of the meetings will be distributed to consumers and other stakeholders (WUCs, industries, the Company, media, local authorities).

### **3.3.7 Sustainability of dialogue**

The Consultant shall select an approach, which will ensure that the dialogue continues after the termination of this mandate. This will certainly include identification and training of the stakeholder(s) taking over the tasks initially carried out by the Consultant, such as facilitation of meetings.

### **3.3.8 Effective grievance mechanism**

For efficient feedback to company management and addressing of public and/or customer grievances, the Consultant will support the Company in establishing and managing a grievance mechanism. The Consultant should ensure the viability of the process that should include registering, processing and communicating back grievances.

#### **4. REPORTING AND DELIVERABLES**

##### ***Implementation arrangements***

The overall duration of this assignment will be 8 months.

A Steering Committee with representatives of the City and the Company shall be established for the approval of reports and deliverables of the assignment. The EBRD shall act as an observer at the Steering Committee meetings.

The Consultant shall liaise with the General Manager of the Company but shall submit the reports and deliverables to the Steering Committee for approval with copy to EBRD.

The Consultant shall make presentations at regular intervals to the representatives of the Municipality, the Company and the EBRD.

The Company will:

- Provide the Consultant with working space, necessary furniture, telephone and internet connections.
- designate senior officials to be the primary contact persons with specific responsibility for assisting the Consultant and co-ordinating activities.
- make available all of their records, plans, reports, designs and other documents as appropriate, but it will be the responsibility of the Consultant to translate these documents, if necessary.
- provide access to all of their facilities and employees for questioning or assistance relative to an understanding of the functioning of system facilities.

The Consultant will:

- be responsible for paying for all international telephone connections, office supplies, external printing.
- pay for all local transportation required by the Consultant's staff throughout the duration of the assignment.
- be responsible for providing suitably qualified interpreters/translators to work with their staff.

##### ***Deliverables***

Table 1: The key deliverables and target dates are as follows:

<b><i>Deliverable</i></b>	<b><i>Draft Submitted</i></b>	<b><i>Comments supplied</i></b>	<b><i>Final Submitted</i></b>
<i>FOPIP</i>	<i>Four months after commencement of the Assignment</i>	<i>15 calendar days after the receipt of the report</i>	<i>7 calendar days after the receipt of comments</i>
<i>Public Service Agreement</i>	<i>Six months after commencement of the Assignment</i>	<i>15 calendar days after the receipt of the report</i>	<i>7 calendar days after the receipt of comments</i>
<i>SPP</i>	<i>Four months after the</i>	<i>15 calendar days after</i>	<i>7 calendar days after</i>

	<i>commencement of the Assignment</i>	<i>the receipt of comments</i>	<i>the receipt of comments</i>
<i>Final report</i>	<i>At the end of the Assignment</i>	<i>15 calendar days after the receipt of comments</i>	<i>10 days after the receipt of comments</i>

The EBRD shall approve the FOPIP, the Public Service Agreement and the SPP prior to adoption by the City and the Company. Draft versions of each report shall be delivered in both Albanian and English language in electronic form (Word and PDF, and if appropriate, Excel).

Four hard copies of each approved report shall be delivered in both Albanian and English language. In addition to the hard copies, the approved reports shall also be provided in electronic form. In preparing these reports, the Consultant is advised that they should be concise and not prepared at the expense of project execution. However, essential information should be included. In particular, any circumstance leading to delays or inability to fulfil objectives should be explained so that remedial action can be taken.

## **5. CONSULTANT'S PROFILE**

The Consultant should ensure that the appropriately qualified experts are available, as required, for each of the different tasks outlined above. It is expected that the assignment will be led by an appropriately qualified project manager with experience in water sector and in implementing the key areas of this assignment, accompanied by both key and supporting experts. The team should include the following experts:

- Project Manager/Technical expert;
- Local project Manager/Technical expert;
- Finance expert;
- Environmental expert;
- Health and Safety expert;
- Social expert, including demonstrable gender and stakeholder engagement expertise;
- Experts in stakeholder participation projects with relevant experience in Albania or the region and language skills in Albanian.
- Pool of local experts;
- Administrative staff/Secretary

It is the responsibility of the Consultant to provide any translation and interpretation as needed for communication with stakeholders including meetings with the Company and the City.