

Fier and Vlore bypass roads

State Sector Project Assessment

Prepared in line with the EBRD's Access to Information Policy¹

Country	Albania
Sector	Infrastructure
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Operation Description

In November 2011, the Bank signed a sovereign loan of up to EUR 53 million with the Republic of Albania. The client is the Ministry of Infrastructure and Energy ("MIE"), which has the responsibility for management and policy in the transport sector in the country. The implementing entity is the Albanian Road Authority ("ARA"), established in September 2012, which oversees the national road network. It is responsible for the management and development of new construction on the national road network and works as an autonomous roads agency, with maintenance contracted out to the private sector.

The Project financed the construction of two bypass roads in the cities of Fier and Vlore and supported the reforms in the road sector and the development of sustainable transport policies. The two bypasses are key sections of the national road network in Albania and connect important roads previously co-financed by the EBRD and EIB.

Other project components financed with technical cooperation funds included:

- preparation of a Road Tolling Strategy for Albania, financed by the EBRD Shareholder Special Fund ("SSF");
- preparation of a Sustainable Transport Study on sustainable transport policies in Albania, financed by the SSF; and

¹ As required by Section IV paragraph 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose information (excluding Confidential information) contained in Operational Performance Assessment (OPA) reports for State Sector Projects selected for extended review, within 60 calendar days after completion of the relevant OPA report.

- TAs for project preparation, implementation support and supervision funded by several donors including Western Balkans Investment Framework (“WBIF”), EU Instrument for Pre Accession (“IPA”) funds and the Italian government.

The EBRD financing consisted of a senior loan of EUR 53 million to the Republic of Albania divided into two tranches as follows:

- Tranche 1 of EUR 35 million to co-finance, with EIB, the construction of the Fier bypass (committed upon signing); and
- Tranche 2 of EUR 18 million to co-finance, with EIB and EU IPA 2011 grant funds of EUR 17 million the construction of the Vlore bypass (uncommitted). Commitment of Tranche 2 was at the Bank’s sole discretion and subject to the availability of relevant project documentation and their assessment by the Bank to confirm that the Vlore Bypass road has been structured to meet the Bank’s policy requirements.

The Board approved commitment of Tranche 2 in October 2013.

ARA included in the scope of the new works tender a short link road to the protected heritage site of the ancient city of Apollonia. The works on this link road were completed in March 2022.

The Bank has been actively engaged in the Albanian road sector since 1996, by supporting the government’s priorities in the rehabilitation and construction of key strategic routes, alongside regional and local road rehabilitation. Through these investments, the Bank also engaged in policy dialogue and prepared Technical Cooperation projects to support reforms in the road sector in areas such as international procurement procedures, road sector financing and institutional strengthening. Prior to this Project, the Bank’s investments in the Albanian road sector included:

- Emergency Road Rehabilitation Project: EUR 17.1 million sovereign loan to finance the rehabilitation of a 30 km road section between Elbasan and Librazhd. Signed in December 2002 and completed in June 2005;
- Fier – Tepelene Road Rehabilitation Project: EUR 33.3 million sovereign loan to finance the rehabilitation and upgrading of a 70 km road section located on the north-south axis. The reform component of the project sought increases in road sector financing and adoption by the Government of a National Transport Master Plan. Signed in June 2005 and completed in June 2013;
- Levan – Vlore Road Project: EUR 22 million sovereign loan provided to finance the construction of a 24 km road section between Levan and Vlore located on the north-south road axis of Albania. Signed in November 2007 and completed in October 2012;
- Local and Regional Roads Project: EUR 50 million sovereign loan to co-finance the rehabilitation of programme for the regional and local road network elaborated by the World Bank. The project is co-financed by the EIB, EU IPA funding and the GoA. Signed in March 2010 and completed in June 2016.

The primary objectives of the Project included reduction of congestion in the cities of Fier and Vlore, supporting economic integration and facilitating tourism development in the southern Albania. Other important objectives were set to support the reforms in the road sector and development of sustainable transport policies. The Fier bypass was expected to decrease travel time and congestion, enhance safety, and promote economic growth in the region. The Vlore bypass project aimed to provide an increased link between the Albanian coast and the inland regions, thus enhancing trade and tourism.

Relevance

Strategic relevance is rated “Outstanding.” In line with the Bank’s Strategy for Albania, the Project supported upgrading and rehabilitation of priority sections of the national road networks and the Bank continued to coordinate closely with other donors and IFIs also active in the sector to help streamline implementation and increase overall funding available to the sector. Also, the Bank supported greater involvement of the private sector in the development of transport infrastructure.

The Project was also consistent with the Bank’s Transport Operations Policy 2005-08, through its continued support for the rehabilitation, upgrading and construction of new roads, where investment needs had increased in line with economic growth and a move towards greater regional integration. This priority project, as a road transport connectivity section (bypass) was a logical follow up and fitted well into the bigger sectoral picture of the North-South and East-West Axes of road infrastructure development in Albania in line with the Bank’s country strategy and the country’s road sector strategy.

Project design and structure are rated “Standard.” Detailed design and works supervision were carried out by international consultants funded by donors including EU IPA and Italian Cooperation. Implementation is being carried out by a Project Implementation Unit (“PIU”) established to assist with and monitor the implementation of all IFI-funded projects in Albania. Implementation support TA to the PIU was provided by WBIF. Procurement of works was carried out by ARA under EBRD Procurement Policy and Rules (“PP&R”).

The transaction structure was appropriately designed to measure and monitor success, including physical implementation/completion, transition impact and lessons learned. These objectives were in line with those of the country and the sector as the Bank supported an important transport project for Albania and contributed to the furthering of reforms in the road sector and development of sustainable transport policies. Physical performance indicators were clearly and precisely identified including adherence to standards and specifications, monitoring and control of changes, and compliance with budget and work schedule.

Sources and achievement of transition impact are measurable and demonstrable whereas key milestones were covenanted in the loan agreement. The transition impact objective related to the preparation of a road tolling strategy was a condition precedent to the effectiveness of Tranche 2 of the Bank’s loan. Other objectives including implementation of Performance Based Maintenance Contracts, implementation of maintenance and operations concession on Milot – Morine road, preparation of the Sustainable Transport Plan and implementation of Management information Systems (“MIS”) within ARA were covenanted in the loan agreement and were subject to continuous reporting and monitoring.

Lessons learned from Bank's previous experience were properly referenced and applied during structuring and implementation. As outlined in the Board document, the structure of the transaction included establishment of an autonomous implementing entity, requirements for a well sourced PIU and an independent supervision engineer, engagement of external consultants to assist with the policy and TI related components of the operation, and application of performance based maintenance contracts to ensure sustainability of the investment.

A cost benefits analysis was carried out as part of due diligence to assess the economic viability of both bypasses. The results showed that the two project components would generate a good EIRR. Sensitivities were also run to assess the Project's vulnerability against events including increase in Project costs, reduced traffic, reduced accident benefits, and reduced value of time. Such sensitivity analysis clearly and adequately identified key risks to Project performance.

Delays during implementation were caused by slow mobilisation of the contractors, design changes, weather conditions, suspension of works due to the COVID 19 outbreak, and land acquisition issues. The Bank's additionally is rated "Outstanding." The Project would not have been financed without the Bank's co-financing. Despite several IFIs and donor institutions working in the transport sector in Albania, the financing needs of the sector could not be met by a single financier. The majority of sector reform actions included in the Project's transition were implemented successfully (tolling strategy, sustainable transport plan, performance based maintenance contracts, Milot-Morine concession). In the Board document, the Bank's additionality was laid out in the following dimensions:

- Terms

At the time of project approval, Albania continued to rely extensively on IFI financing or grants to implement the necessary investments required in the transport sector. The Bank provided sovereign financing on reasonable terms, including tenor (15 years), matching the asset life, which was otherwise not available from commercial banks.

- EBRD attributes

The Bank built on its excellent relationship with the Government of Albania ("GOA"), through its previous operations in the transport sector. Furthermore, the Bank had implemented a large number of similar projects across the region. The Bank's loan was additional because the financing needs of the sector could not be met entirely by other financiers.

- Conditionalities

EBRD conditions such as those related to development of sustainable transport policies, commercialisation and institutional development placed

direct emphasis on sector reforms that are additional to those requested by other financiers. These requirements were covenanted in the loan agreement while compliance is monitored on a continuous basis. Compliance with the Bank's Environmental Policy and PPRs lead to transfer of know-how on best practice in these key areas. Conclusively, EBRD project conditionalities go beyond what would be expected from commercial sources of funding in respect of the procurement, environment and sector reform.

The overall rating of relevance is "Outstanding." The Project responded to the government needs to carry out critical infrastructure investments in the road sector, aligned with its road sector reform strategy. In addition, the Project was instrumental in advancing road sector reform and included measures to enhance ARA's institutional development, commercialization and increased participation of the private sector in the road sector. The Project was fully aligned with the Bank's Albania Country Strategy and the Bank's Transport Operations Policy.

Effectiveness

The Project's expected outputs were related to aspects of physical implementation/completion, support to government's road reform, commercialisation and increased private sector participation in the road sector. Some of the outputs are still under implementation as of the date of this OPA.

Output 1: Construction of the bypasses

Fier Bypass

This project component involved the construction of a main road with total length of about 22km highway type and design speed of 120 km/h. Total project costs at Board approval amounted to EUR 72 million, including contingencies but excluding VAT and land acquisition costs.

The original contract was signed in March 2013 with estimated completion date in May 2015. Construction works commenced in early July 2013. Despite extensions granted to the Contractor, overall works progress remained slow. In May 2017 ARA terminated the works contract. Remaining works were retendered and a new works contract was awarded to another contractor in October 2018. Works started in November 2018 and the full scope of the project was completed in June 2021. The loan was fully disbursed in July 2022.

There was good overall progress in implementation since the award of the contract to the new contractor that slowed down during the COVID 19 outbreak. Therefore, project completion was achieved with a delay.

Vlore Bypass

This project component consists of the construction of a new single carriageway, 29km bypass road in the city of Vlore in south western Albania, with a design speed of 80 km/h. The Bypass replaces the 21 km long section of existing road that runs through the congested urban area of Vlore city for a distance of nearly 6 km. The main constraints for the design of this bypass were the topographical and geological conditions along the alignment as Vlore is surrounded to the east by hills ranging between 300-500m in height, which at some locations descend directly into the sea.

Total estimated construction costs at Board approval amounted to EUR 63.6 million, including contingencies but excluding VAT and land acquisition costs. The original works contract was signed in February 2015 with expected completion in October 2017. Works commenced in early June 2015 but contract was terminated by ARA. The works were retendered together with the works for the Fier Bypass and a new contract was signed with a new contractor in November 2018 for EUR 35.87 million, excluding VAT and price escalation. Works recommenced in November 2018.

In addition to procurement and contracting issues, Project implementation schedule was delayed for a host of other reasons including (i) design issues; (ii) slope protection measures; (iii) COVID-19 as works were suspended for 4 weeks in March 2020 and further delays were experienced in subsequent months due to the disruptions of the supply chains for materials; (iv) temporary opening to traffic during the summer period, July - October 2021.

The EBRD loan and the EU IPA grant were fully disbursed in March 2022 but as of the date of this report, the physical progress is estimated at approximately 82%, which takes into account the foreseen scope of works based on the already approved and additional, expected VOs. The bypass was permanently opened to traffic in July 2022.

Based on the above, this output is considered "Partially Achieved."

Output 2: Project preparation, implementation support and supervision

While detailed design and tender documents for the Fier Bypass were prepared by a consortium of Italian firms, TA for the review of detailed design and works supervision for the Fier bypass in the amount of EUR 1.8 million were provided by the Italian Government. The supervision contract was extended to December 2021 with funding from the GOA. These services have been delivered and completed.

TA for the preparation of detailed design and works supervision for the Vlore bypass in the amount of EUR 3.4 million was provided by EU through IPA 2011 with contract ending in September 2021. Contract has been

extended with funding from GOA and delivery of supervision services is ongoing by means of a time based consultancy contract.

Technical assistance for implementation support to the Project Implementation Team in the amount of up to EUR 750,000 was provided by WBIF. The duration and budget of the original contract were extended to December 2022 with funding from the proceeds of EIB loan. This contract has been completed and services duly delivered. Therefore, this output is considered achieved.

Output 3: Road Tolling Strategy Report (“RTS”)

This output was made possible through a EUR 150,000 TC to prepare the RTS, a strategic document for the GOA on the use of road tolling. The preparation of the RTS was covenanted in the Loan Agreement. This output was achieved in November 2015.

Output 4: Sustainable Transport Plan (“STP”) Report

This output was supported by a EUR 290,000 TC to assist in the development of sustainable transport policies in Albania. This output was covenanted in the Loan Agreement and was successfully completed in 2016.

Output 5: Environmental & Social Action Plan

The Project was assigned as Category A from an E&S perspective. The ESAP was developed in accordance with the Banks PRs and provided a comprehensive environmental mitigation programme. Satisfactory implementation of ESAP was a Condition to Effectiveness of Tranche 1 and ongoing compliance with the Designated Performance Requirements was covenanted in the Loan Agreement. This output has been achieved by development of ESAP with specific commitment actions still being implemented.

Achievement of business results is rated “Standard.”

Outcome 1: Improvement of traffic conditions in the cities of Fier and Vlora

This outcome has been achieved since the opening of the two bypasses to traffic. Accurate assessments are not possible as there have been no new traffic counts and no economic analysis updates but in hindsight, the Project has contributed to the diversion of traffic to safer roads, especially traffic related to transportation of heavy goods, from the cities of Fier and Vlore and reduced congestion. Travel times from Tirana to the coastal area around Vlora and towns in the country’s south (popular destinations for both domestic and international tourists) have been reduced substantially. Improved road conditions have also reduced maintenance and vehicle operating costs.

Outcome 2: ARA's corporate governance improved

Achievement of this outcome is still underway as of the date of this report as the implementation of the MIS system by the ARA, covenanted in the Loan Agreement, has been delayed. The MIS was to be prepared and adopted with TA provided under the World Bank - funded Result Based Road Maintenance and Safety Project signed in 2015. As reported by ARA, the contractor was not able to develop the system in full conformity with the technical specifications and contract requirements.

Institutions, laws and policies that promote market functioning and efficiency

This impact, with all the related benchmarks, has been achieved. There are now important documents in place, to guide, inform and assist crucial decisions regarding the adoption of sustainable transport policies and tolling options for key national roads in Albania. The objectives of the STP study were: (i) determine existing levels of energy usage and emissions from the transport sector, by mode, based on existing data; (ii) state the sustainability policy objectives for the transport sector, including targets, based on existing government commitments; (iii) perform a review of international best practise in sustainable transport policies, for both national and urban transport; (iv) articulate practical and proven policies to achieve the stated sustainability objectives for a multimodal national transport system, identify investments and set out timetable for implementation.

Meanwhile, the scope of the RTS study included: (i) on a strategic level determine purpose of road tolling and scope of road tolling in the development of road tolling framework; (ii) preparation of a tariff policy, which sets out the framework for setting tariffs, always in line with the objectives set out in Task (i) and EU legislation and best practice; (iii) identify a preferred option for tolling between alternatives; (iv) create an assessment framework to assess the suitability of existing and planned road sections for tolling.

Following the successful implementation in the regions of Tirana and Kukes, ARA is now implementing Performance Based Maintenance Contracts ("PBMCs") throughout the country. Following the selection process, a 30-year PPP concession for the operation and maintenance of the Milot-Morine highway was awarded to a consortium of private companies in December 2016. The Project marked the first implementation of a privately operated road toll concession in Albania.

Setting standards for corporate governance and business conduct was also promoted through a number of CP's to effectiveness and other covenants including: (i) acquisition of Land Rights necessary for works; (ii) engagement of qualified consultants to support ARA during project implementation, including engineering supervision consultants acceptable to the Bank; (iii)

implementation of the Environmental and Social Action Plans; (iv) compliance with other IFI's finance documents and donor grant agreements; (v) use of open tendering procurement process in line with the Bank's PP&Rs for consultants and works.

Overall rating of effectiveness is "Standard." All sector reform objectives have been met whereas those related to ARA's governance improvements, and standards of business conduct are still underway. In addition, the Project contributed to the development of sustainable transport policies and preparation of the first in the country tolling strategy. The Fier Bypass was completed with a delay whereas the Vlore Bypass is under implementation.

Efficiency

ARA's autonomy to plan, budget, maintain, and expand the road assets has increased over the past two decades. However, ARA still relies on funding from GOA for its operations. At a sector level, capex in road transport comprises about 98 per cent of total investments in infrastructure and has continued to increase over time. A CBA using the project analysis component of the Highways Development and Management (HDM-4) model was carried out at approval to assess the economic viability of the Project.

An ex-post assessment of the Project's economic/financial performance was not possible due to lack of data. The Bank's Investment Profitability is rated "Standard."

For comparison, the Bank's profitability both at appraisal and new estimate was calculated based on the 2019 Review of the Capital Adequacy Policy.

Bank Execution Performance is rated "Standard." The Project was well structured and the Bank engaged closely with the Ministry, ARA, and the PIU during all stages of Project preparation and implementation. Key transition impact objectives were agreed with the GOA from the outset, properly covenanted in the Loan Agreement and the Bank's close and proactive monitoring was crucial to their fulfilment. The Bank provided advance procurement support to assist ARA and the Ministry during the tendering of works to make sure that the process was carried out efficiently and in compliance with the EBRD PP&R. Close contact was maintained with ARA and MIE during implementation to make sure physical progress was in accordance with approved work schedules and IPCs, VO's and disbursements were processed without delay..

Periodic joint EBRD/EIB/EU missions took place to monitor Project implementation and detailed recommendations/instructions were provided to ARA to address issues identified. Handling of delays created by the failure of the first contractor to perform, the COVID 19 outbreak and the decision to suspend works for the temporary opening of the roads

to traffic during the summer season, could not be predicted and were beyond the control of EBRD.

Implementation Summary

Overall Project performance is rated “Good.” The Project was of strategic relevance to the Bank with outstanding additionality. It was designed to support economic integration and facilitate sector reforms. The Project included benchmarks and indicators to effectively monitor transition towards an efficient road sector through institutional reform, commercialisation and higher private sector participation. During implementation, the Project achieved significant outcomes and impacts, especially in terms of improved traffic conditions and enhancement of road sector reforms.

The Project's results have shown to be sustainable. The Project paved the way for other similar user charges schemes, which are under implementation by GOA on other road segments part of the Ionian – Adriatic Highway. New transactions are being considered by the Bank in the transport sector through the WBIF.

Albania is a member of Transport Community, an international organisation in the field of mobility and transport, established in 2017 to develop and integrate the transport network between the EU and the Western Balkans. Albania has endorsed the Road Action Plan for the Western Balkans whose aim is to develop climate resilient, intelligent, and resource-efficient TEN-T road network in Western Balkans by incorporating green and smart elements in road investments. Progress has also been made in the implementation of the Sustainable and Smart Mobility Strategy for Western Balkans, particularly in boosting uptake of zero-emission vehicles and related infrastructure through the deployment of e-charging stations, introduction of incentives for electric/hybrid vehicles, transposition of relevant legislation (i.e. the Interoperability Directive).

ARA and the contractor have been advised that any rectification works required on the spoil (re-vegetating or removal to a designated site) as well as slope protection works be agreed and conducted prior to the issuance of any substantial completion certificate. In addition, the co-financiers have requested that ARA inform them about 4-6 weeks prior to the expected substantial completion date to allow them or their representative time to inspect the site.