Sustaining economic growth and macroeconomic balances has proven challenging in the face of a sequence of economic shocks.

During 2021-2022, the economy experienced a strong rebound, with gross domestic product (GDP) fully recovering to pre-pandemic levels. Growth in 2022 reached 4.8 percent as private consumption, exports, and investment expanded despite increasing energy and food prices Growth is expected to be moderate in 2023, despite another year of exceptional increase in tourism.

Through more green, resilient, and inclusive development, Albania can ensure that growth gains are sustainable.

3 The economic contribution of the tourism sector through indirect multiplier effects is estimated at US$3.4 billion, which represents 26.2 percent of the GDP. 4 The economic impact of COVID-19 has underscored the need for Albania to rebalance its approach to tourism development, as part of a strategy to build back better.

Accession to the EU and its continued commitment to a Green Deal are strong incentives for the country to boost its reform agenda including better stewardship of natural resources, environmental protection, and addressing of climate change.

Realizing the Blue Economy Potential in Albania.

6 Fiscal transfers from the central government to the municipalities often cover the gap, but as the system is modernized, higher cost recovery will be required for investment and higher operational expenses.

While there is no plan for construction waste minimization, reuse, and recycling, the Government intends to develop a circular economy approach with regard to the sector.

Albania has developed a strong regulatory framework for water supply and sanitation (WSS) service delivery, but most WSS utilities are trapped in a downward spiral of low revenue and low levels of service delivery.

The financial viability of most WSS utilities is very low, in part due to politically driven low tariff levels, which limits the overall availability of sector funding sources to improve and expand WSS service delivery.

More investments are needed to expand the sewage network and wastewater treatment to cover a higher share of the population and bridge the urban-rural divide.

Investing in NBS can help wastewater treatment operators lower their operational costs, access new revenue streams, increase customer engagement, and provide public environmental goods and services.

JMP WASH data, used in the State of the Sector Report 2018 Update, also show higher levels of piped water coverage for rural and urban areas (which includes self-supply), as well as higher levels of basic and safely managed sanitation (due to a large share of on-site flush toilets).

[23] Negotiations and Investment Planning Support proposal.

The dual focus on investments in solid waste and sewage encompasses the foremost defense against pressures on water bodies and coastal landscape on which the local economy depends.

The project applies an integrated approach to SWM investments, considering circular economy principles, and supports a system that is more environmentally, financially, and operationally sustainable.

This component will finance consulting services, non-consulting services, goods, and training.

Subcomponent 1.2: Environmental-Performance Based Investments for local pollution prevention (EUR 9.44 million (USD 10.00 million equivalent))

33. This subcomponent will finance the EPBIs to municipalities in the Vlora South-Gjirokaster Waste Zone for improved municipal waste management.

These local investments will support behavior change for cleaner and greener urban space and healthier coastal and aquatic ecosystems.

This component will finance construction works, consulting services, non-consulting services, goods, and training to operate and maintain sewer systems, trucks, and treatment plants.

Subcomponent 2.1: Expansion of sanitation infrastructure (EUR 54.55 million (USD 57.81 million equivalent))

37. This subcomponent will finance investments in infrastructure improvements in selected municipalities to improve sanitation services and reduce/control point source pollution of waterbodies within the Vjosa River Basin.

Subcomponent 2.2: Improved sanitation facilities and management (EUR 0.96 million (USD 1.02 million equivalent))

39.

The project will support small-scale investments to prevent nutrient runoffs from agriculture and siltation from erosion in select locations of the Vjosa River Basin.

The small-scale investments promoting sustainable agriculture practices, livestock manure management, pasture regeneration, organic fertilization, composting, and improved farming practices, will engage farmers and local user groups from the villages in the watershed of the Vjosa River.

The project activities are expected to directly benefit an estimated 138,800 people (5 percent of the Albanian population) through improved SWM and sanitation services. An estimated 87,000 beneficiaries in selected municipalities will benefit from better SWM with increased collection, separation, and recycling of municipal waste. An estimated 51,800 beneficiaries in selected municipalities will also benefit from gaining access to new and/or improved sanitation services.

Institutional stakeholders, namely MoTE and AKUM, are expected to benefit, along with municipal governments, from better solid waste and sanitation management, monitoring and improved planning environment, an improved regulatory framework for operational and financial sustainability, and capacity building and training workshops.

The central problem statement the project tries to address is aquatic pollution from land-based sources (municipal waste, wastewater, sediment, and nutrients) damaging the economic development potential based on the natural assets of the South-West Coastal Belt of Albania.

The WBG adds value by convening global experience, knowledge, sectors, and organizations to support investing in adequate solutions.

The project aims at coordinating and maximizing potential sources of finances, prioritizing grants for TA, building capacity, and piloting innovative pollution reduction approaches through the EPBI. The remaining activities are of a public sector nature and focus on creating the right environment for the implementation of pollution reduction strategies that are more efficient and environmentally sustainable and supporting priority investments that cannot be supported by the private sector.

To ensure the sustainability of public investments in the coastal areas of Albania, a consensus among various development partners and country stakeholders is essential.

AKUM will establish a Project Coordination Unit (PCU) which will also manage the World Bank-funded Program-for-Results on National Water Supply and Sanitation Sector Modernization Program.

Moreover, project investments are complementary to the ongoing Albania Sustainable Growth (P178202) Development Policy Financing (DPF) which includes related prior actions on ban of single-use plastic bags and approval of an EPR.

The financial viability of SWM and WSS are presently very low, in part due to politically driven low tariff levels, which limit the overall availability of funding sources to improve and expand service delivery.

The economic cost-benefit analysis has been carried out to assess the economic viability of the proposed investments. The project is expected to bring sizable economic and social benefits to the local communities, business, and industries by reducing pollution from land-based sources into the aquatic environment in selected areas of the South-West coastal belt of Albania. Reduction of point and NPS sources through investments in wastewater treatment and other sanitation facilities would improve the public and ecosystems health by reducing the risk of diseases and protecting quality of surface and groundwater resources in the Vjosa river basin.

The cleaner environment will improve the aesthetics of the coastal area and provide additional opportunities for the development of tourism, increasing employment and incomes of the local population.

The package of proposed investments in improving municipal solid waste management and wastewater treatment and sanitation facilities in the project area was found to be economically viable with the project Economic Rate of Return (EIRR) estimated at 9.5 percent and the Net Present Value (NPV) of USD 22.1 million at a discount rate of 6 percent (see annex 6). The benefits quantified in the economic analysis capture only part of the project benefits and their total economic value estimated in this EA is considered conservative.

Using the shadow prices of carbon as recommended by the World Bank Guidance for a low- and high-level scenarios, it was estimated that the value of the GHG emissions reduction over the project lifetime constitutes between 3.8 percent (the low case) and 7.4 percent (the high case) of the project total net benefit, increasing the project NPV to USD 26.6 million and USD 31.2 million, and EIRR to 10.1 percent and 10.7 percent, respectively to the low and high case scenarios.

The project will improve the quality and reliability of important public services notably sewage water treatment, and collection and processing of solid waste, thus improving the environmental and socio-economic situation in the project area.

Further increases in energy prices are a key risk to growth, as they could affect real disposable income, slow poverty reduction, and constrain fiscal space. Moreover, as a small, open economy, Albania is highly exposed to external shocks, such as recession in Europe or further tightening of financing conditions in international capital markets beyond the current year.

These will be mitigated by the fact that project will strengthen the financial sustainability of waste management utilities through activities that support cost recovery, tariff setting, and collection studies and through technical inputs support to update the regulatory framework on sanitation cost structure, including a framework for setting tariffs/fees for sanitation. Moreover, specific activities to support the overall sector reform are planned under the complementary National Water Supply and Sanitation Sector Modernization Program (P170891) program-for-results operation.

Further, as part of project preparation, a pilot implementation of the decision tree framework for sanitation infrastructure has started for the municipality of Permet, which will allow for early implementation of activities.

The risk will be further mitigated by the project through institutional development, and improved data management to ensure investments are sustainably planned, implemented, and operated.

Moreover, the central government has demonstrated a high level of political leadership and committed additional state budget allocations for investments and TA resources through the proposed project, the Albania Water Supply and Sanitation Sector Modernization Project (P170891), and the Albania Sustainable Growth (P178202) Development Policy Financing (DPF). These will serve as an incentive for waste and water utilities to engage in reform and improve performance.

Moreover, the construction of planned infrastructure could affect private lands.

AKUM will establish a Project Coordination Unit (PCU) which will also manage the World Bank-funded Program-for-Results on National Water Supply and Sanitation Sector Modernization Program.

Municipal utilities will work with AKUM to develop higher technical capacities and to achieve economies of scale for service provision through the utility aggregation planned in the strategy.

Municipalities and municipal utilities in the Vjosa River Basin will assess current needs, participate in project planning, and monitor progress toward the achievement of specific sanitation targets in their territories (Component 2).

The last Public Expenditure and Financial Accountability assessment for Albania, from 2016, concluded that Albania has advanced in some areas such as budget credibility, elements of fiscal transparency, monitoring of expenditure arrears, and procurement.

Local investment programs.

Works will total US$49.7 million, followed by goods and non-consulting services in the amount of US$13.

The project will also include two investment schemes in the amount of US$9.42 million.

Works required under the project include the construction of six new WWTPs for urban agglomerations in the priority municipalities.

Implementation of investments scheme. Investments scheme will be provided (i) under Component 1 through EPBIs to municipalities in the project area which commit to improved environmental services and (ii) under Component 2, through IDSIs to qualifying households.

AKUM also has experience in implementing World Bank projects (Water Sector Investment Project which was completed in March 2020 and the Program-for-Results on National Water Supply and Sanitation Sector Modernization Program (P170891) which became effective in May 2023).

The majority of activities to be implemented by AKUM are works contracts, not complex by nature of investment but spread across different municipalities.

The project applies an integrated approach to SWM investments, considering circular economy principles, and support for more sustainable system environmentally, financially, and operationally as the waste management system modernizes.

This component will finance consulting services, non-consulting services, goods, a

training.

Waste Zones and Regional Waste Management Facilities in Albania

Subcomponent 1.1: Institutional support for sustainable performance, enhanced monitoring and transition to circular economy (EUR 1.04 million (USD 1.10 million equivalent))

3.

Subcomponent 1.2: Environmental-Performance Based Investments for local pollution prevention (EUR 9.44 million (USD 10.0 million equivalent))

5.

Municipalities will receive local investment upon measurable and sustained improvements on solid waste collection, increased solid waste service coverage levels, and/or cost recovery. These local investments will support behavior change for cleaner and greener urban space and healthier coastal and aquatic ecosystems.

It should publish the monitoring report on the performance of municipalities under the performance-based investment framework.

Based on the investment plan prepared by the municipalities, the PMT will procure the goods or works up to the allocated amount under EPBI.

To ensure the appropriate enabling environment for municipalities to achieve performance improvements through EPBI, the project will support a set of upfront investments during the first two years of project implementation to underpin solid waste service delivery by participating municipalities.

Given the importance of behavior change for source separation and plastics recycling in areas of high population and tourism, solar compaction bins will be made available for selected EPBI-participating municipalities in need of appropriate solutions for managing peak volumes of waste generation in an eco-friendly manner, and/or for other municipalities benefiting from investments in recycling supported by other development partners.

This component will finance construction works, consulting services, non-consulting services, goods, and training. Municipalities and municipal utilities in the Vjosa River Basin will play an instrumental role in this project by assessing current needs, participating in project planning, and monitoring progress toward the achievement of specific sanitation targets in their territories. Municipal utilities will work with AKUM to achieve economies of scale for service provision and develop higher technical capacities.

Subcomponent 2.1: Expansion of sanitation infrastructure (EUR 54.55 million (USD 57.81 million equivalent))

14. Under this subcomponent, the project will finance investments in infrastructure improvements in selected municipalities to improve sanitation services and reduce/control point source pollution of waterbodies within the Vjosa River Basin (namely Vjosa and Drinos Rivers as well as groundwater).

The GoA through AKUM will prepare the TOR to engage a consulting firm to have detailed designs for all benefitting municipalities following the framework agreed; these services will be included in the advanced procurement package, which will be procured by July 2023 to ensure delivery of detailed designs by the first year of project implementation.

To incentivize households to move up in the sanitation ladder and control the amount of organic load and nutrients being discharged to the water bodies, the project will provide investments to the households that agree on transitioning to a safely managed system.

This is an extremely ambitious target and, therefore, justifies the establishment of a local investment program to incentivize vulnerable households to connect.

Subcomponent 2.2: Improved sanitation facilities and management (EUR 0.96 million (USD 1.02 million equivalent))

23. The project will provide support to AKUM, ERRU, and the regional utilities in the development of institutional, policy and regulatory frameworks on sewage management and sanitation services that will be required to carry out their mandates for improved sewage management and sanitation service provision; coordination between different agencies and alignment of relevant policies.

The project will support small-scale investments for reducing NPS pollution in the watershed of Vjosa to prevent nutrient runoffs from agriculture and siltation by erosion in select locations of the Vjosa river Basin.

The small-scale investments promoting sustainable agriculture practices, livestock manure management, pasture regeneration, organic fertilization, composting, and improved farming practices, will engage farmers and local user groups from the villages in the watershed of the Vjosa River.

An economic analysis (EA) was carried out to assess the economic viability of the project investments as the project will be implemented in the public sector with the use of public financing resources.

The economic analysis of the project investments uses economic project costs that exclude taxes, duties and price contingencies.

Estimated project benefits.

Reduction of and reduction of point and non-point pollution sources through investments in wastewater treatment and other sanitation facilities would improve the public and ecosystems health by reducing the risk of diseases and protecting quality of surface and groundwater resources in the Vjosa river basin. The cleaner environments will improve the aesthetics of the coastal area and provide additional opportunities for the development of tourism, increasing employment and incomes of the local population.

Discounting Costs and Benefits in Economic Analysis of World Bank Projects.

Benefits of Component 1 investments in municipal solid waste management are expected to result in the additional collection and recycling of 2,500 tons of municipal waste a year in the Vlora South Girokaster.

Investments in the local communities will support behavior change for cleaner and greener urban space and healthier coastal and aquatic ecosystems.

The estimated project benefits of Component 1 investments included the economic value of the increased quantities of the recycled and reused materials as well as the increased value of land and properties in the vicinity of the municipalities and rural agglomerations benefiting from project. Estimated benefits of the EBPIs implementation included the reduced burden from diarrheal morbidity and productivity losses due to poor sanitation for over 8,600 people, and increased value of housing with improved on-site sanitation, assumed equivalent to the amount of investment made.

Component 2 investments will support the construction of six wastewater/sludge treatment (WWT) plants that are expected improve the quality of recreational water, reduce the negative impacts on the environment due to water and ecosystem degradation, and contribute to the reduction of GHG emissions. The improved wastewater treatment in the area is also expected to reduce the negative effects of untreated wastewater on agricultural productivity, the market value of crops, the number of tourists visiting the area (or willingness to pay for tourist services) and the quality and market value of fish and shellfish catches.
The applied approach to the estimation of benefits of investments in wastewater treatment plants is based on determining the economic damage associated with certain water pollutants to the environment.

This will result in the total pollutant load reduction of 2,060 ton/year with the estimated annual economic value of $3.95 million.

In addition to the construction of new WWTPs to benefit 30,100 people living in urban agglomerations, Component 2 investments will also finance new sewers connections for 10,300 people. Additionally, 11,531 people living outside the urban agglomerations will gain access to improved on-site or decentralized sanitation solutions such as individual septic tanks or mini treatment plants for small groups or households. Together with the support envisaged by EBPIs, the total of about 20,000 people will benefit from the improved on-site sanitation solutions as a result of the project implementation.

The reduced morbidity burden is estimated as economic value of avoided medical treatment cost as well as avoided productivity losses due to reduced days of sickness and caretaker time required. The on-site sanitation interventions will also increase the value of the housing provided with improved sanitation solutions.

Augmenting the impact of investments in new sanitation infrastructure, the project will also finance the implementation of NBS integrated solutions for further prevention of water pollution in selected locations in the Vjosa river basin.

The restoration of 200 ha of wetlands will further reduce the TN and TP pollutants load in the river with the estimated economic benefit of $2.05 million/year.

There is a mutually reinforcing relationship between the cleaner environment, better sanitation and water and wastewater infrastructure, and the development of tourism. The research results based on worldwide data showed that a 1% increase in the population with access to improved sanitation is associated with a 2.6 % increase in the number of tourist arrivals, confirming therefore that improved sanitation is an important aspect of supporting tourism development.

Specifically, it showed that a 1% increase in environmental expenditure supports an increase of 2% in international tourism. However, in turn, increasing tourism also increases a pressure on the environmental resources and local water and sanitation infrastructure.

The potential tourism-related economic benefits of improved sanitation and wastewater treatment in the project area have been assessed within the project economic analysis

It was assumed that the necessary investments in touristic infrastructure to support the tourism increase are funded by the PIUTD and other government investment activities in the area, outside of the CARE project.

It is estimated that the improved environmental situation in the area due to the project investments will result in the economic benefit of tourism increase at $4.3 million/year.

[4] 9World Bank Project for Urban and Tourist Development in Albania.

According to these calculations, the value of the GHG emissions reduction over the project lifetime constitutes between 3.8 percent (the low case) and 7.4 percent (the high case) of the project total benefit, slightly increasing the total net project benefits and the project economic efficiency indicators (see Table 4.2).

Economic cost benefit analysis has been conducted for the total package of investments as well as separately for each of the two main investment components on (i) improving solid waste management and (ii) wastewater treatment and sanitation improvement. In all cases the proposed investments were found to be economically feasible with the EIRR exceeding the threshold of 6% of opportunity cost of capital.

The project withstands the cost overrun by 30 percent or the benefits reduction by 20 percent, with the NPV remaining positive and the EIRR still holding above the 6% threshold.

The benefits quantified in the economic analysis capture only part of the project benefits and their total economic value estimated in this EA is therefore considered to be conservative.

The project will improve the quality and reliability of such important public services as sewerage water treatment, and collection and processing of solid waste this improving the environmental and socio-economic situation in the project area. To ensure a sustainability of the project results into the future, the current structure of tariffs for the sewerage and solid waste management services will need to be assessed towards the possibility of higher recovery of O&M cost and increasing the role of the private sector in the services provision.