

Applying Results-Based Financing in Water Investments in Albania

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Abstract

The framework for conducting PPPs in Albania is on par with the best practice of OECD countries. The provisions for unsolicited offers, the ability to complement through subsidies to the concessionary the financing gaps allow the government to benefit from efficiency gains and rigorous management through private involvement, even when the financial viability of a full PPP is not proved. The value for money criteria is applied to all projects, making sure that projects are rigorously tested prior to completion. The obvious successes of PPPs in hydropower development in Albania constitute a living proof of the potential of public private partnerships in dealing with infrastructure needs. The experience of the concession unit, the clear role of public procurement agency in auditing the award processes, the ability of competitors to invoke a review of the process from the public advocate, the availability of information for the general public constitute a solid ground for proper governance of the processes. In conclusion, we can qualify as enabling the environment for conducting PPPs in Albania. That means that from this point, the sectorial issues are the only ones that have to be taken care of in order to conduct a public private partnership in irrigation.

Keywords: Development, potential, management, financing, social cohesion.

1. Introduction

Through the successful completion of this assignment, IFC gave an edge to the Albanian government in harnessing the potential of PPPs in the provision of infrastructure. Many projects were initiated and completed in their legislative and regulatory framework provided in this assignment. Many sectors tried this relatively new way of providing services. Highways were developed, ports were managed, water distribution systems were rehabilitated, landfills were modernized...

The framework for conducting PPPs in Albania is composed of the government commitment to use PPPs in providing public services, the regulatory and legal environment for PPPs and the processes and institutional responsibilities set for line ministries, local governments and public agencies in setting up PPPs.

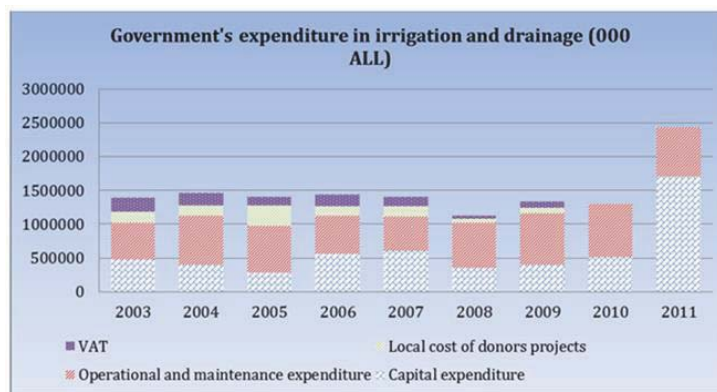
The Albanian government is keen to use PPPs in order to reduce the backlog of infrastructure development, in an extensive manner. In particular, hydropower development has been selected as the main sector for PPP development. In order to fulfill the ambitious objectives set for the sector, the government has developed an enabling framework for conducting PPPs. It consists of clear rules for contracting, for informing the public, for controlling the respect of rules in awarding contracts and proper directives in making the case for PPPs.

With the law on concessions, completed by the decision of the Council of ministers dated on 19 January 2007, clear rules were set to conduct PPPs. The final say on concession contracts remains at the Council of ministers. But, once agreed on the project, the contracting authority has full power for organizing a competitive process to award a concession (or more generally a PPP). In essence, this framework defines the sectors for which potential contracting authorities can look for concessions as a way to provide for public services (for the other sectors, a decision by the Council of ministers is needed). Once the type of project is approved, the contracting authority has the powers and the authority to conduct the concession process up to the final decision. That means that the contracting authority has to organize first the evaluation of the proposals, in terms of economic value for money (i.e. that conducting a PPP is better than providing the services through a public agency or through public procurements of goods and services). Secondly, the contracting authority has to conduct the appeal for bidding in conformity to the DCM organizing the granting and awards of concessions. This DCM states clearly the steps, the documents and the processes to be used in order to grant a concession. All the usual ways of conducting PPPs are feasible. Contracting authority can organize the prequalification process and the bidding process with a negotiation phase. The final decision is up to the Council of ministers. It is possible to grant concessions on unsolicited offers, if the contracting authority applies fully the directions set by the DCM.

In regards to the ability of local governments to act as delegating authorities (or contracting authorities), the legislative and regulatory acts are clear. Local governments are fully entitled to contract concessions, but there have to act according to the policies set by the Council of Minister in regard to sectors, and final awarding of concession contracts.

2. Financial Sustainability of Irrigation in Albania

In Albania, the reluctance to pay their fees by the farmers is compounded by the institutional setting. The law on irrigation and drainage vest the powers to set tariffs, to collect fees and to program maintenance operation on water user organizations. This creates opportunities for them to avoid supporting the cost of irrigation and instead, through simple waiting, pass it through to the administration. The figures spoke clearly and loudly.



The previous graphs have been produced in a recent study of financial flows in the irrigation sector in Albania. The 1st one analyses the central budget expenditures from 2003, separating capital expenditures from operation and maintenance expenditures. Very clearly, operation and maintenance expenditures represent the bulk of spending in the irrigation sector. If we take in account that capital expenditures includes rehabilitation programs, made necessary by deferred maintenance, we can conclude that there is no financial sustainability the irrigation sector.

	2005	2006	2007	2008	2011*
Irrigated land ('000 ha)	44.3	42.1	62.9	78.3	97.0
Income (million ALL)	38.0	37.0	43.1	46.9	13.4
WUAs operational	233	270	288	261	148
GSA /WUA (ha)	745	732	738	697	1063
Income per WUA ('000 ALL)	163	137	150	180	90
Income per ha GSA (ALL)	219	187	203	258	40

The table provides the explanation. The expansion of irrigated land from 2005 to 2011 has seen a parallel degradation of the income of water users association (and organizations). Total income went from 47 million Leke to 13.4 million from 2008 to 2011. If the change in law in 2008 can explain the reduction, because many water user associations were dismantled creating a disruption in the invoice/collection process, we can also attribute this reduction to the end of water users association support by the government, in terms of training and technical support.

In conclusion, we can say that Albanian irrigation is far from financial sustainability and that recovery rate of irrigation fees is very low. This is a major conclusion in regard to PPP potential in irrigation.

3. PPP Models to be Developed

The review of the strengths, weaknesses and the environment of the irrigation sector in terms of opportunities and threats lead to a number of conclusions and orientations in the development of PPPs in Albania.

The first orientation is to improve O&M of irrigation perimeters. Obviously, the poor state of irrigation networks and the extensive use of deferred maintenance create risks for the future of irrigation in Albania. So, the first priority is to

make sure that O&M is properly done, on time, in order to extend the life of the irrigation infrastructure.

The second orientation is to attain financial sustainability of the sector. There is no realistic future for the irrigation sector if every 10 years massive rehabilitations are needed. The vicious circle of low collection of irrigation fees, poor and deferred maintenance, service degradation, expensive rehabilitation paid by central budget is to be broken in order to make the most of irrigation infrastructures. Attaining financial sustainability is the only certain path to a virtuous circle, with high irrigation fees collection rate, good maintenance, good services and a long life for the infrastructure. It needs farmers to stop their strategic game of pushing the costs on central government.

The orientation is to maintain the involvement of users in irrigation management. Obviously, their involvement increases the ability of central government to have a locally centered management, and allowed to consider devolution of the irrigation networks to local governments or water users' organization. But, in order to succeed, the collection rate of irrigation fees has to increase. That means enforceable sanctions in case farmers don't pay.

Finally, it seems important to support innovation in irrigation techniques, either at the network level or at the parcel. Traditional irrigation techniques will not support the increase in productivity needed to make farming a viable opportunity.

In terms of PPP orientation, we will have to focus on management and maintenance models. Greenfield projects and new infrastructure development will be limited, compared to renovation and rehabilitation of existing irrigation schemes.

4. Performance indicators

4.1 Three sets of indicators with the used in order to follow the performances of the private operator:

The program of maintenance will be respected and audited by an independent expert, every year. By doing so, the delegating authority make sure that proper maintenance procedures are used by the partner. The report produced by the independent expert will be used in order to qualify the performance.

Irrigation acreage is the second indicator to be used in performance evaluation. The first year of the contract will be used as a basis. The rate of increase will characterize the performance of the private operator.

Fee collection rate is not directly related to the collection effort by the private partner. But, it is a good proxy of the quality of services provided to the farmers. And it would be used as such in the evaluation of the performances.

4.2 The results of the financial simulations

Two options were analyzed using the financial model. They differ in the treatment of investment. In the first case, the investment is financed by the commune and the tariff is computed in order to recover the total cost of the investment. In the second case, the investment (the rehabilitation cost of the network) is paid by the government, prior to the transfer of the network and prior to the award of the management contract.

In the first option, without cross subsidy, the irrigation fee per hectare is 12,000 Leke per year. With 25% of the farmers exempted, the irrigation fee has to be set at 15,000 Leke per hectare and per year.

In the second option, without cross subsidy, the irrigation fee per hectare is 8000 Leke, 50% lower than in option one. With the cross subsidy, it has to be set at 10,000 Leke.

5. Conclusion

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