

THIRD-PARTY OPINION

Power Transmission and Distribution Project in the Republic of Albania

Third Party Evaluator: Gazmend Haxhia

Relevance:

The promotion of efficient management of Albania's energy resources, coupled with the restructuring of the transmission and distribution network which would pave the way to long-hoped-for foreign investment in the energy sector, was a project financed by EBRD, JBIC, WORLD BANK, SWITZERLAND, EIB, ITALY, KESH from January 1997 till October 2005. The Project was very timely and relevant for Albania and the neighbouring countries. With the energy sector being the subject of much debate, controversy and frustration due to the crippled ability of KESH (the state electric utility) to generate power from its network of hydropower stations, the project was crucial and relevantly significant for Albania and its people.

Besides the issue of total dependence on generation of power from hydro-electric dams, the generation, transmission and distribution of power was recording more power losses due to the aging of the power generation facilities affecting the power supply-demand balance. Although electricity has also been imported, it has not been sufficient to prevent large scale 'load shedding' - the cutting off of power by rotation among neighbourhoods, for several hours each day. Thus under the current circumstances, the project was and remains of the highest priority. As in Albania basic electric power is used for heating as well, the power situation is not only an economic problem but also a social problem.

In observance of EU directives, Albania has joined seven other regional states from the South-East Europe electricity market, intending to become a single integrated grid from Bosnia to Turkey. Upgrading the transmission links and securing a stable power supply is a must also in line with the 7th KESH Action Plan.

Effectiveness:

The project operation and effect indicators have been met, with transmission losses especially being reduced considerably. The project resolved a bottleneck by working on the transmission system facilities with a total loss rate of 33.5% in 2007 and only in Tirana, with a total loss rate of 30.2%. Distribution and the non-technical loss reversed the trend, marking a positive result. The rate of service charge improved significantly to 90%.

As far as power supply-demand balance is concerned, in view of the recurring droughts of the last 10 years, the outages are a result of the power supply shortage which means that the project resolved the critical bottleneck in power facilities.

The loan suspension on the part of EBRD and World Bank for two and a half years due to KESH' s deterioration of the management ability, social and economic instability of the country, extended the project period by 136% over the plan.

The total project cost was increased by 32% over the planned amount due to addition of new projects after the resumption of the loan..

As a result, the Internal Rate of Return went down to 20.7%, not reaching 24% planned at the time of the appraisal.

However, in spite of added costs and a longer project period, the current project was relevant, timely, effective and efficient, helping Albania which is facing major challenges in meeting its existing and future electric power needs.