

German Development Co-operation with Albania

Abstract of the Evaluation “Public-Private Partnership (PPP) in German Development Cooperation” - Country Study Albania -

Summary

As part of an evaluation of its Public-Private Partnership Programme, which is being implemented by the Federal Ministry for Economic Cooperation and Development (BMZ) and its agencies for technical and financial co-operation, a number of country studies have been carried out. Two countries from south-eastern Europe, namely Albania and Romania, were also selected for evaluation.

The overall evaluation was launched on the back of a basic study by the Hamburg Institute of International Economics (HWWA), followed by the present field studies and finally a conceptual assessment.

The results of the HWWA basic study constitute the basis for the TOR of the field studies.

The main aims of the field studies (country studies) are

- to analyze and assess the targets, planning, implementation, management, effectiveness and significance of selected PPP projects carried out under bilateral development co-operation (DC) and under the PPP Facility,
- to assess their relevance for, and impact on, the quality of German DC in the respective partner countries,
- to draw up recommendations on the further conceptual, institutional, organizational and procedural development of the PPP instrument in general and in the country-specific context of German DC, and
- to identify lessons learned from the PPP instrument in the sense of best practices.

To arrive at the findings, the field studies have scrutinized an individual PPP measure and also assessed a group of representative PPP measures (country portfolio) and derived lessons learned from them.

Core questions raised in the field studies are

- goal coherence between private and public players within the framework of PPP measures,
- corporate interests and linking them with DC goals,
- harmonizing the PPP approach and the focal areas of DC in the respective country,
- identifying the contribution of DC towards strengthening private sector involvement,
- the costs and benefits of the DC contribution,
- the characteristics of the respective PPP efforts and chances for combining activities.

In addition, sound judgements on the following development policy issues were expected from the evaluation:

- identifying the general framework for PPP,
- assessing the chances for technology transfer,
- assessing the developmental relevance of the individual projects,

- assessing the PPP approaches in connection with the sector-based structure of development cooperation involvement.

Investigating PPP projects in Albania is particularly important because in Albania the practical implementation of PPP projects by the Kreditanstalt für Wiederaufbau (KfW) within the framework of bilateral DC is already well advanced. The investigations in Albania have also offered the possibility of observing the "birth pangs" of important PPP projects under bilateral German DC which are significant in terms of both concept and financial volume.

Findings

The Albanian Government is eager to increase investments in utilities and public infrastructure through PPP projects in order to meet the pronounced demand for investments in the rehabilitation of public infrastructure. However, practical experience gained so far is very limited. The Government has shown an impressive determination to create an enabling environment for PPP investments through the decentralisation of utilities and the privatisation of former public assets. The efforts are guided by the intention to increase PPP for investments and management in privatised utilities placed under the decentralised authority of cities, regions and communities.

In these efforts to establish an enabling environment, the Albanian Government is supported by the World Bank and the European Commission. With regard to the water and sewage sector the German financial development arm, the Kreditanstalt für Wiederaufbau (KfW), is playing a major role. KfW has not only provided for investments in a number of important Albanian cities, but is also developing and testing new concepts to increase the efficiency and sustainability in the country's water and sewage sector.

The Albanian efforts for privatisation and for preparing the ground for increased PPP are guided by the understanding that private investments and management support will be required to improve the disastrous situation in a sector where functioning water and sewage services are still rather the exception to the rule.

However, until now only limited practical experience has been gained with the implementation of PPP projects in Albania. At present, two PPP projects in the water sector under preparation by the Kreditanstalt für Wiederaufbau (KfW) form part of German financial co-operation with Albania. Both projects involve the water works of two medium-sized cities. KfW is following a different kind of PPP approach for each of the projects. For the city of Elbasan, a German water works company, Berlinwasser International, has signed the very first concession agreement in Albania to run the privately-owned water utilities infrastructure for the next 25 years. KfW is co-funding investments with a 70% contribution. Funding under market conditions is not available at present in Albania, due to the hazardous political and economic environment. In the second PPP project KfW has arranged for a management contract for the water works of the city of Kavaja to prepare the ground for a more substantial private participation at a later stage.

The Albanian Government hopes that, with the successful implementation of this first concession agreement under a PPP arrangement, it will attract more investment in the sector. For KfW and German DC, these PPP projects represent a test case for the "concession model" in venturesome environments linked to the mobilisation of private capital investments.

KfW has reached its strong position in the water and sewage sector in Albania over many years of investments, first in emergency measures, later also through standard investments under bilateral financial cooperation. KfW has increasingly focused on the water and sewage sector, building on its comprehensive long-term practical experience. This made it possible to build up know-how and knowledge in the sector gradually through analytical studies commissioned by KfW and the World Bank. Recently, KfW has worked out a sector strategy paper to launch a broader discussion on development in the sector with the Government and the other partners. The sectoral concentration of KfW's efforts has proven to be a key success

factor. It also has substantially increased opportunities to inform on the changes in the general environment and to provide advice on the overall process of reform.

Recommendations

PPP projects should be implemented only in sectors where a substantial sectoral competence level has been reached and for which the German implementing agency has shown itself to possess management and co-ordination capacities.

It would be helpful if the analysis and assessment of the general environment were based on a specific set of proven criteria taking into account specific PPP requirements.

It is recommended that the concept of PPP projects should take account of the generally increased need for planning and preparation compared to standard bilateral projects.

It seems advisable to get the companies and private partners involved in PPP projects to make a commitment to a standard set of ethical principles and development guidelines. This commitment might follow the recommendations of the *Global Compact*.

The co-ordination of programmes and activities among the German implementing agencies should be improved. Agency-specific capacities, e. g. know-how and experience in capacity building within GTZ, could thus be applied in a complementary manner to projects implemented by KfW as well.

The decentralised structure of German DC should be adapted to the growing need for co-ordination and management support of PPP projects. Part of the capacity of the "GTZ-Büro" in Albania should be oriented towards services for PPP projects co-funded by KfW..

Systematic Knowledge Management needs to be established for the water and sewage sector in Albania, with the World Bank and the European Commission as main partners of KfW.

Donor co-ordination needs to be improved for the water and sewage sector in Albania. KfW should seek for practical ways to increasingly involve the EU in its efforts in the sector and to provide services (a model case might be Bosnia Herzegovina where KfW is implementing an EU-funded programme).

KfW should analyse opportunities to establish an "International Fund for Investments in the Water and Sewage Sector in Albania". The creation of such a fund would provide a strong incentive for the privatisation of utilities and public infrastructure. In particular, the World Bank and the EU should be involved in the establishment of such a fund. Private investors should also become involved.

Conclusions

It has become apparent in the case of Albania that risk management is crucial to securing public as well as private investments. This also includes the need for intensive involvement in institutional development and capacity building. Partners in the PPP have to understand that in its initial stage a PPP project constitutes a process of common learning, which requires a high level of trust and the creation of a solid basis for respecting each other's interests.

The need for increased funding in the water and sewage sector in Albania could be covered through the establishment of an "International Fund for Investments in the water and sewage sector in Albania" with public and private investors involved.

Basic data

Water Works Elbasan

Start of project:	2002
End of project:	2027

Public contribution in € millions:	17.8 (70%)
Implementing agency:	KfW
Private Partner:	Berlinwasser International (BWI)
Private contribution in € millions:	5.34

Water Works Kavaja

Start of project:	2002
End of project:	2005
Public contribution in € millions:	1.5 for Management Support (PU) Plus financial co-operation- Investments of € 11.70 million for rural water supply and sewage systems in the Kavaja region
Implementing agency:	KfW
Private Partner:	(determined by public tender)
Private contribution:	indirectly, through bonus system

Date for the field trips for this Evaluation: January 2002