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Report No. 37630-ECA

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT FROM THE
GLOBAL ENVIRONMENT FACILITY TRUST FUND

IN THE AMOUNT OF $1.99 MILLION TO REPUBLIC OF ALBANIA

AND

IN THE AMOUNT OF US$2.56 MILLION TO REPUBLIC OF MONTENEGRO

FOR

LAKE SKADAR-SHKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

April 30, 2008

West Balkans Country Management Unit
Sustainable Development Sector Management Unit
Europe and Central Asia Region (ECA)

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 29, 2008)

US$ 1.56	= 1 Euro
Euro 0.64	= US$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADA	Australia Aide
ADC	Australian Development Cooperation
BOA	Bank of Albania
CAS	Country Assistance Strategy
CoE	Council of Europe
CETI	Center for Ecotoxicological Research (Montenegro)
CFA	Country Fiduciary Assessment
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CQ	Consultant Qualification
DA	Designated Account
dgMarket	Development Gateway Market
DNPP	Department of Nature Protection Policies
EMP	Environmental Monitoring and Mitigation Plan
EAR	European Agency for Reconstruction
EA	Environment Assessment
EIA	Environmental Impact Assessment
EPA	Environmental Protection Agency (Montenegro)
EU	European Union
EUR	Euro
FAO	Food and Agriculture Organization (United Nations)
FM	Financial Management
FMO	Fishery Management Organizations
FMS	Financial Management Specialist
GEF	Global Environment Facility
GIS	Geographic Information System
GO	Global Objective
GoA	Government of Republic of Albania
GoM	Government of Republic of Montenegro
GPN	General Procurement Notice
GRECO	Group of States Against Corruption (Council of Europe)
GTZ	Gesellschaft fur Technische Zusammenarbeit (Germany)
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICR	Implementation Completion Report
ICZM	Integrated Coastal Zone Management
IDA	International Development Association

ALBANIA AND MONTENEGRO

Lake Skadar-Shkoder Integrated Ecosystem Management Project

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SOUTH EASTERN EUROPE AND BALKANS

ALBANIA/MONTENEGRO LAKE SKADAR- SHKODER INTEGRATED ECOSYSTEM MANAGEMENT

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

ECSSD

Date: April 3, 2008 Country Director: Jane Armitage Sector Manager/Director: John V. Kellenberg Project ID: P084605 Focal Area: International waters Environmental Assessment: Partial Assessment Lending Instrument: Specific Investment Grant	Team Leader: Karin Shepardson Sectors: General agriculture, fishing and forestry sector (100%) Themes: Biodiversity (P);Environmental policies and institutions (S);Water resource management (S)

Project Financing Data

[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 0.00
Proposed terms:

Financing Plan (US$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	0.65	0.09	0.74
Global Environment Facility (GEF)	2.55	2.00	4.55
Local Sources of Borrowing Country	6.57	2.00	8.57
Other Donors	0.90	5.00	5.90
Total:	10.67	9.09	19.76

Note:
1. Borrower/Recipient (Albania US$0.25; Montenegro US$0.49)
2. Other donors include (parallel financing): GTZ; REC; UNDP; USAID; NVA; KFW; SWISS)
3. Local sources of borrowing country include (parallel financing): National Parks; Privatization Proceeds; Local Municipalities (Albania US$0.69; Montenegro US$7.88).

Borrower:
Republic of Albania
Tirana
Albania
Republic of Montenegro
Podgorica
Montenegro

Responsible Agency:
Albania: Ministry of Environment, Forestry, Water and Agriculture
Rruga e Durresit, Nr 27
Tirana
Albania

Montenegro: Ministry of Tourism and Environmental Protection
Rimski trg 46, Kancelarija br. 8
Montenegro
Tel: 38181482145

Estimated disbursements (Bank FY/US$m)									
FY		2009	2010	2011	2012	2013			
Annual		0.40	1.10	1.50	1.0	0.55			
Cumulative		0.40	1.50	3.00	4.0	4.55			

Project implementation period: Start September 30, 2008 End: September 30, 2012
Expected effectiveness date: September 15, 2008
Expected closing date: September 30, 2012

Does the project depart from the CAS in content or other significant respects? ***Ref. PAD I.C.***	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? ***Ref. PAD IV.G.***	[ ]Yes [X] No
Have these been approved by Bank management? N/A	[ ]Yes [ ] No
Is approval for any policy exception sought from the Board?	[ ]Yes [X] No
Does the project include any critical risks rated "substantial" or "high"? ***Ref. PAD III.E.***	[X]Yes [ ] No
Does the project meet the Regional criteria for readiness for implementation? ***Ref. PAD IV.G.***	[X]Yes [ ] No

Project development objective ***Ref. PAD II.C., Technical Annex 3***
The Project Development Objective is to help establish and strengthen institutional mechanisms for transboundary cooperation through joint efforts to improve sustainable management of Lake Skadar-Shkoder.

Global Environment objective ***Ref. PAD II.C., Technical Annex 3***
The global environment objective is to maintain and enhance the long-term value and environmental services of Lake Skadar-Shkoder and its natural resources.

Project description *[one-sentence summary of each component]* ***Ref. PAD II.D., Technical Annex 4***
The project is based upon the joint Strategic Action Plan (SAP) for Lake Skadar-Shkoder, which represents a long-term program of ongoing and proposed activities financed by the two governments and by external donors. Some of the activities to be financed by the project will be implemented jointly by the two countries through a bilateral Lake Management Committee (BLMC) and associated Working Groups. Other activities will be carried out in each country,

but have lake-wide benefits.

Component 1: Capacity Building for Improved Understanding and Joint Management of Lake Skadar-Shkoder: Total (US$3.43 million; GEF:US$1.80 million) - Establish and strengthen the institutional structures for cooperative management of Lake Skadar-Shkoder, including operationalization of the SLC, the SLC Working Groups, and the SLC Secretariat, and support the SLC Working Groups in the implementation of their work programs.

Component 2: Promoting Sustainable Use of Lake Skadar-Shkoder (Total: US$4.79 million; GEF: US$1.06 million) - Promote and support environmentally and socially sustainable approaches to tourism and fisheries management, including the improvement of nature and culture based facilities, and development of a lake-wide stock assessment and fishery management plan.

Component 3: Catalyzing Pollution Reduction Investments:(Total: US$11.51 million; GEF:US$1.69 million) -

1.Develop a small-scale waste-water treatment system at Vranjina;

2. Support in the preparation of an environmental remediation plan for the KAP solid waste dump site;

3. Restoration of the lakeshore ecosystem.

Which safeguard policies are triggered, if any? ***Ref. PAD IV.F., Technical Annex 10***
Environment Assessment (OP BP 4.01), Natural Habitats (OP BP 4.04), Cultural Property (OP BP 4.11), Involuntary Resettlement (OP BP 4.12), International Waterways (0P BP 7.5)
Ref. PAD D.6, Technical Annex 10

Significant, non-standard conditions, **if any**, for:
Ref. PAD III.F.
Board presentation:
N/A

Grant effectiveness:
Ref PAD 111.F.

Covenants applicable to project implementation:
Ref PAD 111.F.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. Lake Skadar-Shkoder, the largest lake on the Balkan Peninsula in terms of water surface, is on the border between Montenegro and Albania in the Southern part of the Dinaric Alps. Its drainage area is about 5,500 km^2 (4,470 km^2 in Montenegro and 1,030 km^2 in Albania), and it drains to the southeast through the Buna-Bojana River to the Adriatic. The proposed project area consists of the lake and adjacent areas directly served by the lake. In Albania about 170,000 people live in the project area in seven municipalities and rural communes, within three Regions of the Shkodra District. In Montenegro about 12,500 people live in the project area, distributed among 40 small settlements within three municipalities (the larger Montenegro lake watershed has a population of about 250,000). Both countries have declared protected areas around parts of the Lake to strengthen overall lake protection, however, capacity is relatively well established in Montenegro, and in Albania, a management authority is being established only in 2008.

2. Lake Skadar-Shkoder has features unique among the world's major lakes—a unique ecology and natural beauty with enormous tourist potential. The lake's complex freshwater ecosystem, associated wetlands, floodplains, and karstic features provide valuable environmental benefits to surrounding communities (e.g. fisheries, drinking water, recreation), and contribute to national and regional economic and cultural assets. However, these same characteristics also contribute to lake ecosystem fragility.

- ***Karstic origin*** - Lake Shkodra is Europe's largest karstic lake, formed relatively recently in a shallow subsiding tectonic depression within limestone from the Dinaric chain. The lake can be considered at least in part the outcrop of a large transboundary karstic groundwater aquifer which connects Lake Shkodra, through the Drin River Basin, to Lake Ohrid, and Lake Prespa, two other karstic "Balkan lakes".
- ***Short water residence time/ shallow, fluctuating depth*** - The lake has high levels of water circulation and mixing—average water residence is about 120 days. The lake is shallow, fluctuating from 5 to 10 meters and groundwater from the lake's deeper parts (western side) mix with surface water inflows preventing stratification. Periodic flooding occurs on the flatter, eastern and northern shores, expanding the surface area in wet weather.[1]
- ***Complex conditions at the outlet*** - The lake outlet, the River Buna-Bojana, has weak transport and erosive capacity to remove sediments from the river bed, due to the low gradient of its channel bed.[2] Sediment accumulates, impeding the lake's out-flowing waters, naturally regulating the water level, and flooding the surrounding lands. High discharge in the Drin River and low water levels in the lake create reverse/backflows. Recently landfills from new construction have narrowed the outlet.

[1] Lake total surface area varies: 353 km^2 in dry periods and 500 km^2 in wet periods (at maximum level, 335 km^2 is in Montenegro and 165 km^2 in Albania). Lake volume varies: 1.7 km^3 in dry periods to 4.0 km^3 during wet periods.

[2] Floods between 1848 and 1896 diverted the Drin River (Albania), whose watershed is around 14,000 km^2, towards the west into the Buna-Bojana River, a few hundred meters from the lake outlet. Large volumes of sediment raised the river bed and increased the water level by several meters. Heavy flow in the Drin river sometimes impedes the outflow from the lake in Buna-Bojana.

• ***High water temperature*** - Due to its low elevation, southern location, and shallow water Lake Shkoder has high water temperatures, causing high rates of organic decomposition, and because the lake never freezes, it is a prime winter location for birds.

3. During the 1990s, Albania and Montenegro experienced severe economic decline accompanied by the collapse of many industries and large agricultural enterprises within the watershed. This was bad for people's livelihoods but good for the lake because it reduced sources of industrial pollution. Now, both governments want to revive the local economic base and attract private investment but they face several potentially conflicting development options and strategies for the water and natural resources—tourism as a major economic driver, hydropower production in both countries,[3] and a Buna-Bojana waterway proposal that would be formed by dredging the river bed and lake outlet. Furthermore, Albania is experiencing rapid population growth, which has been accompanied by illegal construction in lakeside areas.

4. However, many factors support commitment for environmental protection. National and local governments and local residents in both countries see tourism as the main engine for economic development of the Lake Skadar-Shkoder area, and national spatial and sectoral strategies identify it as a priority special interest area to develop nature, culture, and recreation-based tourism, which depends heavily on environmental quality. Therefore tourism that is planned and regulated is preferable to many alternative economic activities. However, tourism is now growing rapidly—unplanned and unregulated—in the Lake Skadar-Shkoder, threatening the lake's potential as an economic asset through inappropriate construction, untreated wastewater, poor solid waste management, over fishing and so forth.

5. These current trends provide a window of opportunity for strategic, coordinated action to set Lake Skadar-Shkoder on a path of ecological and economic sustainability. Both governments seek to harmonize their policies, legislation, and practices with European Union (EU) Directives, including the EU Water Framework Directive, which sets standards for water quality and calls for integrated watershed management and transboundary cooperation. In 2003, the two Ministries of Environment signed a Memorandum of Understanding (MoU).[4] It calls for joint monitoring of air, water and soil quality, and pollution; cooperation in environmental impact assessment; common strategies to develop clean industries and energy; cooperation to protect the natural environment; creation of joint regulation to control international commerce of endangered flora and fauna, industrial and toxic wastes, and other dangerous substances; joint educational and training activities; and creation of working groups and an Action Plan for implementation of the MoU. In February 2008, a detailed Bilateral Agreement[5] was signed as the legal instrument for joint cooperation for protection and management of the lake, including establishing a Skadar-Shkodra Lake Commission (SLC).

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[3] 1) Moraca Hydropower System in the Moraca River basin in Montenegro, and 2) Bushati Hydropower Plant on the Drin River in Albania. These hydropower proposals are of bilateral interest because both countries have rising energy demands and shared water resources.

[4] Memorandum of Understanding for Cooperation in the Field of Environment Protection and Sustainable Development Principle Between the Ministry of Environment of the Republic of Albania and the Ministry of Environment Protection and Physical Planning of the Republic of Montenegro.

[5] Agreement Between the Government of the Republic of Montenegro and the Council of Ministers of the Republic of Albania for the Protection and Sustainable Development of the Lake of Shkodra (Skadar) and its Watershed.

6. A Transboundary Diagnostic Analysis (TDA) carried out during project preparation identified major trends and factors affecting the the status of the lake's natural and economic resources including the following:

- Proposals in both countries for economic development alternatives for the lake basin need to be carefully evaluated and any potential threats to its ecosystem reported to decisionmakers. Projects could affect the lake level, hydrology, and characteristic rapid flushing, undermining the lake's ecological integrity and water quality.
- Water quality is generally good but unless economic revitalization and growth in the lake basin is managed in an environmentally sustainable way, quality could deteriorate to pre-1990s conditions or worse.
- Remaining pollution "hotspots" have transboundary implications, including industrial facilities, untreated wastewater from lakeside and tributary cities and villages, and runoff of agrochemicals and nutrients (aggravated by lost natural vegetation buffers).
- Fish populations, including commercially valuable migratory species, are declining, perhaps due in part to increasing numbers of active fishermen since 1990, particularly on the Albanian side (many using illegal methods such as electrical shock and fish traps), and in part due to localized pollution and habitat destruction.

7. Fish are the lake's most significant natural resource in terms of contribution to local economies and employment and their mobility makes transboundary cooperation essential for sustainable management. Some of the lake's most valuable fish species are threatened by over-exploitation and habitat degradation. Both governments have institutions and personnel in place to regulate fishing but lack information, mechanisms, and capacity to manage the fisheries on a lake-wide basis. Excessive tree cutting, over-grazing, and destructive construction practices have eliminated or degraded the vegetative buffer that helps to protect Lake Skadar-Shkoder from non-point-source pollution and siltation from adjacent and upstream agricultural areas.

8. Improperly stored waste at the Kombinat Aluminijuma Podgorica (KAP) aluminum plant (along the Moraca River) has been identified as the highest priority industrial threat to the lake, specifically as a source of heavy metals, PCBs, and other toxic pollutants, which have been detected in the lake water, adjacent springs, wells, and some fish. A prime source of these pollutants is from a large, unlined, uncovered dump site containing a mixture of non-hazardous and hazardous wastes that have been accumulating since start of production in 1971.

9. The TDA concluded that preventive action is needed to counter existing and iminent threats, maintain lake hydrology, and protect it from a likely increase in pollution and other environmental degradation in the context of expected economic renewal and physical development. Based on the TDA, a joint (bilateral) Strategic Action Plan (SAP)[6] was prepared through a participatory process with a wide range of stakeholders in both countries. The SAP establishes a long-term vision for lake management and sustainable development, including: (i) Strengthen legal and institutional framework for environmental protection, sustainable natural resource management, and transboundary cooperation and exchange; (ii) Reduce and prevent

[6] Available on Government of Albania, Government of Montenegro, and GEF/International Waters websites.

lake water pollution; and (iii) Establish effective systems for sustainable management of natural and cultural resources, including fisheries; and promote joint sustainable tourism development.

B. Rationale for Bank involvement

10. The project builds on and complements existing World Bank programs in both countries to support environmental protection and economic development described in detail in Annex 2. The Bank has experience implementing transboundary waters, sustainable tourism development, and natural resource management projects across the region and internationally. The project contributes to Country Assistance Strategy (CAS) objectives in both countries by strengthening public institutions that protect and manage Lake Skadar-Shkoder, and provides an enabling environment for private sector development in the tourism sector. The Montenegro CAS also calls for strengthening regional cooperation and supporting their constitutional commitments to be an ecological state. The Albania CAS focuses on governance and identifies the need to build institutional capacity for law enforcement, among other elements. The project will strengthen regulation of water, land, and natural resource use that affect lake water quality and economic value and contribute to improved environmental services. The project is part of a broader Bank effort to assist Montenegro and Albania to harmonize their environmental and natural resource management regulations and practices with the EU *environmental acquis*.

11. Among GEF implementing agencies, World Bank comparative advantage is well recognized in downstream implementation phases of actions plans. At a regional level, the project supports implementation of the World Bank/German Government supported "St. Petersburg Process," which facilitates debate on transboundary water management problems and integrated approaches to resolving them. It directly supports Phase II of this process, which focuses on South Eastern Europe.

C. Higher level objectives to which the project contributes

12. National and local strategies and plans in both Montenegro and Albania identified the Lake Skadar-Shkoder area as a priority for environmental protection, sustainable natural resource management, and nature/culture-based tourism development. Both sides of the lake are designated as wetlands of international importance under the Ramsar Convention. Both countries recognized the need for transboundary coordination to achieve these objectives, as reflected in the 2003 Memorandum of Understanding, and the 2008 Bilateral Agreement. The project directly supports the realization of these national strategies and plans and fulfillment of international obligations. Project-generated information is essential to improve understanding of threats to the lake's waters and ecosystems. The project will establish and strengthen a transboundary Lake Management Committee as a mechanism to ensure a coordinated, lake-wide approach to policies and trends.

Fit to GEF Focal Area Strategies:

13. The project is consistent with the IW Strategy for GEF 4, in particular with *Strategic Objective 2 (SO-2: To play a catalytic role in addressing transboundary water concerns by assisting countries to utilize the full range of technical assistance, economic, financial, regulatory and institutional reforms that are needed), and the Strategic Program 3 (Balancing over-use and conflicting uses of water resources in transboundary surface and groundwater*

basins). The project promotes an ecosystem-based approach and integrated water resources management to help reconcile development needs (e.g., increased tourism, hydropower, fishing) with ecosystem sustainability. Large freshwater lakes such as Lake Skadar-Shkoder deliver many environmental services that depend upon both sufficient water quality and quantity. Excessive lowering of water levels and pollution of surface and groundwater sources can undermine the potential for delivering these environmental services. Lake Skadar-Shkoder's shallowness and karstic basin geology makes it particularly vulnerable to the impacts of conflicting uses of the surrounding land (many recharge areas of karstic aquifers feed the lake), and of the waters flowing into the lake.

Countries' Eligibility for GEF:

14. Albania and Montenegro are members of the GEF and the World Bank. Both countries are signatories to the Barcelona Convention for the Protection of the Mediterranean Sea and its protocols and have developed programs within the framework of the Mediterranean Action Plan (Lake Skadar-Shkoder drains directly into the Adriatic Sea through the Buna-Bojana River). Both are also signatories to the Espoo Convention on Environmental Impact Assessment in a Transboundary Context and the Helsinki Convention on the Protection and Use of Transboundary Watercourses and International Lakes.[7] A 2003 MOU and a 2008 Bilateral Agreement provide a specific framework for cooperation for protection and sustainable development of Lake Skadar-Shkoder. A Transboundary Diagnostic Analysis (TDA) completed during project preparation identified objectives and high priority issues on a lake-wide basis, and a joint Strategic Action Plan (SAP) based on the TDA was approved by both governments.

II. PROJECT DESCRIPTION

A. Lending instrument

15. The project is financed through two Global Environment Facility Specific Investment Grants, government budgets, contributions from local government, and the private sector. The GEF grants totaling $4.55 million ($2.56 million Montenegro and $1.99 million Albania) will be denominated in US dollars.

B. Project development objective and key indicators

Global Development Objective

16. The global project development objective is to maintain and enhance the long-term value and environmental services of Lake Skadar-Shkoder and its natural resources.

Project Development Objective:

17. The Project Development Objective is to help establish and strengthen institutional mechanisms for transboundary cooperation through joint efforts to improve sustainable management of Lake Skadar-Shkoder.

Key Indicators:

[7] In case of Montenegro, signatory was as part of the Union of Serbia and Montenegro

18. The following key outcome indicators are proposed. Specific plans for monitoring these and subcomponent indicators are described in Annex 3.

- One year prior to project close, governments budgets will support operational costs of maintaining and participating in the Bilateral Lake Management Commission. (Process)
- Greater than 50% reduction in fishermen using illegal fishing practices. (Stress Reduction)
- Agreement between Government of Montenegro/KAP owners (Rusal) on solution and joint action plan to manage the legacy dumpsite wastes at KAP site. (Process)
- Established demonstration sewage collection and wastewater treatment system at Vranjina village. (Stress)

C. Project components

19. The project will achieve its objectives through three main components: (i) Capacity Building for Improved Understanding and Joint Management of the Lake; (ii) Promoting Sustainable Use of the Lake; and (iii) Catalyzing Pollution Reduction Investments. Some project-financed activities will be carried out in both countries and some in each country but all activities will have lake-wide benefits. Details of project activities and financing are in Annex 4 and 5.

Component 1: Capacity Building for Improved Understanding and Joint Management of the Lake ***(Total: US$3.43 million; GEF: US$1.80 million)***

20. This component builds capacity to establish and strengthen institutional cooperation to operationalize the Skadar-Shkodra Lake Management Commission (SLC) and its Secretariat. An initial four technical working groups of the Commission will be established through this component to support priority SAP activities including: Planning and Legal; Monitoring and Research; Communications/Outreach and Sustainable Tourism; and Water Management. The project will support specific tasks which correspond to the tasks of the four working groups such as: (a) create a predictive hydrological model of the lake basin; (b) research and monitor to better understand impacts of changes in inflowing water quantity and quality; and (c) harmonize monitoring on both sides of the lake through a publicly accessible joint database. Under this component the project will promote donor coordination and learning exchange including engagement with GEF International Waters Learning Exchange and Resource Network IW:LEARN through project promotional materials, participation in international workshops, data exchange, and hosting annual donor coordination meetings. A key output of this component will be improved information and coordination for transboundary decision-making. This component also supports incremental project management costs in each country.

Component 2: Promoting Sustainable Use of the Lake ***(Total: US$4.79 million; GEF US$1.06 million).***

21. This component will promote adoption of sustainable approaches to economic development of the lake (and its natural resources) by focusing on tourism and fisheries where there is high potential for economically significant sustainable use. It will support environmentally and socially sustainable tourism by improving nature- and culture-based facilities and attractions; raising public awareness; and providing technical assistance to local residents considering tourism-based businesses. It will support sustainable fisheries management

by helping to develop lake-wide stock assessment and fisheries management plans and by integrating plan results and recommendations into national plans, regulations, and programs. In response to this assessment, the project will provide incentives for fishermen to cease illegal fishing methods and help strengthen regulatory and enforcement capacity for fisheries management.

Component 3: Catalyze Pollution Reduction Investments *(Total: US$11.51 million; GEF: US$1.69 million).*

22. This component will support selected investments to stimulate pollution reduction activities: educate and encourage people to replicate demonstration projects of village-level wastewater treatment and buffer vegetation restoration; and provide TA to catalyze remediation of the lake's largest-scale industrial pollution "hotspot." A demonstration pilot project for wastewater treatment, based on constructed wetlands, is proposed for the village of Vranjina in Montenegro, in locations visible along the lake and the main road to facilitate education and promote replication. Technical assistance will be provided to the Government of Montenegro to prepare for a large-scale remediation investment. The government has budgeted an initial €5.0 million to invest at the site, however the full cost can be determined only upon completing an inventory, feasibility study, and site remediation design. Project TA funds will support an inventory and characterization of on-site waste and feasibility study/preliminary design of options study for remediation, recycling, and/or disposal. The TA would include an international adviser to assist regulatory authorities' work on the KAP site, and some financial support for an EIA on recommended actions from the feasibility study. Restoration of lakeshore buffer vegetation to protect against siltation and chemical run-off will be demonstrated in Albania. This includes: (a) Restore prioritized lakeside groves (willows and other native trees) in erosion-prone areas; (b) Implement stream bank erosion control at one site through combined re-vegetation, gabions, and other small infrastructure; and (c) Support community-driven vegetation and restoration sites (prioritizing buffer vegetation for fish nursery areas).

D. Lessons learned and reflected in the project design

25. Project preparation benefited from several past Bank-financed projects and programs for coordination of transboundary water bodies and other natural areas. Specific lessons from the completed Macedonia/Albania Lake Ohrid project include:

- Identify critical data needs early to tailor ecological monitoring; partner with local scientific community. The Project Implementation Completion Report (ICR) stated that closer attention to these aspects could have established more practical and sustainable monitoring programs and avoided financing nonessential equipment and infrastructure.
- Invest early in intensive public awareness and education to achieve stronger stakeholder involvement and active participation in project activities.
- Develop and maintain open dialogue to create goodwill and trust among key stakeholders—collaboration, compromise, and consensus-building are essential for joint decision making and this takes time to achieve. The project can support joint activities, exchange visits, and so forth.

- Grant-financed projects can help leverage other spin-off projects (e.g., financing of major infrastructure investments), which enhance project impact. Visibility efforts and concrete action plans can attract other donors.

26. The proposed project responds to these lessons by including a substantial budget for bilateral meetings, visibility events, study tours, and jointly designed and implemented public communications and outreach. The Strategic Action Plan and the Lake Commission will help coordinate donors; monitoring lake-wide water quality and ecosystem parameters is designed to complement routine ecological monitoring in both countries using local laboratory expertise.

27. Other GEF and WB projects (e.g., Baltic Sea; Caspian Sea, Serbia Danube Enterprise Reduction) provide lessons such as the importance of combining "bottom-up" planning and implementation (and local economic benefits) with "top-down" (e.g., policy level) support; and the value of high-visibility transboundary agreements, institutions, and programs that enable national authorities to carry out their regulatory responsibilities. The Albania Integrated Coastal Zone Management and Clean-up Project, Fisheries Development Project, and Natural Resources Development Project provide Albanian experience directly relevant to the importance of involving local communities in planning and sustainable natural resource management and mechanisms for doing so. A study tour to the transboundary Lake Neusiedl-Ferto (shared by Austria and Hungary) generated ideas and potential project design models; for example, effective cooperation is possible despite substantial differences in the countries' institutional structures. The study tour also highlighted the importance of creating a supportive environment for local economic development, suggested innovative mechanisms to involve people from nearby communities in day-to-day lake management, and illustrated the value of restoring terrestrial habitats to maintain aquatic ecosystems. The project design was inspired by other institutional structures and models for cooperative management of transboundary lakes such as the International Commission for the Protection of Lake Geneva; the Lake Constance Environmental Council; and the Estonian-Russian Transboundary Water Commission.

E. Alternatives considered and reasons for rejection

28. A project covering much or all of the watershed of Lake Skadar-Shkoder (and extending along the Buna-Bojana River to the Adriatic Sea) was considered because Montenegro and Albania have initiated policies that will eventually implement a wider river basin approach under the EU Water Framework Directive. However, establishing a wider focus was considered premature given the need to first strengthen basic capacity to manage most immediate lake issues. In addition, the large geographic area and limited resources would spread investments on the ground too thinly. Project-supported actions are designed as a foundation for the future when institutions are better prepared to expand to a wider watershed focus. The TDA and SAP coordinated through the Bilateral Lake Commission and made operational by the project in any case, cover the larger watershed area, providing a basic framework to attract and coordinate other donors and programs on a wider scale.

29. Initial project design focused more resources on direct investments to clean the lake and eliminate pollution sources. However, the TDA indicated that the priority should be to establish institutional structures and systems to preserve water quality and ecosystem health in the face of

anticipated imminent economic revitalization and development. The project will include TA to catalyze improvements at high-priority localized pollution sources and "hotspots." Initially, GEF resources were considered to finance remediation of a legacy waste dump at the KAP site, the up-front work required was still substantial, and therefore limited project resources were focused on advancing preparation for remediation work. Support to promote pollution reduction from small scale restaurants around the lake in Albania was considered however dropped due to uncertainties as to whether the restaurants will remain and the projected timetable to resolve their legal status after completion of an ongoing urban planning process supported by GTZ and the government. Support for capacity strengthening of the Protected Areas around the Lake was limited to reflect changes in the GEF Operational Program (IW) and Strategic Priorities, focusing primarily on strengthening the park ranger role in improved enforcement of fishery management, and integration of parks in sustainable tourism promotion.

30. Preparation teams in both countries expressed strong interest in direct financial support (small grants or micro-credit) for local communities to establish or expand small enterprises engaging in sustainable use of lake resources, including tourism. However, other project experiences indicate that successful small grant programs need a minimum number of enterprises to justify the up-front resources required to carry out participatory processes and set up management structures. Therefore, the project will focus on specific and pre-identified actions such as raising awareness, TA, skills training for local people to adopt sustainable practices, and support for fishermen to obtain licenses and participate in local user associations.

III. III. IMPLEMENTATION

A. Partnership arrangements

31. In addition to the World Bank, other donors and NGOs have programs to support environmental protection, sustainable natural resource management and tourism in the Lake Skadar-Shkoder area (Annex 2 and 15). The Skadar-Shkodra Lake Commission is the coordinating body for the joint Strategic Action Plan—a framework to enhance coordination, collaboration, and partnership among these initiatives and parties. The project will support annual donor coordination, international exchange, and collaboration. The project includes resources to engage with GEF's IWLEARN program, which promotes international exchange and collaboration on transboundary water management globally.

B. Institutional and implementation arrangements

32. Project implementation arrangements will be streamlined within the existing structures of the two governments to ensure strong government ownership and to minimize strains on capacity. The Albanian Ministry of Environment, Forests and Water Administration (MEFWA) and the Montenegro Ministry of Tourism and Environmental Protection (MTEP) will have overall responsibility for project implementation, in coordination with partners in sectoral Ministries, local governments, and universities. MTEP and MEFWA, through subordinated units, are directly responsible for on-the-ground management of the lake and immediately surrounding areas because the area on both sides of the border falls within formally established Protected Areas (PAs). In Albania, MEFWA is also the Ministry responsible for protected areas, water management, and fisheries. In Montenegro, general water management falls under the

Ministry of Agriculture, Forestry and Water Management, but Lake Skadar-Shkoder is a special case—due to its PA status, responsibility is delegated to MTEP. MTEP and MEFWA have each appointed a Project Director (Ministry staff), and Project Coordinators (project-financed staff) and will nominate representatives for the Skadar-Shkodra Lake Commission and Working Groups, according to agreed Terms of Reference.

33. In Albania, a Project Coordinator based in Shkodra will be responsible for day-to-day implementation, overseen by a Project Director (MEFWA Department Head) in Tirana. All procurement and financial management actions will be centralized and rely on contracted part-time experts with World Bank project experience. Some Albanian grant activities will have technical leadership by the SLC Secretariat, the Management Unit for the Shkoder Lake Managed Nature Reserve (SLMNR), and the SLMNR together with Shkodra Municipality.

34. In Montenegro, a Project Coordinator housed within MTEP in Podgorica will be responsible for day-to day project implementation, overseen by a Project Director (Assistant Minister in MTEP). All procurement and financial management will be centralized through contracting to the Technical Services Unit (TSU) that supports many World Bank projects in Montenegro. Some Montenegro grant activities will provide support to the SLC Secretariat, the Public Enterprise for National Parks (located on the Lake), the municipality of Podgorica, and a Steering Committee for KAP site grant supported activities (KSC). Government departments, agencies, or organizations that are beneficiaries or involved in implementing project activities, will do so under sub-project agreements signed with MTEP (Montenegro) or MEFWA (Albania).

35. A 2008 Bilateral Agreement legally establishes the Skadar-Shkodra Lake Commission (SLC), as the main steering mechanism to implement the SAP and provide a forum to reach concrete agreements on lake management issues. The SLC will convene four Working Groups of technical specialists and local stakeholders with project support to identify priorities and facilitate coordination/action on Planning and Legal; Monitoring and Research; Communications/Outreach and Sustainable Tourism Development; and Water Management. The SLC and Working Groups will be served by a small Secretariat to facilitate communications, meetings and outreach, and administrative reporting to the two Project Directors in MEFWA and MTEP. The Secretariat head and an assistant will be paid through the project for the first three years. Procurement and financial management of SLC activities will remain centralized under coordination of the two country-specific Project Coordinators. MEFWA and MTEP, through the Joint Bilateral Lake Management Commission, will establish coordination with any non-implementing institutions that are important actors and stakeholders. For example, the Drin–Bunë River Basin Administration (chaired by the Prefect of Shkodra) covers the entire Lake Shkoder watershed in Albania, and the Water Administration Agency in Montenegro has a lead role in implementing integrated water management in line with the EU Water Framework Directive.

36. A PIM, prepared for negotiations, specifies project implementation, reporting, and monitoring processes and responsibilities. All activities will emphasize regular and substantial stakeholder involvement, particularly that of local communities and NGOs.

C. Monitoring and evaluation of outcomes/results

37. The Project Coordinators in MTEP and MEFWA are responsible for monitoring project implementation, in coordination with the Secretariat for the Bilateral Lake Management Commission. A project Monitoring and Evaluation Plan with specific responsibilities, timeframes and reporting formats is in the PIM. Annex 3 details the Project Results Framework, which will guide M&E activities. Project supervision will monitor implementation of mitigation measures in the Environmental Assessment/Environmental Mitigation Plan.

38. Standard water quality parameters will be tracked lake-wide to harmonize bi-national data, build commitment for pollution prevention, and catalyze action. However, these data are not adequate to measure direct impacts of project interventions within the project timeframe. Site-specific monitoring would be implemented close to investments to help measure direct impacts. Most data will be collected through contracted arrangements with scientific institutions in each country such as the Center for Eco-toxicological Research, the Republican Hydro-Meteorological Institute, Institute for Protection of Cultural Monuments, Nature Protection Institute, University of Montenegro (Montenegro), the Hydro-meteorological Institute, Natural Sciences Museum, Fishery Research Institute, and University of Shkodra (Albania).

39. The Skadar-Shkodra Lake Commission effectiveness will be measured by its proactivity in establishing Working Groups, approving submitted reports and proposals, and by the two governments' approval of its outputs and their integration into national policies and programs. For example, the lake-wide management plan should be prepared in consultation with all significant stakeholders and eventually incorporated into spatial plans and Protected Area management plans to the extent they extend into the lake. Effectiveness of the Committee and its Working Groups will also be measured by the extent to which the governments make use of these bodies to assess and resolve transboundary issues or conflicts that may arise, however, it is difficult to set advance targets for this. Committee sustainability will be measured by the willingness of the governments to cover a portion of its basic costs (meetings and communications) over the life of the project, and whether the governments achieve full budget support one year prior to project close.

40. Annual work plans/procurement plans agreed between the governments and the Bank will set targets for physical elements such as completion of small-scale tourism infrastructure and total areas re-vegetated in ecological restoration pilots. Progress in non-physical elements such as public outreach and communications, reduction in illegal fishing and building, and socio-economic impacts will be measured through social surveys—results will be compared with baseline studies carried out during project preparation and the first year of implementation. Data collection will be carried out by the staff of the respective PA management units and by contracted third parties. Impacts of the small-scale wastewater treatment demonstration will be measured by improvement of water quality at the site. Ecological restoration of buffer vegetation should also help protect long-term water quality but impacts are not expected to be measurable in the project timeframe so monitoring will focus on physical progress of restoration work.

D. Sustainability

41. The project supports government priorities and international commitments directly aligned to the project objectives. Both countries are working to harmonize their legal and institutional frameworks with the EU *environmental acquis* and Directives, including adopting a coordinated, integrated watershed approach to managing transboundary water bodies. Finally, both countries are committing substantial own-budget resources and donor assistance for activities that support project activities and objectives.

42. Existing organizations are responsible for implementation: (Government Ministries, agencies; national research institutes), or bodies that the governments are committed to maintain over the long term (the SLC). The bilateral Working Groups formed under the project may continue, or be reconstituted at project close to focus on other priorities. The SLC costs will be supported only for the first three years of the project to promote sustainability. The project supports inclusion of parameters that are significant in a transboundary context—annual monitoring costs will continue, approximately at current levels rather than being artificially increased during the project life. The project promotes sustainable tourism and natural resource use, in contrast to current less sustainable practices. It will help the Government of Montengro address the problem of the KAP dumpsite legacy wastes, demonstrate an environmentally sustainable small-scale wastewater treatment facility, and help restore degraded buffer habitats. For all these reasons, the likelihood is high that project outputs and outcomes will continue beyond the project life .

E. Critical risks and possible controversial aspects

RISK	MITIGATION	Rating with Mitigation
Government commitment to preserve the lake ecosystem weakens against pressures for non-compatible economic development in watershed.	High visibility of Lake Skadar-Shkoder as a nationally, and internationally important natural area (enhanced by the project) will strengthen international support to counter large threats.[8] Public awareness and community involvement in sustainable use will help build local support.	M
Tourism growth at national and/or local levels less than expected or growth is rapid but does not follow a sustainable path.	Both governments have identified Lake Skadar-Shkoder as a priority for tourism potential. Strengthened planning and regulation, monitoring to identify potential problems at an early stage, raising public awareness, and working with private sector partners are key elements of a strategy to manage and steer tourism in sustainable and productive directions.	M
Weak institutional implementation capacity in both countries; and inter-dependency of Governments for joint activities could slow project activities.	The project supports existing actors to improve, expand, or reorient existing activities, and provides assistance for Project Coordinators focused on joint cooperation across the respective Ministries. Capacity to work with the KAP site will be strengthened by an international adviser. In Albania, the new SLMNR Management unit will be formed from staff currently under the forestry department. Project procurement and financial management is centralized in both countries to avoid fragmentation of efforts. Project combines both joint and single country activities.	S
Support to the KAP site may be influenced by the political process; and project lacks any	TORs for the studies will focus on demonstration of economic benefits of alternative solutions to both government and the private owner. A component specific Steering Committee will be	S

[8] The Government of Montenegro's recent rejection of the proposed Buk Bijela hydroelectric dam (which threatened a part of the Tara River Canyon) is an example of the influence carried by local and international opinion.

leverage on overall environmental performance of the plant.	established prior to initial tendering of the KAP assignments. Its role is to help promote information sharing at an early stage. International Advisory support will strengthen capacity to negotiate solutions with the private sector. Work will be coordinated with parties preparing the IPPC permit, likely to be started during the project life.	
If demolitions by government occur around the Lake, and there is a perception by the local population of a link to the project, this could create a negative environment for project implementation.	The project does not support investments at sites where legal status is uncertain or subject to the ongoing procedures. Lake management plan is limited to the lake itself. Project activities remain separate from any government decisions for demolition that may stem from the law 9482 process. In case this risk occurs, the outreach and communications program of the SLC will help clarify the limits and scope of the project actions. Project implementation manual clarifying roles and responsibilities (including limits of park rangers responsibilities) will be publically available. Close coordination across Bank portfolio and with country management and implementation of a proactive communications strategy.	S
Overall Risk Rating		S
Risk Ratings: H= High ; S= Substantial; M= Modest; N=Negligible		

F. Grant conditions and covenants

44. *Condition for Grant Effectiveness*:

- Cross-effectiveness of the grant agreements for Albania and Montenegro, respectively. (BOTH AGREEMENTS)
- The Project Implementation Manual, satisfactory to the World Bank, has been adopted by the Recipient. (BOTH AGREEMENTS)
- The execution and delivery of the grant agreements on behalf of the Recipient has been duly authorized or ratified by all necessary government action. (BOTH AGREEMENTS)

45. *Disbursement Covenants*:

- Prior to the commencement of any works under Parts B and C3 of the Project, the Recipient shall prepare for each site a site-specific EMP in a manner satisfactory to the World Bank. (ALBANIA)
- Prior to the commencement of any works under Part B or Part C1 of the Project, the Recipient shall prepare for each site a site-specific EMP in a manner satisfactory to the World Bank. (MONTENEGRO)
- For payments made prior to the date of the Agreement, except that withdrawals up to an aggregate amount not to exceed $100,000 equivalent may be made for payments made prior to the date of the Agreement but on or after November 1, 2007 for Eligible Expenditures under Category 1 (BOTH AGREEMENTS)
- Under Category 3 unless the KSC has been established and convened with staff and resources satisfactory to the World Bank (MONTENEGRO)

46. *Implementation Covenants*

- The Recipient shall maintain the SLC, the SLC Working Groups, the SLC Secretariat, and the MEFWA PMU at all times during Project implementation, with terms of reference and resources satisfactory to the World Bank, and with competent staff in adequate numbers. (ALBANIA)

- The Recipient, through the SLC, the SLC Working Groups, the SLC Secretariat and the MEFWA PMU shall: (i) duly perform all obligations under the Project Implementation Manual, the Framework EIA, the EMPs and the Process Framework in a timely manner and in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein set forth; and (ii) not amend or waive, or permit to be amended or waived the Project Implementation Manual, the Framework EIA, the EMPs or the Process Framework or any provisions of any one thereof, except with the prior written approval of the World Bank. (ALBANIA)

- Not later than January 1, 2009, the Recipient shall establish and staff the SLMNR Management Unit in a manner and with a composition and terms of reference satisfactory to the World Bank. (ALBANIA)

- The Recipient shall maintain the SLC, the SLC Working Groups, the SLC Secretariat, the TSU, the KSC, and the MTEP PMU at all times during Project implementation, with terms of reference and resources satisfactory to the World Bank, and with competent staff in adequate numbers. (MONTENEGRO)

- The Recipient, through the SLC, the SLC Working Groups, the SLC Secretariat, the KSC, the TSU, and the MTEP PMU shall: (i) duly perform all obligations under the Project Implementation Manual, the Framework EIA, the EMPs and the Process Framework in a timely manner and in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein set forth; and (ii) not amend or waive, or permit to be amended or waived the Project Implementation Manual, the Framework EIA, the EMPs or the Process Framework or any provisions of any one thereof, except with the prior written approval of the World Bank. (MONTENEGRO)

- The Recipient shall exchange views with the World Bank on the results of the waste classification, options analysis and feasibility study at the KAP solid waste dump site under Part C.2 of the Project, and shall take these results into account in finalizing the cost, technical solution and timetable for remediation, recycling and proper containment of waste at the KAP solid waste dump site. (MONTENEGRO)

47. *Financial Management and Reporting Covenants:*

- The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions. (BOTH AGREEMENTS)
- The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank. (BOTH AGREEMENTS)
- The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period. (BOTH AGREEMENTS)
- The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the World Bank. Each Project Report shall cover

the period of one (1) calendar semester, and shall be furnished to the World Bank not later than one (1) month after the end of the period covered by such report. (BOTH AGREEMENTS)

- The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date. (BOTH AGREEMENTS)

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

48. An Incremental Cost Assessment was developed to demonstrate the leveraging impact and additionality of the GEF Grant compared to financing from other sources; this appears in Annex 15. Most investments under this project are institutional and capacity building and do not lend themselves to economic and financial analyses. Qualitative assessments were prepared on the key benefits of the KAP site and investments in small-scale wastewater control; these appear in Annex 9. Financial or economic analyses will be part of the investment feasibility studies. The KAP feasibility study will use cost-benefit analysis to evaluate alternatives. The feasibility study for a rural village wastewater investment will assess cost-effectiveness based on investment costs per capita, and promote lowest-cost design solutions proven effective in other rural areas. Most financing comprises a capital grant, so no payback calculations are required. An assessment of affordability and willingness-to-pay for operations and maintenance costs of the small-scale wastewater investment will be conducted using surveys. Some fisheries and lake management studies financed under the project will quantify economic costs and benefits to strengthen the public policy debate.

B. Technical

49. A key influence on project technical design was the substantial difference between the two countries' prevailing conditions (e.g., Albania has a much higher and rapidly growing lakeside population), and institutional and human resources capacity (e.g., Montenegro has more established institutional structures for lake management and ecological monitoring). The project design addresses these disparate needs and differences in absorptive capacity while identifying common objectives and priorities and balancing distribution of project benefits.

50. *KAP hazardous waste containment.* Project support will classify waste, conduct a scoping and feasibility study, determine the extent of soil pollution, design options to contain or dispose of the legacy hazardous waste, and promote waste recycling. The KAP site activities will supported by the services of a specialized international adviser to assist capacity-building and sustainability in the MTEP and ensure that studies and recommendations build upon international good practice of hazardous waste management and aluminum waste remediation.

51. Project support will build a small-scale wastewater system using constructed wetlands for final filtration. Terms of reference for the feasibility study have been prepared and call for international expertise for this first-ever such system in Montenegro.

C. Fiduciary

Financial Management - Montenegro

52. Financial management arrangements for the project are assessed to be acceptable. Acceptable software for project accounting and reporting has bee acquired and installed. The overall financial management risk for the project is moderate before mitigation measures, and with adequate mitigations measures agreed, the financial management residual risk is rated low. MTEP will have overall responsibility for project implementation; a Technical Services Unit (TSU) within the Government of Montenegro will be contracted to execute financial management and procurement fiduciary aspects. The TSU is established, functioning, and in charge of fiduciary aspects for three ongoing projects in Montenegro. The unit staff are qualified and experienced in all functions, including financial management. The TSU performance during implementation of those three projects was overall satisfactory. Soon, the TSU will likely be in charge of implementing six or seven projects, this will require close monitoring and evaluation of any potential gaps in work quantity and unit capacity, and prompt remedial action to match scope and capacity.

53. Annual audited project financial statements will be provided to the Bank within six months of the end of each fiscal year at project closing. The audits will be carried out by a private audit firm acceptable to the World Bank. The TSU will submit a full set of Interim un-audited Financial Reports (IFRs) for each calendar quarter throughout the life of the project. The IFRs will include complete consolidated financial information on total project funds, details on sources and uses of project funds, and movements in the project's Designated Account, among other details. The TSU has recently acquired recently acceptable accounting software to be used for project accounting for ongoing projects. The software is acceptable to the Bank and the same accounting system will be used for this project.

54. Adequate internal controls systems have been instituted within the TSU for projects under implementation. Defined controls and procedures are applied in practice and have been verified by Bank financial management supervision, and private firms' annual audits. Instituted controls and procedures are rated adequate for project implementation. The auditors have issued clean audit opinions on ongoing project financial statements.

55. Significant efforts have been invested to accomplish positive developments in Montenegro in the area of corruption, financial crimes, and misuse of public funds by public officials. Since then, the government has established a Directorate for Anti-corruption Initiative and developed laws and regulations to strengthen Montenegro's financial architecture and legal framework. Nevertheless, the 2006 PEIR noted that Montenegro-specific data on governance and corruption are scant, and the 2007 Fiduciary Review identified a substantial unfinished agenda and remaining challenges. The 2006 GRECO report for Montenegro described some of these, including the Anti-Corruption Action Plan finalized in August 2006. Recommendations include: conduct studies to clarify the scale of corruption in the country; revise Public Procurement Law; strengthen capacity at the Directorate for Anti-Corruption Initiative. Project-level measures to mitigate corruption risks include a separate financial management system for

the project, including internal control systems and separate accounting software. In practice, controls and procedures applications will be verified during Bank FM supervision. Further measures include: use a private audit firm for project auditing; use Bank Financial Management Specialist for oversight; use a Designated Account in EUR for administering project funds will be opened in a commercial bank acceptable to the World Bank.

Financial Management - Albania

56. Financial management arrangements of the project implementing entity, the MEFWA, have been found to be satisfactory, subject to implementation of action agreed by negotiations (see *Weaknesses and action plan section*). The overall financial management risk for the project is substantial before mitigation measures, and with mitigation measures agreed, residual risk is rated moderate.

57. As of the date of this report, MEFWA has no overdue audit. The annual audited project financial statements will be provided to the Bank within six months of the end of each fiscal year and at project closing. The most recent Country Fiduciary Assessment (CFA-August 2006), Public Expenditure and Institutional Review (PEIR-July 2006), and Public Expenditure and Financial Accountability Report (PEFA-July 2006) confirm that public spending needs to increase efficiency and accountability by improving planning, budgeting, and executing public investment projects; strengthening lines of accountability, including better access to information by all stakeholders; strengthening monitoring and evaluation systems; and establishing competitive and transparent frameworks for government purchases (procurement).

58. An assessment of country financial management arrangements concluded that it has improved significantly during the last few years in budgeting, internal control, internal and external audit, albeit from a weak base. The Project will rely on the various elements of Albania's public financial management systems, including budgeting, internal controls, flow of funds and accounting and reporting.

Procurement – Albania and Montenegro

Key procurement issues and risks identified for project implementation include the following:

59. For *Montenegro*, a Country Financial Accountability Assessment (CFAA) and Country Procurement Assessment Report (CPAR) were carried out in 2002 for the former combined Republic of Serbia and Montenegro. The CPAR categorized Montenegro as high risk given issues identified in the legal framework, regulatory functions, enforcement regime, and so forth. A Preliminary Review of Fiduciary Arrangements supporting the CAS was prepared in draft for Montenegro in April 2007. Although the TSU in charge of procurement for Montenegro has World Bank project experience, given the CPAR findings, the overall procurement risk is rated high.

60. For *Albania*, the Bank assessed the Albanian procurement system first in January 2001 (CPAR) and most recently in August 2006 (CFA-Country Fiduciary Assessment). The 2006 CFA rating was significant for risks associated with public procurement. The 2006 CFA noted high-level government attempts to bypass the law, lack of capacity in the public procurement

agency and implementing ministries, and inadequate complaint-review mechanisms. In November 2006, Parliament enacted a new public procurement law, effective January 1, 2007. The project implementing institution, MEFWA/DNPP (Department of Nature Protection Policies), lacks Bank procurement experience (Project Director has no procurement experience; Project Coordinator located in Shkodra has modest experience in Bank procurement). Therefore, the overall procurement risk for Albania is high. The project will hire a part-time procurement consultant, with Terms of Reference and selection process acceptable to the Bank, to work on the Albanian side.

D. Social

61. Project social assessments were conducted in Montenegro and Albania, and the project Environmental Assessment and the survey on fishing practices covered some social aspects. The studies included local workshops, questionnaires, focus groups, and individual interviews with an extensive sample of communities on both sides of the lake. The social assessments analyzed stakeholders from central and local governments, regional associations, user groups, and NGOs active in the project area. The environmental NGO sector is weak in both countries, although some groups exist (e.g., Greens of Montenegro; ecological clubs in Albania) and can be strengthened through project participation. The joint public outreach/communication/education program under the project will use extensive information collected on stakeholder group identities and circumstances.

62. The social assessments identified patterns of demographic change near the lake. On both sides of the border, social organization is constrained by social and demographic trends such as village depopulation and aging and recent substantial immigration (including refugees) to urban areas (particularly Shkodra). Generally, recent immigrants to the Shkodra municipal area are poorly integrated into social networks, creating significant divisions between newcomers and long-time residents. The social assessments reported little evidence of conflicts based on ethnicity even though Montenegrins, Serbs, and Albanians populate the area.

63. Social studies data are conflicting on the role of fishing in the local economy (including commercial fishing, fishing for own use, and recreational fishing for locals and tourists). The social assessments carried out in each country indicate that fishing as a primary livelihood source has declined, supplanted by agriculture. The Albanian fishing practices survey reported much greater reliance on fishing for own use and sale. The level of fishing pressure reduction required to sustain the resource is unknown but will be studied during implementation, when better information emerges about fish populations and distributions. An in-depth socio-economic survey will be conducted during the first year to assess restrictions on fishing and potential negative impacts.

E. Environment

64. The project is classified Category B; activities are expected to have limited impacts that are primarily environmentally neutral (e.g., establishing transboundary institutions) or positive (e.g., treating wastewater, restoring ecological balance, promoting more sustainable practices). Minor construction impacts are expected, related to small-scale wastewater investment, physical

improvements at cultural monuments, and small-scale civil works in parks. An environmental management plan will be prepared for these investments, detailing mitigation measures required, roles and responsibilities to prevent negative impacts during construction and operations. The TORs for construction contracts will incorporate the EMPs in the agreements. Support to the KAP site includes funds to prepare an EIA (to meet category A-type investment standards) of recommended remediation options from a project-financed feasibility study. Although the project provides only TA for this site, it requires close supervision and oversight by Bank environment specialists given the complexity of environmental issues. The project will finance an international adviser to strengthen government and supervision capacity for this activity and assist capacity building and sustainability in the MTEP.

Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	[x]	[ ]
Natural Habitats (OP/BP 4.04)	[x]	[ ]
Pest Management (OP 4.09)	[ ]	[x]
Cultural Property (OP 4.11)	[x]	[ ]
Involuntary Resettlement (OP/BP 4.12)	[x]	[ ]
Indigenous Peoples (OP/BP 4.10)	[ ]	[x]
Forests (OP/BP 4.36)	[ ]	[x]
Safety of Dams (OP/BP 4.37)	[ ]	[x]
Projects in Disputed Areas (OP/BP 7.60)*	[ ]	[x]
Projects on International Waterways (OP/BP 7.50)	[x]	[ ]

65. *Environmental Impact Assessment*: An Environmental Impact Assessment has been carried out and publicly disclosed in both countries. The EIA describes potential activities and outlines the assessment and permitting processes for such investments in accordance with Government and World Bank policies and procedures. The EIA also reviews each country's legislative and regulatory frameworks and implementation/enforcement capacity to assess their compatibility and adequacy for World Bank requirements; evaluates potential project environmental risks and impacts, including transboundary impacts, and international obligations; examines project alternatives; identifies improvements for project selection, siting, planning, design, and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and enhancing positive environmental impacts; and describes the process for developing environmental monitoring and mitigation plans (EMPs) for specific investments. Environmental procedure details are in the PIM, including processes and responsibilities.

66. *Natural Habitats:* This OP is triggered because the area surrounding the lake comprises legally designated PAs and Ramsar sites and because some on-the-ground works will be financed within these protected areas—for example, an ecological campground, waterfowl monitoring stations, and a village-level artificial wetland wastewater treatment facility.

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

67. *Cultural Property*: This OP is triggered because legally designated cultural heritage sites exist within the project area (e.g., old monasteries) and some will be refurbished for tourism and education purposes. Special measures will be taken in the design and construction work, including assurance of close consultations and permissions from legal bodies responsible for cultural heritage in each country.

68. *Involuntary resettlement*: The project will not finance land acquisition; and project activities will not require or entail any land acquisition and/or physical relocation of people. The project may require involuntary restriction of access to natural resources in legally designated protected areas as background studies indicate that over-fishing likely represents a significant threat to the sustainable use of the lake ecosystem. The extent of over-fishing will be assessed during the first project year through a detailed study of fish resources. Reducing fishing pressure to achieve sustainability could restrict livelihoods for some local residents so Resource Access Restriction Process Frameworks were prepared for both countries in accordance with WB OP/BP 4.12. These Process Frameworks have been publicly disclosed together with the draft EIA and were submitted to the World Bank with cover letters endorsing the Frameworks. The process frameworks do not address re-settlement associated with possible demolitions by ongoing government programs in accordance with their law. Planning supported under this project only addresses natural resources management at a regional level which does not trigger WB OP/BP 4.12.

69. *International Waterways*: Lake Skadar-Shkoder empties into the Adriatic Sea via the transboundary Buna-Bojana River. The project will not finance investments that abstract water and the interventions will be environmentally positive (reducing pollution inputs to the lake). However, in accordance with Bank policy, this OP is triggered by the project's small-scale investment in rural wastewater treatment with constructed wetlands in Montenegro. Notification of the Adriatic states has been done through UNEP, which serves as the Secretariat for the Barcelona Convention for the Protection of the Mediterranean Sea against Pollution.

F. Policy Exceptions and Readiness

70. No policy exceptions are sought for this project. Project readiness has focused on ensuring the first year of procurement actions are prepared and ready for tendering by the effectiveness date. Some calls for proposals can be launched earlier. The project preparation teams implementing the PDF-B in both countries are responsible for ensuring readiness, and arrangements have been secured for their ongoing work until project effectiveness.

71. The project will allow for retroactive finance from November 1, 2007 for Project Coordinator salary costs (following close of the PDF-B preparation grant). No special policy approval is required given the limited amounts (up to $100,000).

Annex 1: Country and Sector or Program Background

Project Area, Economic and Social Trends

Description of the lake and project area

1. Lake Skadar-Shkoder is located on the border between Montenegro and Albania, south of the Dinaric Alps. The lake is oriented lengthwise from northwest to southeast, paralleling the Adriatic coast from which it is separated by a 10 km wide span of the Tarabos and Rubia mountains. Skadar-Shkoder is the largest lake on the Balkan peninsula, in terms of surface area, averaging 475 km2 (varying between about 370 km^2 in summer and 540 km2 in winter). It is a relatively shallow lake, with an average depth of 8 m, but with some deeper funnel-shape depressions ("oko") where groundwater wells up. The coastline is 168 km (110.5 km in Montenegro and 57.5 km in Albania) and numerous elongated islands are found along the coast.

2. The physical-chemical characteristics of the lake water are the result of inflow from its tributaries (particularly the Moraca and Crnojevica Rivers), inflow from karstic springs, exchange between the sediments and overlying waters, and chemical exchange between the waters and the extensive beds of aquatic macrophytes. Water circulation and mixing in the lake are high due to high in/out flow. The average water residence time is about 120 days. There is no stratification and therefore little habitat differentiation within the lake except around the shoreline. Average water temperatures are high due to the mild climate and the lake's low elevation and shallowness, creating high rates of decomposition and an important winter bird refuge.

3. The most important lake tributaries enter from the north: the Moraca, Crnojevica, Orahovstica, Karatuna and Baragurska Rivers in Montenegro, and the Rjolska and Vraka Rivers in Albania. River deposits and the lower edge of plain have created a wide marsh belt that is regularly flooded. The lake level is strongly related to inflow from the Moraca River. Many small streams enter on the western site. The lake area is tilted to southeast, and drains through Buna-Bojana River to Adriatic Sea. Floods in the mid-1800s diverted the Drin River in Albania westward into the Buna-Bojana River, a few hundred meters from the lake outlet, with a large deposition of sediments that raised the riverbed. The outward flow of the lake is impeded when there is high flow in the Drin River, usually from December to February, depending on water released from three hydropower dams constructed in the 1960s/1970s upstream on the Buna-Bojana River, which raises the lake level temporarily. The river has a low transport capacity for sediment due to the low gradient of its channel, and sediment accumulates around the intake leading to frequent flooding of nearby land. Recently, the outlet has been narrowed through landfill for new construction.

4. Precipitation and groundwater from the Zeta plain Quaternary aquifer in the north/northeast, karstic springs particularly on the southwestern side, and the "oko" groundwater upwelling also contribute significantly to the water inflow to the lake. Most of the springs are at or below the surface level of the lake. The groundwater depth on the Zeta plain near the lake are at about 8-10 m below the ground, with a flow gradient from northeast to southwest. Recharge

(normally around 5 m3/s) is mainly through infiltration from rainwater, river water (particularly the Moraca, Cijevna and Ribnica Rivers) and karstic aquifers. The Zeta plain aquifer, karstic springs at the edge of the plain and the lake water are all hydraulically connected. Lake area groundwater is used for drinking, irrigation and industry. Karstic spring water, some from karstic aquifers up to 60 m deep, is excellent quality and used for drinking.

Socio-economic and demographic factors

5. Approximately 500,000 people live in the greater Lake Skadar-Shkoder watershed, with two-thirds in Montenegro and one-third in Albania. Sixty percent of the population is urban, living in a few cities: Shkodra in Albania and Podgorica, Niksic, Danilovgrad and Cetinje in Montenegro. The rural population is sparse in small villages and communes. The proposed project area is considerably smaller—the lake itself and immediately surrounding areas. In Albania, it falls within three Regions of the Shkodra District (Shkodra, Malesia e Madhe and Puka), although the territory of Puka Region does not directly contact the lake. The total project area population in Albania is about 170,000, living in seven municipalities and rural communes (72 percent rural, 28 percent urban). The Albania poverty profile identifies the Shkodra prefecture as among the four with the highest poverty headcount in the country—over one-third of the population lives below the poverty line and lacks access to basic public services. In Montenegro, the lake and surrounding areas fall entirely within the Lake Skadar National Park, which includes parts of the territories of three municipalities (Podgorica, Bar, and Cetinje). The total population of 40 settlements inside or at the edge of the park in Montenegro is about 12,500. Of these, only about 550 (4 percent) live in the relatively urbanized settlements of Virpazar and Rijeka Crnojevica, while the remainder (96 percent) live in rural areas. In this region the unemployment rate is about 40 percent higher than it was in 1991, and since 2003 unemployment has increased 25 percent in Krjina and 40 percent in Crmnica.

6. Migration is changing the demographic profile of settlements in the area on both sides of the border—populations are aging and declining in rural villages as young people migrate to urban areas. Pensioners comprise about 15 percent of rural settlements in Montenegro, and over 30 percent in some villages. While the population is declining over most of the project area, it has increased 2.5 times in the agricultural Zeta plain (one of the most intensively cultivated areas of Montenegro) since 1990. In Albania, the rural village population has declined by 18 percent over the same period, while small towns and urban areas have increased by 8.7 percent.

7. The two countries suffered severe economic decline during the 1990s and many industries within the watershed collapsed. This was bad for people's livelihoods but good for the lake because it reduced sources of industrial pollution. Both governments now seek to revive the economic base in the area and a wave of housing construction, particularly on the Albanian side near Shkodra city, reflects the influx of money from remittances (and some smuggling).

8. Since 1991, in Albania, there has been a mass migration of people from the mountainous and rural zones to urban areas and coastal cities. The state and the land market, have been unable to provide housing for the large influx of people. Consequently, people have occupied both state and privately owned land, and illegally built homes without the benefit of clear urban plans or adequate infrastructure. Since 2001, the Government has been trying to improve this situation by

strengthening enforcement through development of new urban and regulatory/zoning plans, introduction of new processes of legalization, and demolition of illegal buildings. A 2006 Law (9482) on legalisation, urbanisation and integration of illegal construction, excludes the legalization of illegal buildings built in coastal and priority touristic areas including the banks of Shkodra Lake from Zogaj to Koplik in the regions of Shkodra and Malesia e Madhe until further actions have been taken to update urban development plans. An urban planning study has been prepared by Shkodra municipality with the support of GTZ, which proposes two development alternatives on the lake shores: (1) strictly develop only existing official urban areas with demolition of identified illegal buildings; or (2) allow existing buildings, but regulate for the future the intensive and irregular development of the present area. In total, 199 illegal buildings (134 in Shiroke and 65 in Zogaj) have been identified around the Lake with no urban planning or clear inventory of illegal construction on the eastern lakeshores. No definite timetable has been established to reach final agreement on the urban plan and follow-up actions. Thus, it has been assumed for the life of this project (next 4-5 years), that resolution of the illegal building problem around the lake will remain an active concern of the government.

9. Tourism is proposed to be a major economic driver. The Montenegro Master Plan for Tourism Development designates Lake Skadar a tourism development zone, with cultural tourism and sailing, walking and fishing as the main potential attractions. Similarly, the 2005 Strategy and Action Plan for the Development of the Albanian Tourism Sector Based on Cultural and Environmental Tourism outlines a new orientation towards cultural and environmental tourism emphasizing nature and cultural heritage. The 2005 Strategy of Economic Development of Shkodra Municipality identifies tourism development as a priority strategic objective and sets out action plans for eco-tourism development based on the lake and cultural attractions. However, these objectives at odds with current trends of uncontrolled construction of homes, restaurants, and other facilities along the lake shore, which will have to be replaced by well planned development and effective regulation. The challenges are similar to those of the Adriatic coastal areas in both countries, but at a less advanced and perhaps more manageable stage.

Policy and Institutional factors

10. Both Montenegro and Albania have updated or are updating policies and laws relating to natural resources (e.g., water, forests), nature protection and Protected Areas, environmental assessment and environmental management. Neither country has made explicit efforts to harmonize laws across borders, but both are trying to harmonize with EU policies and regulations, which is resulting in convergence. In both countries, enforcement of these laws remains relatively weak, in part due to institutional capacity constraints, and in part due to political realities such as politicians' need to capture support among volatile local voters, which sometimes precludes taking a hard line on illegal activities.

11. The entire lake together with immediately surrounding areas falls within Protected Areas (PAs) on both sides of the border. In Montenegro, the Lake Skadar National Park (LSNP) was established in 1983 and declared a wetland of international significance under the Ramsar Convention in 1995. In Albania, the Shkoder Lake Managed Nature Reserve[9] (SLMNR) was designated in November 2005, and declared a Ramsar site in February 2006, and is expected to

[9] IUCN Category IV

establish an administrative body in 2008. Altogether, the combined protected area covers 900 km^2 of which about half is the lake itself. Both PAs are multiple-use, not exclusive nature reserves that include substantial settlements, privately owned and public lands, with resources (fish, gravel, pastures, etc.) that are exploited for subsistence and commerce. As noted, tourism is well established in the area and expected to grow rapidly.

12. The PA status confers many advantages. At the policy level, it establishes nature conservation and sustainable use of natural resources (focused on the lake) as the core management objectives and provides a legal framework for the government (MTEP and Public Enterprise for National Parks in Montenegro; Directorate for Nature Protection under MEFWA in Albania) to establish and enforce regulations for access and use of land, water, and natural resources. In both countries, the PAs are designated special planning areas for which detailed spatial plans are to be developed and approved by Government; these plans can supercede local/municipal-level plans. The PA laws also call for PA management plans, but these are approved internally and lack the same legal standing. The PAs have designated Management Units with a mandate to enforce regulations and to pass or refuse development proposals, land purchases, and so forth, based on their spatial and management plans and the PA legislation. The Management Unit of the LSNP in Montenegro is well established and experienced, with a modern Headquarters building and management team. The Management Unit of the SLMNR in Albania has been legally established but at present consists of 10 fisheries rangers, one of whom has been designated acting Head of the Unit. A proposal is under consideration with MEFWA for strengthening this organization in 2008 through consolidation with other structures responsible for land and water. Under the Ramsar Convention, both halves of the lake have been designated wetlands of international importance—recognition that this is a global asset and legitimate concern of the international community, which adds another level of protection.

Trans-boundary Diagnostic Analysis (TDA)

13. During project preparation a TDA was carried out to identify major trends and underlying causes in lake ecology and natural and economic resources. The TDA was the basis for the Strategic Action Plan, on which the proposed GEF project components and activities were based. The TDA findings are recognized as indicative rather than conclusive, given significant data gaps and inconsistencies within and between the two countries. In addition, trends in physical and chemical parameters of water quality show a high degree of seasonal variation, and swings over time reflecting major economic, political, and social changes in surrounding areas. The TDA proved that a broad-based and systematic trans-boundary monitoring program should be established as soon as possible, and that many key lake and resource management decisions can be made only when key baseline studies are updated or undertaken. Bearing these constraints in mind, key findings of the TDA are as follows:

- Lake Skadar-Shkoder water quality is generally good (in most cases meeting EU standards for drinking water), and is better than in previous decades, due to reduced industrial and agricultural pollution inflows following the early 1990s major industry collapse, and to rapid water turnover (the entire lake contents is replaced every 120 days on average). Therefore the main challenge is to protect the lake from a likely increase in

pollution and other environmental degradation during anticipated future economic renewal and development, both in the immediate upstream area.

- Some localized pollution "hotspots" present immediate ecological and health hazards and should be remediated as soon as possible—areas of the lake at mouths of the main inflowing rivers and adjacent to main agricultural areas, for example, and contaminants carried through groundwater hydrologically connected to the lake.
- Decline in some fish species populations is evident, particularly commercially valuable migratory species, and possibly in some resident and migratory waterfowl.
- There is little history of coordination or cooperation between Montenegro and Albania for managing the lake and its resources.

13. The sections below elaborate on TDA findings relevant to the proposed Project.

Lake Water Quality

14. The Moraca River is the main source of lake pollution. Since 1990 on the Montenegro side the Hydrometeorology Institute and Center for Ecotoxicological Research (CETI) carried out fairly systematic monitoring of a wide range of chemical and physical parameters (surface and groundwater samples eight times per year). This began during 1990-1991 with a fairly comprehensive baseline study that included soil and groundwater samples at locations around the Kombinat Aluminjuma Podgorica (KAP) aluminum plant (see below), the mouth of the Moraca River and lake sediments, and fish and lake vegetation. During 1992-96, an environmental study of the Zeta Plain examined groundwater, river waters, soil, lake sediments and air quality, with an emphasis on areas likely to be affected by the KAP. In Albania, the Hydrometeorological Institute also carries out regular sampling and analysis at several stations approximately twice a year, complemented by Institute and University of Shkodra studies. Due to limited facilities, the analysis covers only basic physical and chemical parameters (e.g., temperature, pH, conductivity, transparency, dissolved oxygen, ammonia, nitrites, nitrates, phosphates, total phosphorus). Since 2000, a multi-national consortium of universities (Heidelberg, Graz, Shkodra, Tirana and Montenegro) has been carrying out environmental studies within the framework of the "Integrated Monitoring of Shkodra Lake" project. In the past few years, the Universities of Shkodra and Montenegro have been using innovative technologies such as semi-permeable membrane devices to test for the presence of toxic hydrophobic organic pollutants such as poly nuclear aromatic hydrocarbons (PAHs) and polychlorinated biphenyls (PCBs) and other pollutants such as fluorine, naphthalene, among others.

15. During the 1970s, lake water quality (in some samples) had unacceptable levels of several parameters, including heavy metals, PCBs, and PAHs, and concentrations were above detection limits during 1990-95. In the most recent samples (during 2000-5), water quality in most of the lake was greatly improved and contaminants are now below detection levels or well within international standards for drinking water (but see below regarding groundwater and sediments). Most lake water samples show heavy metals (As, Cd, Cr, Ni, Pb, Zn and Hg) values to be at low concentration (Class 2), with moderate to high concentration (Class 3) at a few sites. However, nitrates pollutant concentrations are higher in the north/northwestern part of the lake and near the mouth of the Moraca River and the Zeta plain. Eutrophication is not yet an issue, due to high water turnover rates, but stagnant corners near the Moraca delta and Zeta plain are at

risk. The Moraca delta continues to show elevated levels of mercury and other heavy metals; seasonal variation exists, such as lower dissolved oxygen levels during summer.

Lake Sediments

16. Contamination of lake sediment presents a direct and lasting threat to the aquatic ecosystem, particularly the benthic flora and fauna. Many toxic and persistent pollutants become absorbed to sediments and soils and can incorporate into aquatic food webs. Data on sediments in Lake Skadar-Shkoder are limited and fragmentary, but indicate the presence of trace elements, metals, PCBs, PAHs and organochlorine pesticides. Sediment sampling carried out in 2005 showed that in Montenegro, Pb was <5.0 mg/kg, while Hg reached 1.77 mg/kg (exceeding EU standards at four of the eight sampled locations). Ni exceeded EU standards at two of the eight locations. On the Albanian side, Pb was somewhat higher (maximum value 27.3 mg/kg) while Hg was lower (< 0.5 mg/kg). Ni exceeded EU standards at seven out of ten locations, while Hg levels were lower than on the Montenegrin side. During 1993-95 samples, PCBs and PAHs in the sediments were higher at the entry points of the Moraca River (0.3-0.5 μ/kg and 0.8-100.7 μ/kg respectively). However, these values were reduced in 2005 (0.09 μ/kg PAH; < 0.01 μ/kg PCB), again possibly due to containment measures taken since 1998 at the KAP site.

Lake Pollution Sources

17. The main pollution sources discussed in the TDA include the KAP site upstream on the Moraca River; steelworks in Niksic, untreated or inadequately treated wastewater, urban municipal (solid) waste, mineral waste oils in the Zeta plain, and agricultural runoff in the Zeta plain. Of these, the KAP emissions to groundwater and untreated wastewater are the main targets of the present project.

18. **KAP Aluminum Plant:** The TDA identified the KAP Aluminum Plant, located 10 km southwest from Podgorica in the Zeta Valley near Lake Skadar, as a major source of lake pollution. The plant has operated since the early 1970s, and has a surface area of 825,000 m^2. Alumina is produced from Bauxite in the well-established Bayer process. Primary aluminum is produced from Bauxite that is converted into Alumina. The capacity of KAP is 125,000 ton/year of primary Aluminum and 280,000 ton/year of Aluminum Oxide (Alumina); however, the plant is not currently operating at full capacity.[10] The main environmental issues for primary aluminum are the production of poly fluorinated hydrocarbons and fluorides during electrolysis, the production of solid wastes from the cells, and production of solid waste during the production of alumina[11].

19. The plant constitutes an environmental hazard for three main reasons: (i) its production technology generates toxic and hazardous substances as waste products; (ii) waste product treatment has been inadequate since the plant began operations in the early 1970s; and (iii) the geographic, hydro(geo)logical and hydrographic setting of the plant site. The primary aluminum process causes significant air pollution (fluorides, dust, CO and CO_2, SO_2, K, N_{ox}, Pecs

[10] USGS, 2005 Minerals Yearbook, Bauxite and Alumina.
[11] EU Reference Document on Best Available Techniques in Non Ferrous Metals Industries (2001)

(perfluorcarbons), tars and PAHs (poly-aromatic hydrocarbons), and solid/liquid wastes including red mud, spent pot lining, skimming, bricks, filter dust, and carbon dust.[12]

20. The plant is on a flood plain of fluvial sediments, about 2 km from the Moraca River. In the KAP area and between KAP and the Moraca River, the prevalent substrate is coarse-grained, sandy gravel, which is highly permeable with flow estimated in the 10^{-3} to 10^{-4} m/s range. The entire area is karstic with numerous interconnecting water systems; groundwater is found 12.5 m below the surface and river-level gravel pits contain standing water. A groundwater gradient exists from the KAP site to the river, with groundwater flowing south/southeast toward the lake.

21. Two KAP site facilities have raised particular concern: (a) the red mud basins, which contain the bauxite raw material residue following extraction of alumina,[13] and (b) a large uncovered, unlined, solid waste dump site (estimated 500,000 m^3 of material, covering more than 100,000 m^2), containing an unsorted mix of non-hazardous wastes (construction rubble, scrap metal) and hazardous wastes (cathode residue/spent pot linings, anode scrap, slag). The red mud basins are less of a potential pollution threat, and under the privatization contract, United Company RUSAL, the KAP owner, is responsible for upgrading the red mud basins for environmental control and safety. By contrast, the waste dump (for which the Government under the privatization agreement has responsibility) raises serious concerns because it lacks a base liner, lateral barriers, a cover system, a drainage and water treatment system, and contains mixed wastes. Exposure to precipitation results in rainwater percolating through the waste, mobilizing and transporting contaminants into the underlying and adjacent soils and groundwater. Water samples from two boreholes directly downstream from the waste dump also showed elevated pH and toxins:

Parameter/substance	**Borehole samples**	**Drinking water guideline value**
pH	11.86	6.5-8.5 (USEPA)
Fluorides	6.2 mg/l	1.5 mg/l (WHO)
Lead	0.05 mg/l	0.01 mg/l (WHO)
Mercury	0.007 mg/l	0.001 mg/l (WHO)

22. Analysis of soil samples taken immediately to the south (downstream/downhill) of the dumpsite also had elevated pH values and high concentrations of F^-, Hg, CN^-, PAH, NH_3 and PCB. Investigations during 1991-96 showed significant PCB and PAH groundwater contamination in the Zeta plain and the Plavnica, Gostiljska Rijeka, Velika and Mala Mrka Rivers and Podgdhumin Hum Bay. However, groundwater samples from the same sites during 1998-04 showed almost no traces of PCBs, a difference ascribed to removal and containment of some polluted soil and old barrels of Pyralene (polychlorinated byphenol) on the KAP site, coupled with rapid washing of the soil resulting from very permeable (sand and gravel) substrate and heavy rains.

23. The Government and RUSAL are jointly responsible for managing the waste dump (Government for hazardous wastes; UC RUSAL for non-hazardous) but the materials are highly

[12] European Commission, Integrated Pollution Prevention and Control (IPPC), Reference Document on Best Available Techniques in the Non-Ferrous Metals Industries, December 2001

[13] One unlined, the other lined but the liner believed to be leaking

mixed. One proposal, given preliminary assessment, is to construct an EU-standard hazardous waste landfill on the current site, sufficient to accommodate legacy materials and future plant disposal needs (hazardous and non-hazardous wastes are now being separated). An exercise to inventory and categorize waste, followed by a feasibility study, will indicate technical feasibility and estimated costs of this and other potential solutions.

Municipal Wastewater

24. Each year, millions of cubic meters of untreated or poorly treated municipal wastewater are discharged into the inflowing rivers[14] and the lake itself.[15] This contaminates the water with suspended matter, bacteria- and oxygen-depleting substances, nitrates, nitrites, mineral oils, sulphides, phenols, and phosphates.[16] Larger urban wastewater treatment facilities are being gradually improved (Podgorica; Shkodra Municipality) with EU and bilateral donor assistance, but nothing is being done about effluents from smaller villages.

Upstream Water Development Proposals[17]

25. ***Montenegro***: The draft National Spatial Plan, the Water Resources Master Plan, and the draft Energy Sector Strategy include proposals for hydropower development on the Moraca River. One proposal to transfer water from the Tara River into the Moraca River is highly controversial in Montenegro and internationally—this proposal is neither moving forward nor abandoned. The potential impacts on Lake Skadar-Shkoder hydrology and ecology are not well understood, but it is urgent that they be clarified to inform the debate. The predictive hydrological model to be prepared under the project should provide the technical basis for this analysis. ***Albania:*** The Bushati hydropower project involving the Drin River, under preparation since 2002 (intake completed but construction halted) is equally controversial. The Drin River would be almost completely diverted southwest to the power plant to be constructed on the Zadrima plain, and then redirected to the Buna-Bojana River or directly to the Adriatic Sea. Some of the Drin riverbed would be left almost empty and linked effects would substantially lower the lake level. An associated proposal is to dredge the Buna-Bojana River, lowering the lake even further (up to 1.5 m), to convert a substantial portion of the lake on the Montenegrin side into dry (proposed agricultural) land. River dredging would also potentially open a passageway for larger boats traveling from the Adriatic to the lake. Similar to the hydropower project, the hydrological and ecological impacts need to be much better understood by decision makers and local stakeholders (ie. impacts on the groundwater regime, the sublacustrine springs and linked biological communities, lake flushing, pollution buffering, water temperatures, fish migrations)

Flora and Fauna (Fisheries)

[14] Particularly Moraca and Crnojevica Rivers.
[15] Shkodra city, lakeside villages, and communes.
[16] Annex 5 of the TDA provides the available data
[17] A third proposal discussed in the TDA – extraction of water from the Bolje sestre spring on the northwestern side of the lake to supply towns on the Adriatic coast, is moving forward with financing from the World Bank among others. The Environmental Impact Assessment for the project determined that the amount of water off take would have a negligible effect on the lake level.

26. The TDA summarizes available information Lake Skadar-Shkoder and surrounding flora and fauna. It focuses on fish (a) as a potential indicator of changes in lake water quality and hydrology; and (b) as the principle commercial natural resource of the lake ecosystem. For a relatively warm lake, the number of fish species is unusually large. About 10 species are commercially exploited, with carp, bleak, and eel the most valuable.

27. The history of fishing on the lake can be divided into three periods:

- Up to 1990, a State enterprise organized and tightly controlled fishing. In Albania, about 150 fishermen organized into nine groups were assigned to fishing grounds. All fish species were exploited; low-value species were used for cattle feed. In 1989, after a sharp decline in Twaide shad catches, fyke nets, light seiners, and bottom trawlers were banned. Illegal fishing was rare.
- During 1991-01, after a collapse of state authority, uncontrolled and irresponsible fishing increased rapidly. The number of fishermen increased in response to high levels of unemployment resulting from failed industries and agricultural enterprises. High-value species (carp, shad) were over-exploited, as reflected in changes in catch composition.
- During 2001-07, the Albanian government initiated a Fisheries Development Project to organize and strengthen Fishery Management Organizations (with support from the World Bank, the United Nations Food and Agricultural Organization, and Cooperazione Internazionale, Italy). At the end of the project, Albania had two Fishery Management Organizations involving 540 fishermen and 260 boats operating in 24 areas of the lake, and two fishing inspectors. However, the number of fishermen continues to grow and is now around 800, of which about 40 percent are unlicensed. In Montenegro, there are far fewer fishermen (and a smaller population). There is one local organization but many fishermen have not joined; a new licensing law will soon distinguish between commercial and leisure fishing.

28. Similar to data on water quality, data on fish populations and distributions are limited and discontinuous. In Albania, data on fish populations (migratory, autochthonous, and exotic species) are relatively reliable for 1961-90 during the socialist era because catch, production, and distribution were centrally organized and well controlled; from 1990 onwards, data are unreliable. In Montenegro, fish data are reliable up to 1987, but after that, only estimates are available. Within the limitations of available data, and based on interviews with Albanian fishermen, the TDA made the following tentative observations:

- a significant decline in recent migratory fish catch—particularly since 1980 in Twaide shad (Alosa alosa), and less dramatic in Mugilidae spp.;
- a decline in native fish populations (e.g., carp, bleak) in the 1980s, with some signs of recovery since;
- an increase in populations of exotic species, particularly after 1980.

29. Generally, declines are attributed to over-fishing, and destructive practices (fishing during reproductive seasons and in spawning grounds, using large stationary nets to capture migrating fish all along the Buna-Bojana River, using small net mesh sizes, using electricity and other illegal methods). Selective fishing for more valuable species may be responsible for observed changes in catch composition (e.g., proportionate decline of salmonids and bleak). Damage to spawning grounds has caused declines, particularly among sturgeon, and no hatcheries exist to supplement natural reproduction at the lake.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
SHKODRA LAKE INTEGRATED ECOSYSTEM MANAGEMENT

World Bank

1. Albania Fishery Development Project (US$5.6 million IDA); Approval: July 22, 2002; Status: Completed in 2007. The project aimed to increase the economic and environmental sustainability of marine and lake fisheries resources by improving sector management by introducing a system of community-based resource co-management, strengthening public institutions, improving fishing ports management, and making small improvements to Albania's major fishing port facilities. The project was implemented in four major seaports—Durres, Vlora, Saranda, Shengjin—and in ports on Lake Ohrid and ***Lake Shkoder***. The primary beneficiaries are fishermen and their families. In Shkodra, the project has supported fishermen to organize themselves into community-based fishery management organizations (FMO), and financed fishing port rehabilitation, preparation, and implementation of Fisheries Management Plans (FMP) for the lake.

2. Albania Land Administration and Management Project (US$15 million IDA and US$19.96 million IBRD loan); Approval: June 2007; Status: Under implementation. The goal of the long-term land administration and management program is to facilitate development of efficient land and property markets by enhancing tenure security and improving land administration and management services. ***Shkodra*** municipality is among the beneficiaries. Support will be provided to strengthen municipal capacity in urban land management to establish a market-responsive, participatory urban planning and development control system, develop regulatory plans for the city; mobilize municipal revenues, and correct property market distortions through property valuation and taxation. ***Shkodra*** will also benefit from support to selected infrastructure investments and services, in accordance with strategic investment plans.

3. Albania Agricultural Services Project (US$9.9 million IDA); Approval: December 21, 2001; Status: Under implementation. The project aims to improve access among small farm owners to quality seeds; market participation; and technologies, through community-based technology pilots. The Agricultural Services Project has supported the ***Shkodra City*** fruit and vegetable market construction in 2006r (app. US$840,000), and a US$100,000 grant for a new ***Shkodra*** slaughterhouse as part of the competitive grants program under this project.

4. Montenegro: Environmentally Sensitive Tourism Areas Project (US$7 million IDA); Approval September 11, 2003; Status: Under implementation. The project aims to create ecological and commercially sustainable solid waste collection and disposal services in Montenegro's coastal municipalities. The project will develop the sector's institutional, policy and regulatory framework; rehabilitate and upgrade two municipal landfill sites; carry out environmentally acceptable closing of current disposal sites; provide modern collection equipment; initiate a pilot recycling campaign; and strengthen two multi-municipal companies operating regional solid waste disposal systems (Bar and Ulcinj; and Kotor, Tivat and Budva). It also supports extension of drinking water supply from Skadar Lake to the Montenegro coast. A

detailed environmental impact assessment study in this case concluded that Lake impacts from the investment would be minimal due to high groundwater inflows near the final selected site.

5. Albania Integrated Coastal Zone Management and Clean Up Program (US$17.5 million IDA; US$0.95 GEF; US$5.2 EU; US$3.11 Dutch; US$2.6 Austria); Approval 2005; Status: Under Implementation. The project objective is to protect the Albanian coastal ecosystems, resources and cultural assets and promote their sustainable development and management through (i) establishing an integrated coastal zone management (ICZM) policy framework; (ii) strengthening the broader regulatory and enforcement capacity at the central, regional and local levels; (iii) introducing alternative planning tools that promote active public participation in the integrated management and development of the coastal zone and its resources; (iv) implementing sub-projects aiming at sustainable coastal zone development; and (v) enhancing biodiversity conservation and sustainable ecosystem management with conservation of world heritage in the protected areas. This project provides some valuable lessons learned on evolving zoning processes for touristic areas in Albania which have helped inform the design of the current project

6. Albania Natural Resources Development Project (US$7 million IDA; US$5 million GEF; $5.2 million Sweden); Approval 2005; Status: Under Implementation. The project development objective is to establish or maintain sustainable, community-based natural resource management in about 210 communes in upland and mountainous erosion-prone lands, leading to enhanced productivity and incomes derived from sustainable resource management, reduced soil degradation, improved water management, conservation of biodiversity, and strengthened public sector management of these resources. Improved Management of Forests and Pastures component includes approximately 490,000 ha of forest lands, and 186,000 ha of pastures in upland areas of all 12 regions in Albania, reaching a rural population of more than one million people. Improved Watershed Management component is piloting integrated management of natural resources in three of Albania's seven watersheds, focusing on five regions (Dibra, Kukes, Lezha, Elbasan and Korce). Lessons learned from these investments will be incorporated into the designs for buffer vegetation improvements in the current project.

6. Albania Integrated Water and Ecosystems Management Project (US$4.87 million GEF; US$11.15 EIB; US$3.98 Albania); Approval 2004; Status: Under Implementation The main objective of the project is to assist the Government of Albania in improving the management of uncontrolled wastewater discharging which in turn is threatening the global significant ecosystems along the coastline of Albania. The project will contribute to increase global environmental benefits by: (i) reducing sewage pollution loads generated by the three urban settlements of coastal cities areas of Durres, Lezhe/Shengjin and Saranda and (ii) promoting and improving the management of protected areas. Although the project is not located near Lake Skodra, it presents Albania's first experiences with constructed wetlands, important for the Montenegro pilot and promotion of replication to other small communities around the lake.

Other Development Agencies

Albania

Austria is one of the main donors active in the Shkodra Region. Their ongoing support program includes Shkodra Water Supply project (EUR6.4 million), which aims to improve water supply and management system of Shkodra city and increase institutional management capacity. Austria is supporting (EUR1.39 million) a Feasibility Study and Emergency Measures in Water supply and Wastewater for Kopliku Commune. Austria's Development Cooperation Program (2007-12) plans to support environmental infrastructure, regional development, and capacity-building activities on water management. Austrian funds (EUR1.9 million) will co-finance (with KFW, EU/IPA, Switzerland) a project for Lake Shkodra to protect natural water resources in the Qark (region) of Shkodra and to improve living conditions by rehabilitating the drinking water supply and water sewage systems. An integrated regional development project for North Albania will also support Shkodra and Malesia e Madhe municipalities. Austria's technical assistance program will support: (i) Capacity building of Local Governments in North Albania in Assets Management and Administration of Water Infrastructure in the Framework of the Decentralization Process; and (ii) Promotion of Sustainable Tourism Development in the Shkodra Lake Region through the establishment of long-term tourism development model for the transboundary region (project value: EUR1.4 million and time frame 2008-10).

9. Germany's KfW will support Shkodra City with wastewater collection and treatment facilities including a EUR7.5 million committed for the first phase (2007-2009). KfW is also supporting expansion of energy transmission lines between Tirana (Albania) and Podgorica (Montenegro) by adding a 400-kV to the existing 220-kV line (est. EUR 54 million). Germany's GTZ 2003-08 program on Regional Economic and Employment Promotion in Structurally Weak Districts of Northern Albania, has supported Shkodra region to draft a regional development plan, and establish networks of agri-businesses and traditional products. GTZ is also implementing a project to support the Handicraft Business Centre in Shkodra; the trans-boundary (Albania and Montenegro) spatial plan for Shkodra Lake Region; and preparation of regulatory/spatial plans for Shiroke and Zogaj.

10. Switzerland is actively supporting development of a functioning and sustainable water supply in Albania, through a grant of around 6 million Euro for the rehabilitation of the water supply project of Shkodra designed to improve living conditions of the population and improve the local economy. The investment is co-financed with 15.4 million from the Austrian Development Cooperation ADC and the German Credit Bank for Reconstruction KfW, and 0.5 million Euro from the Albania state budget.

10. Netherlands. The Government's new regional program on strengthening capacities in the Western Balkan countries to address environmental hot spots will support the packaging and disposal of expired pesticides located in the international railway station of Bajza that links Shkodra with Podgorica (app. US$2.1 million). UNDP is a partner in this program.

11. European Union has provided assistance (EUR670,000) through its CARDS program on transport to rehabilitate streets and lighting systems, and to improve city public green spaces. EU IPA funds will also provide co-financing to the drinking and water sewage project.

12. Other Bilateral donors have supported capacity building among local institutions and civil society organizations, networking/information exchange, and transboundary cooperation between Shkodra and Podgorica, including Italian government support for fisheries development.

Montenegro

13. Germany supports the Ministry of Tourism and Environmental Protection to develop a concept paper on Transboundary Development of Skhoder Lake that will guide local stakeholders in Montenegro and Albania in planning sustainable development activities. The project includes developing project papers for Vranjina with Lesandro Fort, Zabljak Crnojevica, and Murici; and concept papers for Dodose, Krnjice-Seoce and Karuc. A separate project component will prepare a publication on Architectural Heritage of Skhoder Lake and its surrounds, to provide guidelines for future development, conservation, and construction. The project started in 2006; total value is EUR0.5 million.

14. Austria's ongoing program in the Lake Skhoder region comprises support to tourist infrastructure development (EUR0.557 million); GTZ is implementing through the Austrian Development Agency. The project aims to increase tourism-generated income by arranging external expo site in the Vranjina centre of the Skhoder Lake National Park, and tourist facilities (green market, public toilets, entry/exit points to National park designated areas) and tourist information points at four major locations – Vranjina, Virpazar, Murici and Rijeka Crnojevica. The project will also help develop and refurbish eight hiking and walking paths around the lake.

15. Other donors. Other donors have supported capacity building among local communities through ad-hoc activities and transboundary cooperation between Podgorica and Skhodra. Among the most active were the European Agency for Reconstruction, UNDP, Regional Environmental Centre for Central and Eastern Europe (REC), and the Dutch government.

Annex 3: Results Framework and Monitoring

Results Framework

PDO and GO	Project Outcome Indicators	Use of Project Outcome Information
To maintain and enhance the long-term economic value and environmental services of Lake Skadar-Shkoder and its natural resources (GO); and to help establish and strengthen institutional mechanisms for transboundary cooperation through joint efforts to improve sustainable management of Lake Skadar-Shkoder (PDO).	Immediate and longer term threats to lake water quality and ecological system are reduced on both sides of the border, through direct investments, information exchange, bilateral planning and agreements. Status of key transboundary indicators of Lake water quality and ecological maintained or improved.	Site-specific monitoring will indicate whether on-the-ground investments are having the desired beneficial impacts on water quality and ecosystem health. If not, the bilateral Working Groups will be asked to identify other investment priorities. The level and quality of participation in, and follow-up on outputs of, transboundary processes will indicate the effectiveness of these institutional mechanisms to facilitate positive cooperation at technical and political levels. Indications of decline in key water quality and ecological parameters, and public access to this information through the bilateral database, will trigger renewed efforts to identify main causes and build commitment for resolving them.
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Use of Intermediate Outcome Monitoring**
Skadar-Shkodra Lake Commission (SLC) and Working Groups are operational, sustainable and implementing priority joint activities identified in SAP).	Operational costs of maintaining and participating in SLC, lake-wide database and Working Groups are included in Governments' budgets a year before project's close. (P) Predictive hydrological model of Lake Skadar-Shkoder completed and being used to analyze likely impacts of policies and proposed investments. (P)	Government support for these institutional structures one year before project closing will reflect their usefulness and Governments' commitment to transboundary cooperation for lake management per the Bilateral Agreement. Conversely, if one or both governments fail to provide for these costs, it will indicate a need for further awareness raising and exploring other options for institutionalizing cooperation. If the hydrological model of the lake is actively used by stakeholders and decision makers to analyze likely impacts of proposed development projects and investments in the lake basin, it will improve the level of informed debate about trade-offs at both national and transboundary/ regional levels. If the model is not

	Lake-wide zoning and management plan approved by both Governments and being incorporated in spatial plan updates. (P)	used, consultations will be held with stakeholders to find out why (e.g., insufficient publicity; design insufficiently informative, or operational and user-friendly) The lake-wide management plan will provide essential input for improvement of local and national spatial plans, which provide the legal basis for controlling and regulating development, natural resource use and pollution sources affecting the lake.
Regulatory capacity, infrastructure and community level mechanisms and incentives in place to support natural resource utilization and sustainable tourism development	Targeted tourism infrastructure renovations and construction completed and attracting visitors (visitor centers, cultural sites, trails, etc.). (P) Reduction in numbers of fishermen using illegal fishing methods. (S) Socio-economic/attitude surveys indicate increased local understanding of, and engagement in, sustainable tourism and natural resource management. (P)	Data on tourist use of facilities in protected areas on both sides of the lake will provide a basis for planning further sustainable tourism development.
Solutions for decreasing toxic and non-toxic pollutants entering into Lake Skadar-Shkoder identified and actions taken to reduce contamination.	Government of Montenegro/KAP owners (Rusal) agreement on preferred solution and joint action plan for hazardous waste dump at KAP site. (P) Sewage collection and wastewater treatment system established at Vranjina village. (S) Area of water buffer vegetation restored in pilot areas to reduce sedimentation and runoff into lake. (S)	Agreement between GoM and KAP owners on the best solution (technical feasibility, cost, and community acceptance) and a joint action and financing plan, is a prerequisite to proceeding with the large investment to mitigate this urgent and significant threat to the lake and its users. Pilot wastewater management and ecological restoration investments will be used as models for replication around the Lake. Results will also be disseminated through IW-Learn network for replication and adaptation elsewhere. Project-supported monitoring activities will be designed to determine whether project interventions are effective in improving quality of water entering the lake. If problems persist despite investments, it would indicate the need for further research to identify priority pollution sources.

Arrangements for results monitoring

		Data Collection and Reporting						
Project Outcome Indicators	**Baseline**	**YR1**	**YR2**	**YR3**	**YR4**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Immediate and longer term threats to lake water quality and ecological system are reduced (S)	Immediate threats: improperly stored hazardous waste in dumpsite affecting groundwater; pollution hotspots from untreated sewerage and soil erosion Long term threats: lack of institutional mechanisms (agreements, plans, agreements, regulations, incentives), data and analytical tools for protection and sustainable management of	See Intermediate Outcome Indicators for Components 1, 2 and 3						
Status of key transboundary indicators of Lake water quality and ecology maintained or improved			Basic water quality indicators at baseline levels or better	Basic water quality indicators at baseline levels or better	Basic water quality indicators at baseline levels or better	Annual or bi-annual	Water quality monitoring and analysis equipment	METP/MEFWA; Designated national scientific institutions

(P)	the lake and its resources Basic water quality indicators (BOD, Ammonia, Nitrite, Nitrate, CN, Zn, Pb,Cr,Hg, PAH, PCB) at multiple sampling sites all below detection or within Class 1A water quality parameters (see Annex 4); Status of selected transboundary indicators (algal concentrations, PAH/PCB and heavy metals in fish tissues, etc.)	Basic water quality indicators indicators at baseline levels or better						
Development and water use decisions/actions are guided by bilateral objectives, agreements and structures (P)	2003 MOU signed; Draft Bilateral Agreement signed before project negotiations No bilateral	Skadar-Shkodra Lake Commissionand 4 Working Groups formally established; Working Groups	Working Groups submit to SLC drafts of bilateral plans called for in SAP (tourism, communications/ outreach, monitoring)	SLC approval of bilateral plans Specific policy and action measures for bilateral adoption identified 30% of costs of Skadar-Shkodra Lake Commissioncovered by	SAP updated based on bilateral plans Bilateral Agreement updated based on Working Group/SLC recommendations	Semi-annual	Project progress reports; public Annual Reports of SLC; SLC website	MTEP/MEFWA; SLC Joint Secretariat;

	structures in place	complete vision statements and draft work plans		Government Budgets	50% of SLC costs covered by govt. budgets			
Intermediate Outcome Indicators								
Component 1 Capacity Building for Improved Understanding and Joint Management of the Lake								
SLC and Secretariat, lake-wide database and Working Groups are in place and operating; costs of continuing operation and participation are included in Governments' budgets at project's close (P)	None of these structures in place	SLC and Working Groups established; and first meetings held for all Secretariat and Project Coordinators recruited; offices equipped and operational Equipment/TA for developing database procured	2 meetings of SLC held, minutes/conclusions publicly available At least one bilateral activity identified and under implementation for each Working Group Database operational; historical data uploaded	2 meetings of SLC held, minutes/conclusions publicly available One bilateral activity completed for each Working Group Database kept updated with input from both countries	Both Governments' budgets fully support SLC/ Secretariat/WG Operating Costs. Database kept updated with input from both countries	Annual	Project progress reports; SLC website SLC website	SLC Joint Secretariat
Predictive hydrological model of Lake Skadar-Shkoder completed and being used to analyze likely impacts of policies and proposed investment. (P)	No model exists	TORs for development of model and consultant selection completed	Draft hydrological model submitted to SLC, distributed to appropriate stakeholders for review and comment	Final hydrological model completed; outreach/dissemination under way	Hydrological model used to analyze impacts of at least 1 proposed water-related development in lake basin		Report drafts and commentaries	MTEP; Research & Monitoring Working Group; SLC Secretariat
Lake management plan completed and actions	No lake management	Bilateral Working Group	Draft Lake management plan completed	Lake mgt plan approved by BLCM	Actions taken to legally effect		Project progress	MTEP/MEFWA; SLC Joint

taken to legally operationalize the plan. (P)	plan exists	approves TOR for plan preparation		following stakeholder consultations; identification of measures needed to legally effect the plan in both countries	the Lake wide management plan.		reports; SLC website	Secretariat and Planning Working Group
Component 2: Promoting Sustainable Use of the Lake								
Targeted tourism infrastructure renovations/construction Completed. (S)	Minimal tourism infrastructure exists	Designs completed for hiking trails, eco-camp, cultural sites)	25% of rehabilitation/construction work completed	75% of work completed	100% of work completed	Annual	Project progress reports	MTEP/MEFWA; joint SLC Secretariat
Reduction in numbers of fishermen using illegal fishing methods (S)	Estimated 350 unlicensed fishermen (43% of total); 814 cases of illegal methods observed during 1 week survey		Unlicensed fishermen not exceeding 30% of total Not more than 400 cases of illegal methods observed during 1 week survey period		Unlicensed fishermen not exceeding 20% of total Not more than 100 cases of illegal methods observed during 1 week survey period	Every 2 years	Field survey (repeat of baseline survey undertaken during preparation)	MEFWA, SLMNR Authority
Increased local understanding of and engagement in sustainable tourism and natural resource management (P)	TBD: survey to be undertaken during first year of project	Completion of survey, providing indicators, baseline measures and targets for awareness and engagement			Awareness and engagement indicators reach at least 70% of target levels	Survey carried out in Year 1; repeated in Year 3 or 4	Socio-economic survey	MTEP/MEFWA
Component 3: Catalyze Pollution Reduction Investments								
Government of Montenegro/KAP	Inadequate, outdated	Aluminum Plant Technical	Options analysis completed	Feasibility study completed;	Preliminary design and EIA	Regular	Project progress	MTEP; KAP/Rusal

owners (Rusal) agreement on preferred solution and joint action plan for containment/disposal of hazardous waste dump site at KAP site (P)	information on nature and quantity of legacy waste and site conditions; no basis for analysis of options; no action plan or agreement on way forward	Advisor to Government in place KAP Project Steering Committee Established Waste categorization study completed TORs for Options Analysis/ feasibility study/preliminary design and for EIA completed	Feasibility study and EIA initiated	GoM/KAP owners agree on preferred solution Preliminary design work initiated Draft Agreement on action plan, including funding, implementation responsibilities and modalities	completed Final agreement on action plan and financing, approved by both Rusal and GoM		reports	
Sewage collection and wastewater treatment system established at Vranjina village (Montenegro) (S)	Only sanitation in place is largely non-functional septic tanks. Visible pollution at outlets TORs for Feasibility study and environmental review for sewerage/WWT at Vranjina.	Vranjina: baseline water quality parameters recorded at pilot sites; construction of sewerage collection system initiated	Vranjina: sewerage collection system completed	Vranjina: Construction of WWT system completed (anticipated to be constructed wetland)	Vranjina: WWT system used as demonstration site	Regular	Project progress reports	MTEP, Podgorica Municipality, MEFWA, restaurant owners
Area of water buffer vegetation restored in pilot areas to reduce sedimentation and	2 degraded sites for restoration sites identified; no data on	Indicators, baseline and targets for vegetation cover	Contracts awarded and restoration work initiated	50% of restoration work completed	100% of restoration work completed	Regular	Project Progress Reports	MEFWA

runoff. (S)	vegetation cover	identified; TORs for contracts prepared						

Annex 4: Detailed Project Description

Project Objectives

1. The overall global and development objective is: To maintain and enhance the long-term economic value and environmental services of Lake Skadar-Shkoder and its natural resources and to help establish and strengthen institutional mechanisms for transboundary cooperation through joint efforts to improve sustainable management of Lake Skadar-Shkoder.

Project Rationale.

2. A joint Strategic Action Plan (SAP) for Lake Skadar-Shkoder, based on the Transboundary Diagnostic Analysis has been prepared and approved by both Governments as part of the preparation of the proposed project. Some of the principles underlying the SAP are:

- Lake Skadar-Shkoder is a single, uninterrupted and unified ecosystem, which requires a holistic approach for its conservation and development;
- The greatest challenge is to balance the legitimate needs of local people for development and better living conditions while conserving and enhancing environmental conditions.
- Local people's support is crucial for successful implementation of project activities so local communities must be involved in the decision-making process for area development. Immediately visible and tangible results are essential to demonstrate to the communities the importance of nature conservation to sustainable local livelihoods.
- Some institutions/agencies have overlapping or unclear roles in managing and developing natural resources and their functions and responsibilities must be clarified.

3. The SAP defines four Strategic Goals: (a) achieve joint lake planning and management; (b) conduct monitoring and research; (c) improve management of the lake and its natural resources at a national level by strengthening the two Protected Areas which together encompass the lake and its surrounding area; and (d) carry out urgent environmental investments. Through interventions in support of the SAP Strategic Goals, the project aims to address current and imminent threats to the lake water and ecosystem: first, by building national and local political commitment for sustainable management; and second, by directly intervening to reduce pollution from point and non-point sources. In both cases, the project will build upon and supplement existing initiatives of both governments and other donors by adding a transboundary dimension.

4. The long-term quality and sustainability of the Lake Skadar-Shkoder ecosystem depends on national and local interest and commitment sufficient to invest in protective measures and counteract pressures for incompatible development. Achieving this commitment will require understanding of the environmental services provided by a healthy lake ecosystem that generates concrete and meaningful benefits for local and national stakeholders. Furthermore, the lake's status as a bilateral, regional, and global asset must be recognized so that its management supersedes local and national interests, making decision-makers accountable to a wider constituency. To translate commitment into effective action, institutional mechanisms must be established to enable the diverse water users/stakeholders in both countries to coordinate and cooperate on sustainable water resources management. The project will comprise three main components:

5. **Component 1: Capacity Building for Improved Understanding and Joint Management of the Lake** ***(Total: US$3.43; GEF: US$1.80 million)*** The project will help establish and operationalize a high-level Skadar-Shkodra Lake Commission (SLC) with a Secretariat that will serve as the main steering

mechanism to implement the SAP, and serve as the key forum to discuss and agree on issues affecting lake resources management and use. The Commission will convene bilateral Working Groups of technical specialists and local stakeholders to facilitate discussions on specific issues and to steer joint program implementation. The project will support an initial four Working Groups: Planning and Legal; Monitoring and Research; Communications/Outreach and Sustainable Tourism; and Water Management. These Working Groups will agree on specific objectives and work programs in their respective areas of responsibility and will directly oversee design and implementation of joint activities. They will also serve as a mechanism to exchange technical information and coordinate with linked non-project activities. The two Governments will be responsible for appointing the SLC and Working Group members. The Committee and Working Groups will be served by a small 2-person Secretariat based in Albania, in premises provided by the Skodra municipality financed through the project for the first three years.

6. *Working Group on Planning and Legal.* The primary focus of this working group is to help harmonize planning of the two countries with regard to the Lake, and to help identify and facilitate any legal steps required to ensure sustainable management. The initial workprogram of this working group includes in the first year, technical oversight for a follow-up socio-economic study to improve baseline information on local communities' use of and reliance on the lake's resources. This working group will provide technical oversight for a lakewide management plan, including steps to help operationalize and legalize its key recommendations. The project will help finance technical assistance in each country on legal framework harmonization and provide recommendations for integration of the work of the Commission into national laws under the guidance of this working group. This working group is responsible for monitoring the implementation and adequacy of the Bilateral Agreement, and making any recommendations for its future revision or updates as required.

7. *Working Group on Communications/Outreach and Sustainable Tourism.* Key responsibilities of this working group are to help plan and implement coordinated public awareness and tourism marketing campaigns, promote organization of public events (e.g. Lake Skadar/Shkodra Day), and help prioritize expenditures on promotional materials (internet site set up and maintenance, maps, brochures, postcards, etc.). This working group will also promote international donor coordination related to programs around the Lake, and oversee local stakeholder coordination by the Commission and the Secretariat. The working group will establish a liason with the GEF IW-LEARN network and other Lake Commissions and help with information exchange. This working group will also help provide technical inputs for specific project investments to promote sustainable tourism as described in more detail in component 2.

8. *Working Group on Water Management.* The initial workprogram of this working group supported under the project includes technical oversight for development of a predictive hydrological lake and lake basin model to analyze existing and expected impacts of development activities and proposals. The model will take into account the complexities of multiple sources of water and potential transport routes for pollutants into the lake, including the complex underlying karstic systems and the interconnections among the lake, its tributaries, and groundwater. This working group will also provide technical oversight for the program on sustainable fisheries management including oversight for technical studies on a joint fisheries management and monitoring plan and lakewide stock assessment, and for the sustainable fisheries management investments to benefit fishermen and park rangers as described in more detail in component 2. It is also the bilateral forum for monitoring, and exchange on project specific investments to protect water quality (detailed in component 3).

9. *Working Group for Monitoring and Research.* Supported activities directly under this working group's technical guidance include: (i) Establishment of a coordinated, collaborative lake-wide monitoring system for key chemical, physical, and biological parameters that are important to manage lake resources and standardize technology, sampling regimes, and reporting formats in both countries.

The monitoring system will include a joint database that will be publicly accessible and facilitate information exchange between Montenegrin and Albanian researchers and resource managers, and offering other stakeholders (e.g., local NGOs) information to contribute knowledgeably and effectively to decision-making processes concerning the lake. The project will also support monitoring of a few indicators that are excluded from routine monitoring by the two countries but have specific transboundary implications (e.g., algal indicators for eutrophication, toxic residues in fish tissues), and (iii) Incremental research and studies to clarify specific technical questions identified by the Working Group.

10. Support for Project Implementation Capacity. The project will contribute over its lifetime to the cost of a small team of consultants to supplement government capacity for specific aspects of project implementation. In Montengro, the project will finance salary and operating costs for a project coordinator. Services for procurement and financial management will be paid and governed through a direct contract with the Technical Services Unit on a fee for service basis. In Albania, the project will finance salary and operating costs for a project coordinator to support the Ministry in project implementation. The project will also finance part-time procurement and financial management specialists based on TORs agreed with the Bank.

11. **Component 2: Promoting Sustainable Use of the Lake *(Total: US$4.79 ; GEF US$1.06 million)*** This component aims to promote adoption of sustainable approaches to economic development of the lake and its natural resources. It focuses on tourism and fishing where there is high potential for economically significant sustainable use.

12. *Sustainable Tourism promotion.* The proposed project will promote more environmentally and socially sustainable tourism; improve nature- and culture-based facilities and attractions (e.g., eco-camping, cultural sites); and raise public awareness and provide information and Technical Assistance to local residents to help them engage in appropriate tourism enterprises. Investments under this sub-component will be guided by joint tourism development planning coordinated by the Working Groups on Planning and Legal Framework, and on Communications/Outreach and Sustainable Tourism. There are existing and planned government and donor-funded projects to support national tourism development in the area (see Annex 2); the project will complement these activities by emphasizing support for transboundary coordination and joint action, based on the lake-wide tourism plan. The project will support small-scale infrastructure and rehabilitation (e.g., link transboundary hiking trails surrounding the lake, rehabilitate cultural and historical sites to create a transboundary tourist route, etc.). The overall objective is to support public investment to create an enabling environment and attract private sector enterprises; project funds will support TA to market the cross-border Lake Skadar-Shkoder area as a tourist destination, and to help prospective entrepreneurs identify and develop appropriate, compatible business ideas. The project will not directly finance entrepreneurs but support specialized park staff trained to help them access government and donor program funding.

13. *Sustainable Fisheries management*: Traditionally, local communities have used and marketed Lake Skadar-Shkoder natural resources (e.g., willows for basketry, medicinal plants, wild fruits), but fishing is by far the most significant economic and employment activity and fish mobility makes transboundary cooperation essential for sustainable management. Some of the lake's most valuable fish species are now threatened by over-exploitation and habitat degradation. Albanian fishermen have increased from 160 prior to 1990, to about 800 today. Both governments have fishing regulation institutions and personnel, but information, mechanisms, and capacity to manage the fisheries on a lake-wide basis are lacking. Similar to tourism, government- and donor-funded initiatives support aspects of individual country fish management (see Annex 2); while the project will complement those programs by filling gaps and improving bilateral management. A lake-wide stock assessment and fisheries management plan will be a key first year activity. These outputs will be integrated into national plans and

regulations and some aspects of the management plan will be implemented. Support will provide fishermen with incentives to cease illegal practices and strengthen government regulatory and enforcement capacity for the fishing industry. Project activities to assess and monitor stocks will help evaluate whether present fishing levels are sustainable, and promote measures to correct any imbalances such as declaring some areas of the lake off-limits or reducing the number of boats and fishermen.

14. **Component 3: Catalyze Pollution Reduction Investments *(Total: US$11.51 million; GEF: US$1.69 million)*** This component will support investments to help address existing sources of pollution identified in the TDA; the project will complement investments by the two governments and other donors (see Annex 15), addressing transboundary issues and demonstrating innovative approaches. The component includes three subcomponents:

(i) Small-scale, innovative wastewater treatment for a lakeside village (Montenegro)
(ii) TA for protection of groundwater from hazardous wastes at the KAP Aluminum plant (Montenegro)
(iii) Pilot ecological restoration of lakeside vegetation buffer areas (Albania)

15. *Small-scale wastewater treatment*: Several large donor-funded programs now support construction or upgrading of sewage collection and wastewater treatment facilities in large urban areas, creating positive impacts on Lake Skadar-Shkoder (e.g., Shkodra Municipality, Podgorica). The GEF funds will help pilot and demonstrate a small scale wastewater treatment facility, based on constructed wetlands, in the village of Vranjina, Montenengro, on the northern shore of the lake. The feasibility study will evaluate low-cost options such as small borehole and condominial sewers, and will include in-kind contributions from the local community to the extent possible. This demonstration investment will be combined with public awareness activities to help local people and visitors understand how a small-scale investment in sewage treatment can help reduce impacts to the lake.

16. *KAP hazardous waste containment*: Improperly stored waste at the Kombinat Aluminijuma Podgorica (KAP) aluminum plant on the Moraca River has been identified as the highest priority industrial threat to the lake, specifically as a source of heavy metals, PCBs, and other toxic pollutants, which have been detected in the lake water, adjacent springs, wells, and some fish. These pollutants emanate from a large, unlined, uncovered dumpsite containing a mixture of non-hazardous and hazardous wastes that have been accumulating since the early 1970s. Under the 2005 privatization contract, the Government of Montenegro is responsible for disposing of the hazardous wastes and the new owner (RUSAL) is responsible for disposal of non-hazardous wastes. However, the materials are co-mingled and likely will be difficult to separate. The government has tentatively budgeted an initial 5 million Euro to remediate legacy hazardous waste. The actual cost, final technical solution, and timetable for remediation, recycling, or proper containment of waste from the site can be estimated only after the waste has been properly characterized, a feasibility study undertaken, and an options analysis and design completed.

17. This component will classify (or verify classification of) KAP wastes, undertake an options analysis and feasibility study, and recommend basic designs for KAP hazardous waste containment. The assignment will determine whether hazardous wastes can be distinguished from non-hazardous wastes, waste from current options versus legacy wastes and help determine the extent of soil pollution and develop and develop and evaluate design options to contain the hazardous wastes. The preferred political option in Montenegro is to construct a secure (EU-standard) hazardous waste landfill on the present dump site. But, since the location is poor for a hazardous waste landfill (highly permeable substrate, directly upstream of Lake Skader-Skodra etc.), the basic option of constructing a landfill at the site needs to be compared with options to recycle some waste back into the manufacturing process, with costs and feasibility of constructing a landfill elsewhere and transporting wastes there. Other technical solutions for

remediation and process improvements that would reduce future impacts will also be examined (e.g., perimeter monitoring/pump and treat wells). In Montenegro, previous attempts to establish non-hazardous municipal landfills have provoked strong public resistance, which may make it difficult to relocate a facility from land owned by KAP/RUSAL.

18. Component Description: Project funds will help facilitate a more expeditious response to this urgent threat to the lake. In the first stage, the project will support TA to inventory and classify the extent of soil pollution; the second stage will be a feasibility study and options analysis with designs for hazardous waste containment and recycling. In addition, GEF funds will help finance an international advisor to assist Government to supervise work for the KAP remediation site, and support Montenegro's efforts to prepare for the IPPC Directive at the KAP site. The proposed project will also finance a Category A Environmental Impact Assessment for the design options that will be proposed in the Feasibility Study. Various environmental laws have been enacted in Montenegro, Integrated Pollution Prevention and Control (IPPC) and the Waste Management laws are particularly relevant to this assignment. There is a desire in the government to aspire to EU legislative standards. However, it is also recognized that the Ministry (MTEP) has a very low capacity both for environmental permitting and regulation. A secondary objective of this assignment is to help build the technical capacity of the Ministry in the particular aspects of IPPC and waste management stemming from this assignment. To this effect, an International Advisor, with appropriate background and experience, will be contracted to support the MTEP for the duration of this KAP assignment. The perspective of that support will derive from the implications of the IPPC legislation and the need for MTEP to understand the scope of any future IPPC permit application with respect to their role in permitting and regulation for the KAP and other IPPC installations. This assignment provides a practical opportunity, and has particular relevance to remediation and process improvements that would reduce future environmental impacts at the KAP site.

19. *Pilot buffer vegetation restoration*: Natural vegetation along the lakeshore and the banks of inflowing rivers buffers Lake Skadar-Shkoder from pollution and sedimentation from agricultural areas and inflowing river deltas. Excessive tree cutting, over-grazing, and destructive construction practices have eliminated or degraded this vegetative buffer in many places. Ecological studies have identified areas where the ecological damage is pronounced—for example, it has degraded important spawning and nursery areas. These areas include stream banks that flow to the lake from Taraboshi Mountain and coastal areas around fish nursery sites in Kamic and Shiroke (Albania). The project will provide Technical Assistance, equipment, and operational costs to support pilot ecological restoration activities at priority sites.

Annex 5: Project Costs

LAKE SKADAR-SHKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

GEF Grant Allocation by Component and Country (US$millions)

Project Cost by Component- **ALBANIA**	Local US $ million	Foreign US $ million	Total US $ million
COMPONENTS			
1. Understanding/Managing Lake Ecosystem	.79	0.29	1.08
2. Enhancing Sustainable Use of Lake Ecosystem	.60	0.05	.65
3. Catalyze Pollution Reduction Investments	.26	0.0	0.26
Total Costs (physical and price contingencies included)	**1.55**	**0.43**	**1.99**

Project Cost by Component- **MONTENEGRO**	Local US $ million	Foreign US $ million	Total US $ million
COMPONENTS			
1. Understanding/Managing Lake Ecosystem	0.34	0.38	0.72
2. Enhancing Sustainable Use of Lake Ecosystem	.41	0.0	0.41
Catalyze Pollution Reduction Investments	0.43	1.0	1.43
Total Costs (physical and price contingencies included)	**1.18**	**1.38**	**2.56**

Annex 6: Implementation Arrangements

LAKE SKADAR-SHKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

Responsibilities for Project Implementation

1. The Ministry of Tourism and Environment (MTEP) has overall project responsibility in Montenegro. The Ministry of Tourism and Environment is the main project implementing agency. The Ministry is also responsible for planning, coordinating, and financing the national environmental monitoring program, including for Lake Skadar given its protected area status (Water bodies without protected areas status fall under responsibility of the Ministry of Agriculture, Forestry, and Water Resources). The Project Director is the Deputy Minister of the Department of Environmental Protection.

2. The Ministry of Environment, Forests, and Water Administration (MEFWA) has overall project responsibility in Albania; and is responsible for strategic, policy, legal/regulatory framework, and national-level management of protected areas, including operationalizing the Lake Shkodra Managed Nature Reserve. The Water Department of the same Ministry is responsible for coordination of national water resources management policy. Within Albania MEFWA, the Head of the Directorate for Nature Protection Policy has been appointed as the Project Director.

3. Each Ministry will hire a Project Coordinator whose salary is paid by the project budget, and who reports to the Project Director. The Project Coordinator is a full-time project position to ensure day-to-day implementation. The Albanian Project Coordinator will be based in Shkodra, near the Lake, in an office provided by the municipality of Shkodar. The Montenegro Project Coordinator has office space within the MTEP in Podgorica and would travel frequently to the Lake area which has a closer proximity to the Lake.

4. Project activities will be coordinated at a transnational level by the Skadar/Shkodra Lake Commission (SLC), a bilateral body that has been established according to an agreement between the MTEP and MEFWA. The Commission members will be appointed by the two governments. The Commission will be assisted by a Secretariat based in Shkodra, Albania; the Secretariat will employ one person, paid by the project budget.

5. The Commission through the project will establish four Working Groups to advise on issues related to the lake management: (1) Planning and Legal; (2) Monitoring and Research; (3) Communications/Outreach and Sustainable Tourism, and (4) Water Management. The project will support the start-up of the Lake Commission both directly by providing resources for goods, personnel and capacity building and indirectly by testing the functionality and organization of the SLC and its Working Groups.

3. Project implementation requires cooperation with public agencies/institutions acting within their institutional roles and paid with government budget. MTEP and MEFWA will ensure that sharing information on project objectives and programs with these institutions is timely and that implementation roles and responsibilities are clarified and agreed. Local and international consultants will be contracted as necessary to carry out project activities.

Implementation responsibilities are summarized in the table below.

Component	*Operations/Implementation Responsibilities Montenegro*	*Operations/Implementation Responsibilities Albania*
1. Capacity Building for Improved Understanding and Joint Management of the Lake		
Strengthen institutional structures for cross-border cooperation	MTEP will hire a Project Coordinator (PC) responsible for day-to-day project implementation, to coordinate activities in Montenegro with activities in Albania, and to organize national-level communication and participation. The PC is based in Podgorica and paid with project funds. MTEP will identify during project implementation any adjustments needed to improve national- and trans-boundary-level institutional arrangements to manage the Lake ecosystem.	MEFWA will hire a Project Coordinator (PC) responsible for day-to-day project implementation, to coordinate activities in Albania with activities in Montenegro, and to organize national-level communication and participation. MEFWA will identify during project implementation any improvements needed to national- and trans-boundary-level institutional arrangements to manage the Lake ecosystem and the Managed Nature Reserve. MEFWA will provide premises for the Secretariat and the PC. The Secretariat will provide logistical support to the Lake Commission and Working Groups meetings and for internal and external communication of the Lake Commission.
Create bilateral working groups for advisory roles	MTEP and MEFWA will ensure that the Bilateral Working Groups comprise qualified members by inviting appropriate persons from institutions, NGOs, and stakeholders and providing them with complete information on project objectives, activities, and schedules. Working Groups are advisory and will provide inputs to prepare TORs, opinions on documents produced by Local and International Consultants, make recommendations on project activities, and evaluate outcomes. The Secretariat will deliver WG advice to the Lake Commission and project implementation team.	
Monitoring and Evaluation	The monitoring WG will evaluate technical specifications for monitoring equipment to be purchased under the project. MTEP and MEFWA will contract certified laboratories to carry out monitoring activities identified in the Monitoring Manual.	
	The Project Coordinator will collect website content and deliver it to the Secretariat.	MEFWA will collaborate with others to prepare technical specifications for the transboundary website. MEFWA will collaborate with the Secretariat to supervise website implementation; the Secretariat will maintain the website during and after project implementation. The Project Coordinator will collect website content and deliver it to the Secretariat.
2. Promoting Sustainable Use of the Lake		

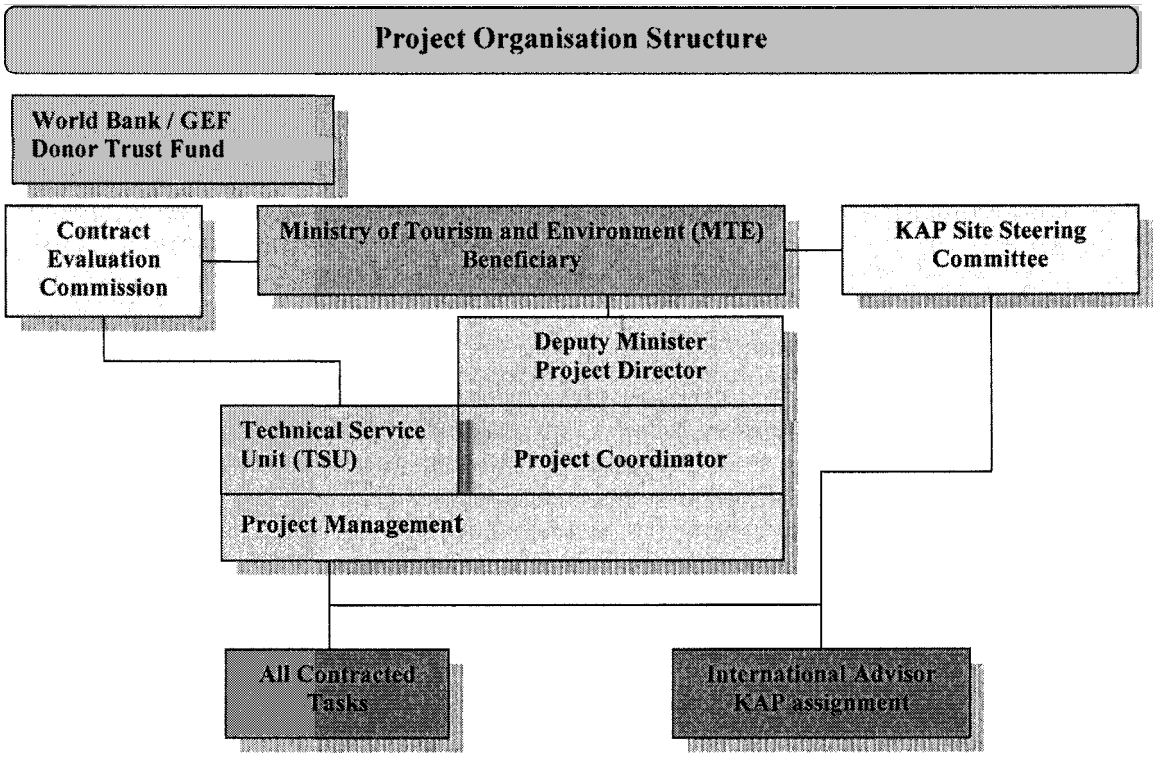
Component	*Operations/Implementation Responsibilities Montenegro*	*Operations/Implementation Responsibilities Albania*
Support tourism development	Skadar National Park will collaborate with the MTEP to prepare TORs for capacity building activities and help identify the eco-camping site and info-points, monitoring platforms, and renovation works. A local consultant will be hired to prepare technical specifications for construction works. Skadar National Park will be responsible for submitting all permit requests necessary for renovation or construction works, and for supervising execution of the works.	MTEP will collaborate with local officials and the Ministry for Tourism, Culture, Youth and Sport (MTCYS) to prepare TORs for local consultants to develop architectural/landscape guidelines, and to inventory cultural heritage sites. MEFWA will consult with MTCYS and Shkodra Municipality on selecting sites/ buildings to be restored; a local consultant will be hired to prepare technical specifications for these works, if needed. The technical advisor will be responsible for submitting any permit requests necessary for renovation/construction works.
Support sustainable natural resources	Project Coordinator will collaborate with Skadar National Park and local fisheries organization on the project actions to promote sustainable fisheries	Project Coordinator will work with Fishermen's Association on the project actions to promote sustainable fisheries.
Support enhanced enforcement capacity	The Skadar National Park Director will collaborate with the MTEP to prepare technical specifications for goods and equipment to be procured for park ranger activities.	The Skadar Lake Managed Nature Reserve/ Directorate for Forest Service, Skadar District will collaborate with MEFWA to prepare technical specifications for goods and equipment to be procured for park ranger activities.
3. Catalyze Pollution Reduction Investments		
Small scale wastewater control	MTEP will procure feasibility study and design for the WWTP at Vranjina, in collaboration with Podgorica Municipality technical staff.	
Support containment of hazardous waste on KAP dump site	MTEP will hire an international consulting firm to prepare a waste inventory, site investigation, options analysis, feasibility study, preliminary design for the KAP hazardous waste dumpsite. A draft TOR for this assignment is attached to the PIM. MTEP will also hire an international adviser to help evaluate bidding documents, supervise consultant work, and advise a government stakeholder steering committee. MTEP will contract consultant services for an EIA.	
Support restoration of lake buffer habitat		MEFWA will promote pilot projects of habitat conservation and restoration and tree-planting. These activities will be developed involving the local community and fishermen associations.

KAP Contaminated Site

6. A two-tier mechanism is proposed to support smooth implementation of this project sub-component. The Project Management Team under the Ministry of Environment and Tourism will be responsible for day-to-day project management. A KAP Site Steering Committee (KSC) will be

established to oversee coordination between the project management, KAP, other government institutions, and local parties; oversee and coordinate implementation; and ensure that KSC stakeholders' decision-making is timely. The project will finance an international advisor to help support the work of the KAP Site Steering Committee and assist the Montenegro government to prepare to implement the IPPC Directive for the KAP site.

Project Organisation Structure Related to KAP Technical Assistance (schematic)



1. Role of the Ministry (MTEP)

The MTEP has the following responsibilities:

- Appoint Project Director; recruit Project Coordinator;
- Lead project and ensure that activities and results comply with the overall project objectives;
- Facilitate partnerships with other line Ministries, local governments, and all institutions and stakeholders that might be usefully involved in and/or impacted by project activities;
- Provide resources and institutional support necessary to implement the project;
- Execute Procurement procedures following the advise/oversight of the TSU and procedures of the WB (Bidding Documents, Procurement Contracts, etc.)
- Appoint Evaluation Commissions in accordance with procedures of the World Bank and under the guidance of the TSU;
- Ensure participation of all institutions/ stakeholders that might be usefully involved at any level in project implementation.

2. KAP Site Steering Committee Participants

A KAP Site Steering Committee (KSC) shall be established prior to inital tendering of the KAP technical studies, to ensure coordination and monitoring of the contracted tasks to be carried out for the benefit of the Ministry (MTEP). The role of the KSC is to provide a forum for planning, evaluation and discussion of the assignment work plan, progress of the activities, and related aspects. The KSC takes decisions upon problems related to the project strategy, and has a monitoring and coordinating role. The Beneficiary (MTEP) approves the assignment outputs. The MTEP Project Director will chair the KSC, which will include representatives from the Ministry of Environment and Tourism, KAP, Ministry of Economic Development, Privatization Agency, Municipality of Podgorica, and the Metallurgical Faculty. The KSC will involve representatives from all parties involved in implementing the KAP assignment. The KSC Chair will convene meetings and meet as often as required to advance the work, and at least every 3 calendar months for the duration of the KAP assignment. The Chair would in addition invite specific attendance at the meetings, depending on the topic(s) to be discussed, including clarification of mandatory and optional attendance for each meeting. Input for Key Decisions would be solicited from all by KSC members, however final decisions are made by the MTEP Chair. In cases where key Decisions required broader endorsement than the MTEP, selected Decisions may be elevated by the Chair to a Government wide Decision.

3. Tasks and Responsibilities of the KAP Site Steering Committee (KSC)

Consultant(s) contracted under the project will work under the supervision of the Project Management team, comprising the Project Director, Project Coordinator, TSU, or any other organizational unit designated by the MTEP. Further, Consultants for KAP site studies will report on a regular basis to the KAP Site Steering Committee (KSC) about assignment progress, any problems, and work scheduled and outputs to be achieved during the period before the next KSC meeting. The Consultant(s) will report to the Project Coordinator, who has the responsibility to receive the reports elaborated by the Consultant and submit them to the KAP Site Steering Committee for comments and approval. The Project Coordinator will help facilitate achievement of the work plan with the Consultant(s), and help convey comments from KAP Steering Committee members.

The key KSC responsibilities include the following:

- Oversee implementation of the KAP assignment;
- Review terms of reference of key consultants for the KAP assignment and provide recommendations to the Project Management team;
- Review consultants' reports and recommendations, especially those requiring actions and decisions from local authorities, institutions, or industries and provide recommendations for implementation and future remediation steps for the KAP site — resolution, financing, sequencing, and implementation schedule;
- Ensure that local parties and stakeholders decisions and actions are timely; facilitate adoption and implementation;
- Ensure appropriate consultation with local institutions, donors, and other stakeholders.

The KSC Chair will appoint a Secretary-Coordinator, who will prepare and distribute the Minutes/Agenda for each KSC meeting and facilitate daily activities in the Project Management team in coordination with local parties and stakeholders.

Annex 7: Financial Management and Disbursement Arrangements

LAKE SKADAR-SHKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

Montenegro:

1. ***Country Issues.*** A 2007 fiduciary review concluded that budgetary control has improved significantly after establishing a fully functioning Treasury system linked to all budget users. Allocating and accounting systems for tax revenues have been enhanced. Revenue and expenditure forecast credibility has improved suggesting that the planning process has become more reliable. Elements of a modern public sector audit function (both internal and external audit) have been established and have improved control and oversight.

2. However significant challenges remain. Considerable investment in developing program budgeting has yet to substantially improve policy planning and prioritization across government. Similar to other countries, further work is required to develop a medium-term expenditure framework that links policies and planning to the budgetary process. The government also needs to develop a comprehensive picture of public sector fiscal risks; particularly loans, contingencies, and guarantees by municipalities and public enterprises. Finally, basic building blocks of financial control are needed, for example the Treasury system needs a commitment control system so MOF can include accounts payable in the accounting system.

3. ***Risk Analysis.*** The overall financial management risk for the project is moderate before mitigation measures, and with adequate mitigation measures agreed, the financial management residual risk is rated low. The table below summarizes financial management assessment and risk.

Risk	*Risk Rating*	*Risk Mitigation Measures*	*Risk Rating after mitigation measures*
1. INHERENT RISK			
Country level. The Perceived corruption is high. State Audit Institution (SAI) and internal audit capacities are relatively low. Treasury system has been modernized but improvements to accomplish measurable and specific results are needed. Internal controls are not always applied in practice—confirmed in reports of internal and external audits. Sector within the MoF that performs SOE oversight has very low capacity (1 person).	S	Risks inhibit use of country systems. The risk imposed by insufficient capacity of SAI and internal audit will be mitigated by using private auditors, supervised by the Bank, for project financial statements and by the Bank's supervision,. In addition, robust internal controls will be applied during project implementation to ensure funds are used for intended purposes, and to safeguard project assets. Internal controls and procedures instituted for ongoing projects implemented by the TSU are assessed adequate for this project. A Designated Account will be opened in a commercial bank acceptable to the World Bank. A stand-alone accounting system will be used for project accounting and reporting.	M
Entity level. Although the TSU has substantial experience and knowledge of Bank procedures, expanding TSU scope of work to implement the six to seven	M	The Bank FMS will closely monitor TSU financial management of implementation to detect any potential gaps between quantity of work and unit capacity, and promptly take appropriate remedial action if capacity gaps are noted.	L

projects that are envisaged soon, will create capacity concerns.			
Project level. Adequate financial management arrangements need to be instituted for project implementation and the existing ones tailored to project needs.	M	Appropriate financial management arrangements with respect to accounting; financial reporting; auditing; flow of funds have been instituted for project implementation.	L
Overall Inherent Risk	**M**		**L**
2. CONTROL RISK			
1. *Budgeting and Planning.* Risk created by lack of computerized software to support the budgeting and planning processes.	M	Planning and budgeting for previous/ongoing World Bank projects implemented by the TSU proved adequate. The risk is additionally reduced by acquisition of acceptable software.	L
2. *Accounting.* Acquisition of software (Quick Book) to be used for project accounting has not been finalized yet and software has not been made fully functional. There is a clear need for computerized accounting software to ensure reliable and transparent accounting and financial information and reduce risk of errors.	M	Acquisition and installing of FMS.sys will improve reliability of accounting information and mitigate risk of omission, error, or inaccuracies in project accounting and reporting. The software provides reliable accounting information and is automated to a significant extent.	L
3. *Internal controls.* System of internal controls in Montenegro public sector is relatively weak and does not provide sufficient assurance on the use of funds for intended purposes.	S	Sound system of internal controls will be applied during project implementation to secure use of funds for intended purposes, and safeguard project assets. Internal controls and procedures instituted for ongoing TSU-implemented projects are assessed as adequate for this project.	M
4. *Funds flow.*	M	A Designated Account will be opened in a commercial bank acceptable to the World Bank.	L
5. *Financial reporting.* Financial reports compiled manually using Excel files based on Excel accounting records, risking reliability, comprehensiveness & accuracy.	M	Acquiring and installing Quick Book software needs to be finalized prior to negotiation. Quick Book software generates financial reports automatically, significantly mitigating financial reporting risk.	L
6. *Auditing.*	S	Private audit firm acceptable to the World Bank will perform audit.	M
7. Staffing. Although the TSU has substantial experience and knowledge of Bank procedures, expanding TSU scope of work to implement the six to seven projects that are envisaged soon, will create capacity concerns.	*S*	The Bank FMS will closely monitor TSU financial management of implementation to detect any potential gaps between quantity of work and unit capacity, and promptly take appropriate remedial action if capacity gaps are noted.	M
Overall Control Risk	**M**		**L**
OVERALL FM RISK	**M**		**L**

4. ***Strengths.*** The TSU staff are qualified and experienced, including substantial experience implementing World Bank-supported projects (currently implementing three active projects). The project design has relatively low complexity in institutional design (one implementing entity), fairly simple flow of funds, disbursement, accounting and reporting.

5. ***Weaknesses and Action Plan.*** Despite the TSU's strong experience and performance record, its capacity could be overstretched and this should be monitored. The TSU is overseeing fiduciary aspects of implementation for three projects. Irrespectively, the conclusion remains that the pros of assigning the TSU with fiduciary responsibilities outweigh the cons. Previously agreed action plan has been implemented since project accounting software has been acquired and made fully functional.

7. ***Implementing Entity.*** The Ministry of Tourism and Environmental Protection (MTEP) will have overall responsibility for project implementation; the Government of Montenegro Technical Services Unit (TSU) will be in charge of fiduciary aspects of project implementation, namely financial management and procurement. The TSU is established and functioning. It is in charge of fiduciary aspects for three ongoing projects in Montenegro. The unit is staffed by qualified and experienced staff with experience in implementation of World Bank supported projects in all functions, including financial management. Performance of the TSU during implementation of the ongoing projects was overall satisfactory.

8. ***Budgeting and Planning.*** Planning and budgeting for previous/ongoing World Bank projects implemented by the TSU proved to be adequate. Recent acquisition of acceptable accounting software will facilitate further planning and budgeting and in particular, analysis and comparison of budgeted and actual figures. The MTEP will play an important role in planning and budgeting, thus good communication between the MTEP and the TSU is important to optimize management of funds allocation, liquidity, and overall performance. Regular monitoring of actual versus budgeted figures is essential to detect any variances and take corrective actions.

9. ***Accounting and Staffing.*** The TSU financial management staff is an experienced and qualified specialist who is already managing the finances of three active projects and has gained substantial experience in working on World Bank-supported projects. Other functions in the TSU are also adequately staffed. However, soon the TSU will be in charge of implementing six to seven projects and this situation should be closely monitored to detect any gaps in capacity and take appropriate remedial actions. The implementing entity is responsible for project financial management and will provide any supplementary capacity required for World Bank accounting, reporting, disbursement, or procurement procedures.

10. ***Information Systems.*** The TSU has acquired and installed FMS.sys accounting software to be used for project accounting for ongoing projects. This software is acceptable to the Bank and will be used for this project. The software provides reliable accounting information and it is automated to a significant extent. Management information systems developed for implementation of ongoing projects is adequate for implementation of this project.

11. ***Accounting Policies and Procedures*:** The accounting books and records are maintained on cash basis with additional information on signed contracts. Project financial statements will be presented in EUROs. Accounting policies and procedures in place for ongoing TSU-managed projects will be used for this project.

Additional accounting policies for the project include the following major assumptions:

- cash accounting is the basis for recording transactions;
- reporting in EUROs (reporting currency);
- consolidated IFRs prepared for all donor funds and all components;
- counterpart funds reflected in financial reports.

12. ***Internal Controls and Internal Audit.*** The TSU has an adequate internal controls system for projects under implementation, which will be used for this project. Defined controls and procedures are applied in practice as verified by Bank financial management supervision, and private audit firms. The auditors have issued clean audit opinions on ongoing project financial statements. In general, key internal controls to be applied for the project include:

- appropriate authorizations and approvals;
- segregation of duties;
- different persons responsible for different phases of transaction;
- regular reconciliations of records and actual balances, including with third parties;
- maintain complete original documentation to support project transactions.

13. The MTEP publishes tenders and is signatory to the contract. Invoices received are forwarded to technical staff for verification (project coordinator) or to other institutions responsible for checking the quality and quantity of the delivery covered by the invoice. Independent consultants may also be contracted to verify, prior to payment, that acceptable goods, services, or works have been delivered. After technical staff approve the work/service quality and quantity, the TSU registers the invoice in the Archives. The project accountant reviews then registers the invoice in a simple log file with name of supplier, amount, and payment date. The project accountant checks the invoice, the invoice calculation, and selects the appropriate budget to charge (contract number, item number, and program (component), records the accounting codes, his/her initials, and sends the invoice to project procurement. The project procurement staff checks the invoice against the contract number, attaches a copy of the relevant contract paragraph, and signs the invoice.

14. All documentation relevant to the invoice shall be attached so the Project Director can immediately check that all controls have been performed. The invoice is returned to the project accountant, and registered, ensuring that payment can be made as per terms; then payment orders and the invoice with all designated approvals and signatures are submitted for payment. The TSU receives daily bank statements and regular Treasury reports; based on these, the TSU financial specialist will record executed payments and reconcile bank balances. The TSU financial specialist will prepare quarterly interim un-audited financial reports in the agreed format and submit these to the World Bank.

15. ***Reporting and Monitoring.*** Project management-oriented interim un-audited financial reports (IFRs) will be used for project monitoring and supervision. The format of the IFRs were agreed during negotiations and attached to the minutes. The TSU will produce a full set of IFRs for each calendar quarter throughout the life of the project, due 45 days after each quarter ends. The IFRs will comprise the following reports presented in the agreed format:

- Statement of Sources and Uses of Funds;
- Uses of Funds by Activity;
- Designated Account statement;
- Unit of Output by Activity;
- Narratives to the reports.

The accounting for the project is cash basis with additional information provided for commitments on signed contracts.

16. ***External Audit.*** The project financial statements will be audited by a private sector audit firm using terms of reference acceptable to the Bank; the audit report will be submitted to the Bank no later than six months after the end of the period audited. Audit TOR has been agreed during negotiatios and attached to the minutes of negotiation. The annual audits costs will be covered by project funds. The

project financial statements are prepared on cash basis. Audits should be conducted in accordance with International Standards of Auditing. The following chart identifies the audit reports and submission due dates for the project implementation agency.

Audit Report	*Due Date*
Entity financial statements	Na
Project financial statements (PFS), including SOEs and Special/Designated Account. The PFSs include sources and uses of funds by category, by components, and by financing source; SOE statements, Statement of Designated Account, notes to financial statements, reconciliation statement	Within six months of the end of each fiscal year and at the closing of the project

Audits performed by State Audit Institution are not acceptable for this project. Although the institution is developing rapidly, it still lacks sufficient capacity.

17. ***Funds Flow and Disbursement Arrangements.*** Project funds in United States Dollar will flow from: (a) the World Bank - *either* as an advance, via a Designated Account, in a commercial bank acceptable to the World Bank, and replenished under transaction- based disbursement, managed as described in disbursement arrangements, *or* by direct payment on the basis of direct payment withdrawal applications; or (b) the Government of Montenegro.

18. The TSU will administer the Designated Account, and prepare withdrawal applications with designated signatures, which will include a government official of Assistant Minister level or above. Payments from the Designated Account are executed by payment orders. After applying all procedures described in internal controls with respect to flow of documents, verifications, authorizations, signed orders are submitted for payments from either the Designated Account or the Budget (for Government contribution) split according to eligible percentages of financing. In the case of Direct Payment, the application form for such method payment is submitted to the Bank with the same authorized signatories as described above.

19. Designated account will be opened in EURO and the ceiling for this Designated Account will be 200,000 EURO. Replenishment documentation requirements will follow standard Bank procedures as described in the Disbursement Handbook. Reconciled monthly bank statements for the Designated Account will accompany all replenishment requests.

20. ***Supervision Plan.*** During project implementation, the Bank will supervise project financial management arrangements in two main ways: (i) review project interim un-audited financial reports for each calendar quarter, and project and entity annual audited financial statements and auditor management letter; and (ii) perform on-site supervisions, review the project financial management and disbursement arrangements to ensure compliance with Bank minimum requirements. On-site supervision will include monitoring agreed actions, review of randomly selected transactions, review of internal controls, and other supervision activities. Supervision will be performed by the Bank accredited Financial Management Specialist.

Albania:

21. ***Country Issues.*** The latest draft Country Fiduciary Assessment (CFA-August 2006); draft Public Expenditure and Institutional Review (PEIR-July 2006) and draft Public Expenditure and Financial Accountability Report (PEFA-July 2006) confirm that improvement is required to increase public spending efficiency and accountability by improving planning, budgeting, and executing public investment projects; strengthening lines of accountability, including enabling better access to information by all stakeholders; building stronger monitoring and evaluation systems; and establishing competitive

and transparent frameworks for government purchases. Improvements were also needed in public procurement law and implementation regulations to improve procurement transparency, economy, and efficiency. The Procurement Agency supported by EU technical assistance is amending the laws and regulations.

22. The assessment of the country financial management arrangements concluded that the public financial management has improved significantly during the last few years in areas such as budgeting, internal control, internal and external audit, though from a relatively weak base. The fiduciary area will benefit from the ongoing improvements of the Treasury system (especially an improved financial reporting enabling follow-up of programmatic budgeting and giving more analytical information down to the level of individual service units) through implementing an expanded computerized Treasury information system, expected to be ready by June 2008. The proposed project will utilize these improvements by using the Treasury system for the payment and reporting functions. Internal audit is being fully developed to improve the government internal control environment and the internal audit should also be utilized to monitor project implementation. A Public Internal Financial Control framework based on EU principles is being implemented and EU support is strengthening the supreme audit institution.

23. The Project will rely extensively on the various elements of Albania's public financial management systems, including:

- Budgeting – the project budgets approved annually by the Project Manager;
- Internal controls – the project will use the existing internal control framework within the ministry with additional procedures developed for the Project;
- Flow of funds and payments– the project will use the Treasury system;
- Accounting and reporting – the project will rely extensively on the Treasury system.

24. ***Risk Analysis and conditions.*** The overall financial management risk for the project is substantial before mitigation measures, and with adequate mitigation measures agreed, the financial management residual risk is rated moderate. The table below summarizes the financial management assessment and risk ratings of this project:

Risk	*FM Risk*	*Risk Mitigating Measures*	*Residual Risk*	*Conditions of Board or Effectiveness*
INHERENT RISKS				
Country level. The public financial management is improving, but high corruption risk persists.	H	The MEFWA is to rely on the improved Treasury system for payments, use of private auditors for the financial audits, and use of Central Bank for Designated Account	S	No
Entity Level. Risk of political interference in entity's management.	S	Any changes to the structure and key staffing in the implementing agency will require agreement with the Bank	M	No
Project Level. Project is small, simple, and has a single implementing agency.	M	Adequate control mechanism for payments have been agreed and included in the project	S	No
OVERALL INHERENT RISK	S		S/M	No
3. CONTROL RISKS				
Budget. Using government	M	Ministry develops and approves annual project	M	No

Risk	*FM Risk*	*Risk Mitigating Measures*	*Residual Risk*	*Conditions of Board or Effectiveness*
budgetary system		budget in agreement with IDA		
Accounting. Inexperienced FM staff and use of localized Treasury system.	S	Hire part-time consultant. Project to use the expanded computerized Treasury system to be ready by June 2008 for payments and reporting.	S	No
Internal Controls. Internal controls of the existing Treasury system are acceptable; project-specific controls are incorporated in the project financial manual.	S	Additional procedures are included in the FM chapter of the PIM and independent auditors to monitor the project implementation and results verification.	S	No
1. Funds flow. A Designated Account would be opened in the Bank of Albania from which the funds will be transferred to the Single Treasury Account (STA) in local currency, but "earmarked" for the project.	S	Treasury will through accounting entries keep track of the funding going to this project enabling MEFWA to prepare the interim unaudited financial reports of the project e.g. the sources and uses of the project funds and the remaining balance of the funding from GEF/IBRD.	M	No
Financial Reporting. Current manual Treasury system is unable to generate financial reports automatically.	S	MEFWA will use the data obtained from the Treasury system after reconciling the data with its own records. The Treasury system is in the process of being developed with WB assistance. The reporting part of the system will be assessed as soon as the system will become fully operational. Currently, the Treasury uses a manual system for its accounting books and records. The manual Treasury system is also used for monthly and annual reports on cash expenditures, which are compared with the annual budgets approved by parliament.	M	No
Auditing.	M	The audit will be carried out by independent auditors acceptable to the Bank. The global audit arrangements would be streamlined to ensure timely appointment of auditors.	M	No
OVERALL CONTROL RISK	**S**		**M**	
RESIDUAL RISK RATING	**S**		**M**	

25. ***Strengths.*** The basis to rely on the project financial management system include the assessed strengths of the financial management of Government of Albania in controlling budget entities' spending and the well-functioning Treasury system for payments and reporting.

Actions	Responsibility	Deadline
Reporting from new computerized Treasury system: Assess project reporting from the new computerized Treasury system	MEFWA/WB	Before relying on reports from the computerized system, planned to start by mid year 2008

27. With actions taken before negotiation, together with additional financial management measures (strengthened internal controls, private auditor for project accounts) the financial management arrangements for project implementation are acceptable to the Bank.

28. ***Implementing Entity.*** The Ministry of Environment, Forestry and Water Administration (MEFWA) is the main implementing agency with clear responsibilities for strategic, policy, legal/regulatory framework and management the protected areas nation wide. The proposed project implementation will be streamlined within the existing structures of the relevant government agencies.

29. ***Budgeting.*** The MEFWA will be responsible for the preparation of annual project budgets (to be included in its departmental budgets) based on their respective procurement plans. This budget will form the basis for allocating funds to project activities, for requesting funds from the government for counterpart contribution, and for payments via Treasury system as appropriate. The risk associated with planning and budgeting is assessed as moderate.

30. ***Accounting.*** *Staffing.* The MEFWA finance and budget department has a staff of five people. The Ministry will hire a part-time consultant because based on assessment, the existing staff at the Ministry are overloaded and not experienced with the foreign financed projects. The project manager will authorize and control of payments, work closely with finance staff and MoF to ensure timely submission of quarterly interim un-audited financial reports (previously called Financial Monitoring Reports, FMRs), annual financial statements, and other progress reports to the Bank reflecting the project implementation status. The risk associated with staffing after mitigation measures is assessed as substantial.

31. *Information systems.* The project will use reporting generated by the new computerized Treasury system currently being implemented in all Treasury offices. The Bank will review the reporting generated by the new Treasury system prior to shifting from the manual system to ensure that the new system has the capability of generating the agreed reporting. Currently, the Treasury uses a manual system for its accounting books and records, which are done on a cash basis. The manual Treasury system is also used for monthly and annual reports on cash expenditures, which are compared with the annual budgets approved by parliament. The recent assessment concluded that the current manual system will be able to report according to the agreed formats, although the ongoing computerization will reduce resources required to produce these reports for the project, most probably from second half of 2008. The risk associated with information systems is moderate.

32. *Accounting Policies and Procedures.* The accounting books and records will be maintained on a cash basis and project financial statements will be presented in Albanian Lek. The project will follow Government policies and procedures (Treasury) for processing payments. Additional accounting policies to be applied on the project (besides standard accounting policies used for Budget agencies) will include the following major assumptions: (i) cash accounting as the basis for recording transactions; and (ii) all counterpart funds should be reflected in the financial reports. Risk associated with accounting after mitigation measures is moderate.

33. ***Internal controls and Internal Auditing.*** The project will utilize existing internal controls within the Ministry and the Treasury, and supplement these with additional controls to ensure that funds are used effectively and efficiently for the purposes intended. The internal controls include (a) procurement controls-World Bank procurement procedures will apply, (b) budgetary controls-the project will form part of the Ministry budget, (c) Treasury controls-payments will flow through the Treasury, (d) accounting controls-additional appropriate controls will be implemented, (e) quality controls – on-site supervisors will verify all bills before payments are made, (f) management controls-project manager will be appointed to coordinate and provide general oversight, (g) audit controls-an independent acceptable audit firm acceptable to IDA will audit annually the project financial statements, based on audit terms of reference acceptable to IDA; and (viii) supervision controls-the World Bank team will regularly carry out project supervision.

34. The project has documented in the financial management chapter of the PIM the internal control mechanisms to be followed in the application and uses of funds and the implementation of the project. The chapter will cover all financial management and administrative procedures, including accounting and record-keeping, flow of funds, and reporting procedures. The manual will also reflect the internal structure relevant to the project, administrative arrangements, internal control procedures, including procedures to authorize expenditures, maintain records, safeguard assets, segregate duties to avoid conflicts of interest, monthly reconciliation of treasury account statements with the project records, ,monthly reconciliation of disbursement summaries of the World Bank with project records, bank signing mandate (to include at least two signatories), regularly reports to ensure close monitoring of project activities.

35. The Ministry internal audit units would audit project activities as a routine part of their work. As the capacity of the internal audit is still generally low, no specific reliance on the internal audit is planned for this project. The risk associated with internal controls is substantial before mitigation measures, and is assessed as substantial after mitigation measures.

36. ***Financial Reporting.*** The CFA-July 2006 indicates that the publicly available budget execution and fiscal reports appear to be reliable and frequently updated. All payments are made through the Treasury system for all budget entities, including the implementing entities for this project. Currently, the Treasury uses a manual system for its accounting books and records and on a cash basis. The manual Treasury system is also used for monthly and annual reports on cash expenditures, which are compared with the annual budgets approved by parliament. The system will also enable the continued tracking of the project and is expected to be able to provide reliable reporting for the funding suggested for the project.

37. The MEFWA will prepare interim un-audited financial reports (IFRs) for project monitoring, disbursement and supervision. Draft formats of these IFRs have been agreed upon before and during the negotiations. The implementing entities will produce a full set of IFRs every three months throughout the life of the project and the reporting currency will be Albanian Lek, except as otherwise stated. The IFRs include the following tables: (a) Summary of Sources; (b) Project Sources and Uses of Funds; (c) Components as per cost categories; (d) GEF Desiganted account Statement; (e) STA reconciliation statement; and (f) Contract Monitoring reports for technical serives and goods. The risk associated with financial reporting is moderate.

38. ***External Auditing.*** As of the date of this report, the MEFWA had no overdue audit. The auditor will be appointed by the Ministry of Finance as part of an overall agreement for the audit of the non-revenue earning Bank-financed portfolio in Albania. The global audit arrangements should be streamlined to ensure timely appointment of auditors. Specific terms of reference are used for the projects covered by this agreement. Despite Ministry of Finance arrangements, the implementing entity is responsible for delivering to the Bank, within six months of the closing of each fiscal year, the audited financial statements. The annual cost of the audits will be covered by the government part of the portfolio audit. The following chart identifies the audit reports and submission dates for project implementation agencies.

Audit Report	*Due Date*
Entity financial statements	N/A
Project financial statements (PFS) for the implementing agency, including SOEs and Designated Accounts. The PFS include sources and uses of funds by category, components, and financing source; SOEs, Statement of Designated Account, notes to financial statements, and reconciliation statement.	Within six months of the end of each fiscal year and at the closing of the project

In addition, the Albanian supreme audit institution performs ad hoc external audits of the implementing entities. The risk associated with external audit is moderate.

39. ***Flow of Funds and Disbursement Arrangements.*** The project funds will flow from IDA, via one United States Dollar Designated Account (DA) in Bank of Albania (BOA) from which the funds will be immediately transferred to the Single Treasury Account (STA) in local currency, but "earmarked" for the agreed project. Treasury will through accounting entries keep track of the funding going to this project enabling a separate reporting on the sources and uses of the project funds and the remaining balance of the funding from IDA. Counterpart funds are transferred through the Treasury system directly to the suppliers. Project funds will flow from: (a) the Bank, either via a single Designated Account which will be replenished on the basis of SoEs or by direct payment on the basis of direct payment withdrawal applications if a special need arises; or (b) the Government, via the Treasury at the Ministry of Finance (MOF) on the basis of payment requests approved by the Treasury Department of the MOF directly to the local supplier for VAT and other taxes.

40. The ceiling for the GEF-Designated Account would be $200,000. Applications for replenishment of the Designated Accounts will be submitted quarterly or when one-third of the amount has been withdrawn, whichever occurs earlier. Documentation requirements for replenishment would follow standard Bank procedures as described in the Disbursement Handbook Counterpart funding will be executed through Treasury accounts.

41. ***Supervision Plan.*** During project implementation, the Bank will allocate one staff week for financial management supervision. The Bank supervises project financial management arrangements in two main ways: (a) review the project's the quarterly interim un-audited financial reports and project annual audited financial statements and auditor's management letter; and (b) during the Bank's supervision missions, review the project's financial management and disbursement arrangements (including interim reports (IFR) and movements on the Designated Account) to ensure compliance with the Bank's minimum requirements. As required, a Bank-accredited Financial Management Specialist will assist with supervision.

42. ***Re-assess Treasury System.*** The Bank will re-assess the expanded computerized Treasury system before the project can rely on the expanded modernized Treasury system for payments and reporting.

Annex 8: Procurement Arrangements

LAKE SKADAR-SKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

A. General

1. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 and the provisions stipulated in the GEF Grant Agreements, to be signed for each country separately. A general description of expenditure categories and items appears below. For each GEF Grant-financed contract the Borrower and the Bank will agree on procurement or consultant selection methods, pre-qualifications, estimated costs, prior review requirements, and time frame, and these will be recorded in the Procurement Plan, which will be updated annually or as required to reflect actual project implementation needs, and improvements in institutional capacity.

The project contracts that are not financed directly by the Bank would be procured in accordance with national regulations, or co-financing institutions' procurement regulations. Initially projected procurement will be advertised in a General Procurement Notice (GPN), and Specific Procurement Notices (SPNs) to be issued thereafter as needed. The Borrowers will publish a GPN, acceptable to the Bank, online in the United Nations Development Business (UNDB) and in the Development Gateway's dgMarket. The individual SPN for goods and civil works, and request for expression of interests (REoIs) for consulting services, will be advertised following negotiations in a national newspaper or on the MEFWA (for Albania) and in the MTEP (for Montenegro) websites. The SPNs for International Competitive Bidding for goods and civil works packages and REoIs for consultant's contracts above US$200,000 equivalent will be advertised on-line in UNDB/dgMarket. The results of contract awards for goods, civil works and consulting services will be posted on the UNDB and in the Development Gateway's dgMarket as the Guidelines require. The TSU (in Montenegro) and the MEFWA/Department of Nature Protection Policies (DNPP) will not engage services of firms and individuals debarred by the Bank for Bank financed contracts. The current listing of such debarred firms and individuals is located at: ***http://www.worldbank.org/html/opr/procure/debarr.html***

2. **Procurement of Works:** The Project will finance civil works contracts in both countries for refurbishing buildings, for renovating pilot cultural sites, building construction, etc. The civil works will be packaged to the extent possible for tendering under NCB or ICB procedures to increase competition. The following procurement methods will be used:
(a) *International Competitive Bidding (ICB)* for civil works contracts US$500,000 and over.
(b) *National Competitive Bidding (NCB)* for contracts more than US$100,000 equivalent and less than US$500,000. The ECA regional sample bidding documents for NCB works contracts will be used. Any other bidding documents for NCB will follow the conditions applicable to Albania and to Montenegro for the NCB procedures established in the Grant Agreements and shall be acceptable to the Bank.
(c) *Shopping (minor works)* procedures for civil works contracts less than US$100,000 equivalent on the basis of three written quotations obtained from qualified contractors. The Project contains also *technical services* (TS) contracts for laboratory services for environmental monitoring, each less than US$100,000, which will be procured following shopping procedures.

3. **Procurement of Goods:** Goods procured under this Project include information technology (IT) systems, office furniture, vehicles, small boats, fishing nets, etc. The TSU and the DNPP/MEFWA will use the Bank's Standard Bidding Documents (SBDs) for all ICB. Contracts for goods will be grouped in bid packages as much as feasible to increase competition.

International Competitive Bidding (ICB): Goods packages estimated to cost US$100,000 and above per contract will be procured through ICB. IT equipment and software would be procured as separate packages and using a single-stage procurement procedure.

Shopping: Goods packages estimated to cost less than US$100,000 per contract may be procured through shopping procedures on the basis of at least three quotations. The TSU (in Montenegro) and DNPP/MEFWA supported by procurement consultant (in Albania) would solicit quotations from at least three (normally 5-6) suppliers from eligible source countries.

When shopping for procurement of IT equipment (hardware, software, etc.) the TSU and DNPP of MEFWA will follow procedures set forth in the Bank external website. When soliciting quotations, they will include in the shortlist the authorized firms recommended in this website for each country; other firms or local dealers may be added to the shortlist, after confirming their credentials with respective manufacturers.

Direct Contracting: Where certain goods are available from one supplier or in cases where compatibility with existing equipment requires that goods must be procured under Direct Contracting (single-source) and having obtained prior approval from the Bank (in accordance with paragraphs 3.6 and 3.7 of the Procurement Guidelines).

4. **Selection of Consultants:** Consulting services under this project would include technical assistance for developing predictive hydrological models; feasibility studies and site investigation for waste inventory; socio-economic studies; capacity building; etc. The project will also finance training and study tours. Short lists of consultants for services estimated to cost less than US$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Selection methods will be as follows: Consulting services estimated to cost normally US$200,000 or more per consultant contract will be procured through *Quality and Cost-Based Selection (QCBS)* method; this method also would be used for smaller contract amounts of a complex nature. Consulting services costing each less than US$200,000 equivalent may be procured through *Consultants Qualifications (CQ)* method. The *Fixed Budget (FB)* method of selection may be used for simple assignments when the contract amount should not exceed the allocated budget. The consulting contract for project audit may be selected through *Least Cost Selection (LCS)* method. Individual consultants will be selected in accordance with Section V of the Consultants Guidelines. *Single source (SS)* method may be used for consulting assignments with prior Bank approval in accordance with paras 3.9 through 3.13 of the Consultants Guidelines.

5. **Training:** Training will include study tours connected with project component activities and reflected in the Annual Training and Study Tour plans, to be approved by the Bank and after that changes and additions would be reviewed separately as they occur and would cover participants, agenda for training events, and budget estimate. Consultants required to prepare, facilitate, or conduct training activities shall be selected under Consultants Guidelines described above, and shall be included in the Procurement Plan.

6. **Operating Costs:** The Project would finance operating expenditures incurred by each component and country, such as office supplies, utilities, communication, etc. The project will finance, for Montenegro, the operating cost including salaries, for the TSU in Podgorica for about 10 months of operation. The TSU is carrying out other World Bank projects and the cost for the remaining part of the project will be covered from other Bank projects the TSU will implement. Existing three TSU staff are consultants (not government employees) and were selected competitively under the previous Bank projects.

Assessment of the agency's capacity to implement procurement

7. In *Montenegro* the TSU staff comprises a procurement officer, a financial officer, and an assistant, who will work with the MTEP Project Coordinator on technical issues. The TSU procurement officer's main responsibility will be to coordinate procurement under the Montenegro part of the project, ensuring compliance in accordance with World Bank procurement procedures for project components.

8. In *Albania* the Director of DNPP will be Project Director, assisted by the Project Coordinator in Shkodra, and supported by an experienced procurement consultant who will be selected competitively for this part-time position to ensure procedural compliance and contract awards in accordance with the World Bank procurement procedures on the Albanian side.

9. A procurement capacity assessment of the TSU in Podgorica and of the Department of Nature Protection Policies in MEFWA in Tirana (and in Shkodra Municipality, where the Project Coordinator is located) was carried out in September 2007. The key issues and risks for procurement for project implementation include the following:

- For *Montenegro*, at country level, a Country Financial Accountability Assessment (CFAA) and a Country Procurement Assessment Report (CPAR) were carried out in 2002 for the former Republic of Serbia and Montenegro. The CPAR has categorized Montenegro as high risk given the issues identified in its legal framework, regulatory functions, enforcement regime, etc. A preliminary Review of Fiduciary Arrangements in supporting CAS was prepared in draft in April 2007 for Montenegro. As above, although the TSU in charge of procurement for Montenegro has World Bank project experience, given the CPAR findings, the overall procurement risk is rated "*high*".

- For *Albania*, the Bank carried out an assessment of the Albanian procurement system in January 2001 (CPAR) and in August 2006 (CFA-Country Fiduciary Assessment). The 2006 rated "*Significant*" the risks associated with public procurement in Albania. The 2006 CFA identified shortcomings such as high-level government attempts to bypass the law, capacity deficiencies in the public procurement agency and implementing ministries, and an inadequate complaints review mechanism. A new Public Procurement Law became effective January 1, 2007, but the Albanian project implementing institution, MEFWA/DNPP lacks experience with Bank procurement (the Project Director has no procurement experience; the Project Coordinator located in Shkodra has modest experience with Bank procurement). Therefore, the overall project procurement risk for Albania is "*high*".

10. The following actions need to be undertaken to alleviate risks to project procurement:

- The Bank shall prepare and provide to TSU (Montenegro) and DNPP in MEFWA (Albania) a file with the latest procurement documents (guidelines, manuals, procurement notice templates, standard bidding documents for procurement of goods and works, standard request for proposal documents for consulting services, evaluation report formats, regional and simplified procurement documents, etc.) at the time of Project Launch Workshop. It is recommended that the TSU and the DNPP in MEFWA visit the World Bank website for latest procurement documents. The Project Launch Workshop to be organized jointly, will include a procurement training session for staff.

- The TSU has a full-time procurement officer; however, in Albania the Project Director (head of DNPP of MEFWA) will have procurement support from a part-time experienced procurement consultant, who will be hired through comparison of CVs among qualified candidates. The TSU procurement officer and the Project Director in Tirana will attend World Bank regional procurement trainings/seminars.

- A clear communications procedure must be established between the TSU and the DNPP of MEFWA and the project beneficiaries. For example, all correspondence regarding procurement, disbursement, should be routed to the Bank through the TSU and DNPP. The TSU (Montenegro) and DNPP of MEFWA (Albania) should ensure that all information exchanged with the World Bank team is complete and accurate. This will also allow the TSU/Project Director in DNPP to track procurement and other activities on behalf of BAs and to take corrective measures in case of delays; this also allows them to collect data on procurement, project management, etc., for project monitoring and evaluation and for preparing periodic consolidated project progress reports.

- The TSU and the DNPP Project Director should have adequate office space and equipment, such as computers, phone/fax machines, photocopiers, to expedite their procurement function.

C. Procurement Plan

11. Each Borrower (Montenegro, Albania) under this project developed a procurement plan for project implementation. These plans were discussed during appraisal and were agreed during Negotiations on April 23, 2008. These procurement plans will be available in the project database and on the Bank external website, and will be updated annually or as required in agreement with the World Bank Project Team to reflect project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

12. In addition to the prior review supervision carried out from Bank offices, the TSU and MEFWA capacity assessments recommended procurement supervision missions visit the countries to carry out a procurement post–review, a minimum of once per annum.

E. Details of the Procurement Arrangements Involving International Competition

1. Goods and civil works

(a) List of contract packages to be procured following ICB, direct contracting, and other methods: See Procurement Plan (below) for each country; and

2. Consulting Services

(a) List of consulting assignments with short-list of international and local firms and individual consultants: See Procurement Plan (below) for each country;

Procurement Plan

I GENERAL

Agreed date of procurement Plan
Original: April 23, 2008
Date of General Procurement Notice: estimated June 2008

II. Goods and Works and non-consulting services.

1. **Prior Review Threshold**: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

	Procurement Method	Method Threshold	Prior Review Threshold /Comments
1.	ICB for Goods	> $100,000	All subject to prior review
2.	ICB for Civil Works	> $500,000	All subject to prior review
3.	NCB for Civil Works	< $500,000	First two contracts for each country and all contracts more than $200,000 subject to prior review
4.	Shopping for Goods, Civil Works and technical services (TS)	< $100,000	First two contracts for each country subject of prior review
5.	Direct Contracting *	-	All subject of prior review

Note: *) All contracts subject of justification

Detailed procurement contracts for goods and works are enclosed in the table below (in para III. 3).

III. Selection of Consultants

1. **Prior Review Threshold**: Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

	Selection Method	Applicable Method Threshold	Prior Review Threshold /Comments
1.	Competitive Methods (Firms) QCBS	>$200,000	All prior review
2.	Competitive Methods (Firms) LCS	Any amount	All contracts more than $100,000 each
3.	Competitive Methods (Firms) FB	Any amount	All contracts more than $100,000 each
4.	Competitive Methods (Firms) CQ	<$ 200,000	First two contracts for each country and all more than $100,000 subject to prior review
5.	Individual consultants (Individual)	-	First two contracts for each country and all more than $50,000 subject to prior review
6.	Single Source (Firms and individual) *	-	All subject of prior review
7.	TOR for consulting contracts	All methods/values	All subject to prior review

*) All contracts subject to justification

2. **Short list comprising entirely of national consultants**: Short list of consultants for services, estimated to cost less than $100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

3. Consulting Services assignments and contracts for goods and works with selection methods and time schedule:

- For Albania:

1	2	3	4	5	6	7

Contract (Description)	Type of contract	Number of Contract	Procurement Method	Review by Bank (Prior / Post)	Expected Contract signature Date	Expected contract completion date
Component 1 – Understanding and management of Lake Shkodra Ecosystem						
1. Project Coordinator for Albania (local consultant)	CS	1	Individual	Prior	01/01/2008	09/30/2012
2. Operating cost for Project Coordination	OC	-	-	-	Annual Plan	
3. Project Vehicle	G	1	Shopping	Prior	10/01/2008	11/01/2008
4. Secretariat staff local	CS	1	Individual	Post	09/01/2008	09/01/2011
5. Assistant for Secretariat (local)	CS	1	Individual	Post	09/01/2008	09/01/2011
6. Operating cost for Secretariat (office supply, consumables, etc)	OC	-	-	-	Annual Plan	
7. Operating cost for bilateral Lake Management Committee (office supply; consumables, utilities; etc)	OC	-	-	-	Annual Plan	
8. IT equipment and office furniture for bilateral Lake Management Committee (*)	Goods	2	Shopping	Prior	09/30/2008	12/30/2008
9. Refurbishment of Lake management Committee office	CW	1	Shopping	Prior	09/30/2008	06/30/2009
10. Operating cost for WGs	OC	-	-	-	Annual Plan	
11. Seminars, workshops, study tours for working groups (*)	TR	-	-	-	Annual Plan	
12. Legal framework harmonization and integrating role of commission into national legislation (*)	CS	1	CQ	Prior	09/30/2008	06/30/2009
13. Public awareness campaign, public outreach/communication (local firms) (*)	CS	multiple	CQ	Post	03/30/2009	06/30/2012
14. Developing joint fisheries monitoring and management plans (*)	CS	1	CQ	Post	06/30/2009	03/15/2010
15. Establish and maintain joint database (*)	CS	1	Individual	Prior	09/30/2009	09/30/2010
16. Lab equipment for targeted transboundary monitoring programs (*)	G	multiple	shopping	Prior	07/30/2009	11/30/2009
17. Laboratory services for environmental monitoring	TS	1	Shopping	prior	09/01/2009	09/01/2011
18. Expertise for socio-economical study (*)	CS	1	CQ	Prior	09/30/2008	06/30/2009
19. Local expertise for targeted studies identified by working groups (*)	CS	6	Individuals	Post	03/30/2009	06/30/2012
20. Assistance on learning and capacity building on international cooperation on water basin management (regional expertise) (*)	CS	1	Individual	Post	10/30/2010	03/30/2011
21. Prepare Lake-wide Zoning and Management Plan	CS	1	Individual	Post	10/30/2008	01/30/2009
Component 2. Enhancing Sustainable use of Lake ecosystem						
22. Development of architectural/landscape design (local)	CS	1	Individual	Post	06/30/2009	09/30/2009
23. Expertise on inventory cultural heritage sites	CS	1	Individual	Post	12/30/2008	04/30/2009
24. Pilot renovation of cultural sites/visitor centers	CW	2	NCB	Prior	03/15/2010	09/30/2010
25. Feasibility study and design for pilot renovation of cultural sites/visitor centers (local)	CS	1	CQ	Post	06/30/2009	12/30/2009
26. Different Equipment for fishermen organization support (refrigerated truck, fishing nets, cell phones, etc)	G	3	Shopping	Post	06/30/2009	09/30/2009
27. Expertise on fishermen organization support	CS	2	Individual	Post	03/30/2009	07/15/2009
28. Equipment for Enhance Lake protection enforcement capacity	G	2	Shopping	Post	03/30/2009	06/30/2009
29. Operating cost	OC	-	-	-	Annual Plan	

Component 3. Investment to protect water quality						
30. Public awareness (local)	CS	1	CQ	Post	03/30/2010	11/30/2010
31. Design study of needs for restoring lake trees groves	CS	1	Individual	Post	03/15/2009	08/30/2009
32. Restoring lake trees groves	CW	1	shopping	post	09/30/2009	11/30/2009
33. Design for stream bank erosion control	CS	1	CQ	post	10/15/2009	04/30/2010
34. Stream design bank erosion control	CW	1	Shopping	Post	09/15/2010	12/30/2012
35. Architectural design for community based lakeside vegetation management pilot	CS	1	Individual	Post	03/15/2010	08/15/2010
36. Improvement works for community based lakeside vegetation management pilot	CW	1	shopping	Post	03/30/2011	06/30/2011
37. Equipment for community based lakeside vegetation management pilot	G	1	Shopping	Post	07/30/2010	09/30/2010
38. Procurement consultant (local)	CS	1	Individual	Prior	09/01/2008	09/30/2012

Notes: (*) – These marked assignments are for joint activities, where the selection process (and contracting) will be made from one country, while the beneficiaries will be both countries.
(**) Contracts for part time FM specialist (0.030) and financial audits are government financed.

- ***For Montenegro:***

1	2	3	4	5	6	7	8
Contract (Description)	**Type of contract**	**Amount financed by the GEF (million USD)**	**Number of Contract**	**Procurement Method**	**Review by Bank (Prior / Post)**	**Expected Contract signature Date**	**Expected contract completion date**
Component 1 – Understanding and management of Lake Skadar Ecosystem							
1. Project Coordinator (local)	CS	0.105	1	Individual	Prior	06/30/2008	09/30/2012
2. Operating cost for bilateral Lake Management Committee (office supply; consumables, utilities; etc)	OC	0.028	-	-	-	Annual Plan	
3. Operating cost for the TSU (**)	OC	0.048	-	-	-	Annual Plan	
4. Seminars, workshops, study tours for working groups (*)	TR	0.040	-	-	-	Annual Plan	
5. Operating cost for working groups (*)	OC	0.030	-	-	-	Annual Plan	
6. International consultant for preparing Lake-wide zoning and management plan (*)	CS	0.070	1	Individual	Prior	06/30/2009	03/30/2010
7. Local experts for preparing Lake-wide zoning and management plan (*)	CS	0.020	1	Individual	Post	07/30/2009	03/30/2010
8. Develop joint lake water/ecological monitoring manuals as per EU parameters (*)	CS	0.040	1	CQ	Post	11/30/2008	03/30/2009
9. Equipment for targeted transboundary monitoring program (small boat, net, etc) (*)	G	0.020	2	Shopping	Post	09/30/2009	04/15/2010
10. Laboratory services for environmental monitoring	TS	0.050	1	Shopping	Prior	09/01/2009	09/01/2011
11. TA for designing predictive hydrological model (*)	CS	0.240	1	QCBS	Prior	10/30/2010	03/30/2011
12. Assistance on learning and capacity building on international cooperation on water basin management (regional expertise) (*)	CS	0.033	1	Individual	Post	10/30/2010	03/30/2011
Component 2. Enhancing Sustainable use of Lake ecosystem							
13. Capacity building on tourism (local - first year contract financing only from GEF))	CS	0.012	1	Individual	Post	01/01/2009	12/30/2009
14. Pilot renovation of cultural sites/visitor centers	CW	0.100	1	Shopping	Prior	03/15/2010	09/30/2010
15. Construction works for model eco-camping site	CW	0.045	1	Shopping	Post	03/15/2010	06/15/2010
16. Works on migratory waterfowl monitoring stations	CW	0.040	1	Shopping	Post	09/15/2010	11/30/2010

17. Capacity building for natural resources support (local – first year contract financing only from GEF)	CS	0.013	1	Individual	Prior	01/01/2009	12/30/2009
18. Different Equipment for fishermen organization support (fishing nets, etc)	G	0.025	2	Shopping	Post	02/15/2010	05/30/2010
19. Expertise on fishermen organization support	CS	0.025	1	Individual	Post	06/30/2009	11/30/2009
20. Motorized Small Boats (three types) for Enhancing Lake protection enforcement capacity	G	0.090	2	Shopping	Post	03/30/2009	05/30/2009
21. Vehicles for Enhancing Lake protection enforcement capacity	G	0.050	2	Shopping	Post	06/30/2009	09/30/2009
22. Other equipment (binoculars, cameras, walkie-talkie, compass, etc) for Enhance Lake protection enforcement capacity	G	0.010	1	Shopping	Post	03/30/2009	08/30/
Component 3. Investment to protect water quality							
23. Vranja WWTP building construction	CW	0.430	1	NCB	Prior	02/15/2009	09/30/2009
24. Study on waste inventory, site investigation, option analyses and feasibility study	CS	0.800	1	QCBS	Prior	10/30/2008	04/15/2010
26. Environmental impact assessment	CS	0.100	1	CQ	Prior	06/15/2010	12/15/2010
27. International advisor KAP hazardous waste containment	CS	0.100	1	Individual	Prior	09/30/2008	09/30/2010
Total for Montenegro (***))		**2.56**					
Total GEF financing (Albania and Montenegro)		**4.55**					

Notes: (*) – These marked assignments are for joint activities, where the selection process (and contracting) will be conducted from one country, while the beneficiaries will be both countries.

(**) - The Project will finance, for Montenegrin part, the operating cost including salaries for the TSU in Podgorica for about 10 months of operation. The TSU is carrying out other WB projects and it was agreed that the cost for the remaining part of the project will be covered from other Bank projects the TSU is/will implement. The three TSU staff are consultants (not Government employees) and were selected competitively under the previous WB project.

(***)- contracts for financial audits are government financed

IV. Ex-Post review:

1. Contracts for goods, woks and consulting services below prior review thresholds are subject of Bank's selective ex-post review. Periodic ex-post review by the Bank will be undertaken during regular supervision missions. Procurement documents, such as bidding documents, bids, bid evaluation reports and correspondence related to bids and contracts will be kept readily available for the Bank's ex-post review during supervision mission or at any other point of time. Bank's mission will review at least one out of every five contracts which are subject of ex-post review.

2. Record Keeping: The TSU in Montenegro and DNPP of MEFWA in Albania will maintain complete procurement files which will be reviewed by supervision missions. All procurement related documents that requires prior review will be cleared by the Procurement Accredited Staff (PAS) and related technical staff. Procurement information will be recorded by the TSU and DNPP and submitted to the Bank as part of quarterly (FMRs) and annual progress reports.

Annex 9: Economic and Financial Analysis

LAKE SKADAR-SKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

Economic Analysis

1. Project benefits are long-term and cannot be quantified in monetary terms so this section describes economic cost/benefit. Most investments are institutional and capacity building and do not lend themselves to economic and financial analyses thus analysis was limited to the KAP site and untreated wastewater. The KAP feasibility study will use cost-benefit analysis to evaluate alternatives. The feasibility study for a rural village wastewater investment will assess cost-effectiveness based on investment costs per capita, and promote lowest-cost design solutions proven effective in other rural areas. Most financing comprises a capital grant, so no payback calculations are required. An assessment of affordability and willingness-to-pay for operations and maintenance costs of the small-scale wastewater investment will be conducted using surveys.

2. *Waste dump at KAP site.* The KAP waste dump facility lacks a base liner, lateral barriers, cover, drainage, and water treatment systems, which exposes the waste to precipitation and results in rainwater percolating through the waste. Without investment to stop migration of polluted soil, contaminants in the underlying and adjacent soils and groundwater leading to Lake Skhodra will continue to degrade the water quality. In 2005-2006, water quality near the factory showed increased levels of PCB, PAH, As, Pb, Cd, Zn, pH, phenols, Fe, and failed to meet standards for drinking water quality. The aluminum plant is the biggest polluter of groundwater in the Zeta valley. Groundwater pollution with PCB compounds (the most serious environmental problem in the previous period) is reported to have decreased due to removal of old barrels of Pyralene on the KAP site. Toxic substances have been measured in soils near the plant, with elevated concentrations of PAHs, PCBs, fluorides, mercury, cyanides, and ammonia well above maximum allowable concentrations. Some of the soil on the KAP site is extremely polluted and is a permanent source of groundwater pollution.

3. Primary existing and potential environmental and health risks that the KAP site poses include the following:

- Toxic emissions into the atmosphere
- Toxic emissions into groundwater and drinking water from seepage through polluted soil
- Toxic substances contaminating surface water runoff
- Exposure to toxic substances threatens human and animal health through skin contact, inhalation, ingestion

4. Quantifying the health impacts of toxins on the population is possible only through surveys that precisely measure exposure duration and severity, or by studying epidemiological evidence of the impact of soil pollution on health. Populations can be exposed to toxins from polluted soils via diverse routes (ingestion, consuming polluted crops, soil dust, or inhaling air polluted by soil). Lead is a known carcinogen that has been linked to decreased intellectual function. Cadmium can cause lung cancer and mercury can accumulate in the food chain, for example, larger and older fish usually contain the highest amounts of methyl mercury. The human nervous system is highly susceptible to the effects of mercury, particularly fetuses and children. Methyl mercury is commonly associated with risks of developmental defects but short- and long-term effects depend on amounts and exposure. Relatively small exposure can result in slight decreases in intellectual function and might not be apparent, but significant exposure poses a serious health threat.

5. The proposed component will benefit Montenegro, particularly in avoiding costs for cleaning up polluted groundwater, treating drinking water, and removing polluted sediments. Benefits also accrue from avoiding damage to public health that would result from taking no action because over time, more toxic substances would build up in the environment as they are released. Typical clean-up costs for groundwater and sediments substantially exceed the costs for appropriate landfill storage. In addition to the health benefits, remediation of the KAP waste dump facility would protect drinking water supplies, increase real estate values, improve the ecosystem, and reduce some of the local populations' pollution-related concerns.

6. The Zeta Plain is the largest plain and one of the most densely populated areas in Montenegro; it consists of fertile lowland that stretches from Podgorica in the north to Skadar Lake in the south and is home to the vast vineyards of "Plantaže" a quality wine producer. Zeta Plain also has ideal growing conditions for a wide variety of Mediterranean fruits and vegetables. Golubovci town is the biggest settlement in the plain (3000 inhabitants), and is the capital of Golubovci urban municipality, which encompasses most of the plain.

7. *Small scale wastewater treatment.* Several donor-funded programs are supporting construction or upgrading of sewage collection and wastewater treatment facilities in large urban areas connected to the lake basin. In Montenegro, the project will finance a pilot small- scale wastewater treatment, possibly based on constructed wetlands, for the village of Vranjina.

8. Wastewater treatment will provide the following:

- Health benefits from improved availability and quality of drinking water
- Natural resources benefits from improved water quality for recreational and downstream surface water uses
- Economic benefits from enhanced prospects for tourism growth, related employment, increased number of potential users, and increased land values
- Ecological benefits from improved systems for better lake water quality, which represents a non-use value

9. Wastewater schemes must be affordable and technically sustainable; prior to approval, feasibility studies will evaluate the technologies, financing, and affordability of initial investments plus operation and maintenance requirements.

Annex 10: Safeguard Policy Issues

LAKE SKADAR-SKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

Environment

1. Overall, the project has been classified as Category B based on screening proposed investment types. Three types of project investments are identified with potential construction-related impacts including: small scale wastewater treatment system; waterfowl monitoring stations; and rehabilitating historic and cultural monuments. Each of these investments requires EMP development and environmental assessment under national laws and environmental permitting applications. Additionally the cultural monument renovations will require special permits from the respective Ministries of Culture. The project will support feasibility studies a EIA for the KAP site, which would be prepared to the standard of a category "A" World Bank assessment. Technical Assistance related to the KAP site (feasibility study, EIA, and technical advisory support) financed through the project is considered most compatible with a Category "B" classification, since it requires involvement of Bank environment specialists in reviewing TORs, project supervision, and providing technical comments for reports for risk mitigation and quality assurance.

2. *Environmental Impact Assessment*: An EIA has been carried out and publicly disclosed in both countries in the form of a Framework EIA because on-the-ground investments were not specified (e.g., locations and technologies for small-scale wastewater treatment) during preparation. The EIA describes potential activities and outlines the process by which environmental screening and assessment for such investments will be undertaken in accordance with government and World Bank policies and procedures. The EIA also reviews relevant legislative and regulatory frameworks and implementation/enforcement capacity in each country and assesses the extent to which these are compatible with and sufficient to meet WB requirements; evaluates the project's potential environmental risks and impacts in its area of influence, including transboundary aspects and international obligations; examines the project alternatives; identifies improvements to project selection, siting, planning, design and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and enhancing positive impacts; includes mitigation processes and managing adverse impacts by developing environmental monitoring and mitigation plans (EMP), which will be implemented as a part of the project execution. The EIA will be incorporated into the project PIM, which will specify review processes and responsibilities. For any subproject, the respective ministry or project proponent will carry out an appropriate Environmental Assessment (EA) for activities under the main project. Before approving a subproject, the Project Coordinator verifies (through its own staff, outside experts, or existing environmental institutions) that the subproject meets the environmental requirements of appropriate national and local authorities and is consistent with the OP 4.01 and other applicable environmental policies of the Bank. The Project Coordinator will submit all EAs to the Bank for review and comment before finalization of the national EA review.

3. *Natural Habitats:* This OP is triggered because the project area comprises legally designated PAs and Ramsar sites and because some on-the-ground works will be financed (e.g., ecological campground, waterfowl monitoring stations, and a village-level constructed wetland wastewater treatment facility. Project impacts are expected to be positive, through improved monitoring of lake conditions and strengthened capacity of the agencies responsible for managing the lake (the management units of the two Protected Areas). The lake-wide zoning and management plan will be integrated with, and add an essential transboundary element to protected area management plans in each country.

4. *International Waterways*: Lake Skadar-Shkoder empties into the Adriatic Sea via the transboundary Buna-Bojana River. There will be no water abstraction and the only interventions will be environmentally positive (reducing pollution inputs to the lake). However, in accordance with Bank policy and practice, this OP is triggered because investment in new wastewater treatment infrastructure is envisioned. The Adriatic states have been notified through UNEP, which serves as the Secretariat for the Barcelona Convention for the Protection of the Mediterranean Sea against Pollution.

Public Consultation and Disclosure

6. During the EA process for sub-investments, the respective ministry will consult with project-affected groups and local nongovernmental organizations (NGOs) about project environmental impacts and take their views into account. The respective ministry will provide information that is understandable and accessible in format and language to project-affected groups and local NGOs in a timely fashion prior to consultation.

Potential Environmental Impacts

7. The following investments are sample descriptions of potential environmental impacts of proposals that would require a site-specific EA and Environmental Management Plan. Details are provided in the project EIA. All investments should be consistent with PA management plans and spatial plans.

Example: New wastewater system in the village of Vranjina

Potential environmental issue and impact	Mitigation measures
Contamination of surroundings during construction with construction waste (packaging, solvents, paints, plastic, etc.)	A waste management plan should be prepared, covering the whole construction phase. Waste containers with locks could be placed at the building site to separate types of waste, and frequent inspections should be done by the monitoring authority. A special container should be dedicated to hazardous waste—solvents, paints, and other toxic chemicals.
Contamination of the lake with domestic waste water, containing fecalia, pathogens and contaminants (e.g. detergents, disinfectants, chlorine, etc.)	Different solutions for treating wastewater should be considered, including sand filters, mini wastewater treatment plants, and modern septic tanks. If septic tank solutions are used, a system for emptying the tanks should be put in place.
Destruction of recreational values because of odors, tainting of the water at outlets, etc.; Health risks near outlets	Local environmental authorities on both sides of the lake should ensure future monitoring programs analyze water samples for E. coli and/or coliform bacteria to underpin public information on health risks in the lake
Oxygen depletion due to high organic content in waste water	Oxygen content (dissolved oxygen) should be part of future monitoring programs to be measured on a regular basis
Eutrophication due to high phosphorus content of waste water	As mentioned above, different solutions for treating the wastewater should be considered, including sand filters, mini wastewater treatment plants, and modern septic tanks.

Legacy Pollution (KAP) Site

9. Terms of Reference for the waste classification and pre-investigation studies will be prepared by authorities in Montenegro and members of a KAP site steering group with comments and no-objection from the World Bank. The project description from the feasibility study report should be used for an application of approval to the Ministry of Tourism and Environment and follow normal EIA procedures, and be submitted to the World Bank for review and comment. Movement of hazardous waste and construction of a landfill for hazardous waste is on the list for preparation of a mandatory EIA study

according to the Law on EIA in Montenegro. An extra hearing/consultation apart from the obligatory one under the Montenegrin EIA Law should be initiated by the project proponent, as soon the project description is well developed. As expertise for this kind of remediation, containment or construction of landfills for hazardous waste is not present in the Ministry, the project supports an international adviser to help in supervision and an advisory role to the Ministry. This support will supplement and not replace Bank and Ministry of Environment and Tourism supervision.

Capacity Development and Institutional strengthening

10. Both Montenegro and Albania have been actively revising sectoral policies and legislation to harmonize with EU policies and Directives. This includes recently updated legislation on Environmental Impact Assessment (including Strategic Environmental Assessment), environmental protection, Protected Areas, and protection and management of water and living natural resources. National and local governments in both countries have made considerable progress in re-establishing a regulatory presence since the early 1990s. However, law enforcement relating to land and resource use remains weak. Uncontrolled and unregulated construction is a major threat, particularly on the Albanian side (and some on the Montenegro side). There are issues of conflicting and overlapping sectoral agencies' mandates and between central and local government levels. EIA recommendations to strenthen environmental enforcement capacity have been incorporated by the project: (1) *Train park rangers of both countries to enforce nature park regulations and take action against illegal fishery, waste disposal, etc.* Training would be conducted in cooperation with the Regional Environment Agency Shkodra, and the future Environment Agency in Montenegro. Park rangers have the primary responsibility to identify and assess fees and fines related to natural resources including fisheries, and some responsibility for small solid waste violations. Parks rangers in Albania and Montenegro do not have authority to issue fines or take action against illegal construction, and must defer to other responsible government agents. (2) *Training regional environmental agency staff in Shkodra on environmental auditing and inspection.*

Social Safeguards

11. *Cultural Property*: This OP is triggered because there are legally designated cultural heritage sites within the project area (e.g., old monasteries), some of which will be rehabilitated for touristic and educational purposes. Special measures will be taken in the rehabilitation designs and construction works, including close consultations and permissions from legal bodies responsible for cultural heritage in each country. Construction agreements will include provisions related to "chance finds" in all contracts that involve earth movement, following procedures specified in the PIM.

12. *Involuntary resettlement*: The project will not finance any land acquisition; activities carried out under the project will not require or entail any land acquisition and/or physical relocation of people. However, the project may require involuntary restriction of access to natural resources in legally designated protected areas. The TDA indicated that over-fishing and fishing in inappropriate areas or with inappropriate methods probably represents a significant threat to the sustainable use of this valuable element of the lake ecosystem. This remains to be confirmed through a detailed study of the fish resources during the first year of the project. Confirmation that fishing pressure needs to be reduced could damage livelihoods for some current users. Anticipating this possibility, Resource Access Restriction Process Frameworks were prepared for both countries during project preparation in accordance with WB OP/BP 4.12. These Process Frameworks have been publicly disclosed with government cover letters endorsing the Frameworks. The process frameworks do not address re-settlement associated with possible demolitions by ongoing government programs in accordance with their law. Planning supported under this project only addresses natural resources management at a regional level which does not trigger WB OP/BP 4.12.

Annex 11: Project Preparation and Supervision

LAKE SKADAR-SKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

	Planned	Actual
PCN review	03/04/2004	03/04/2004
Initial PID to PIC	03/30/2004	03/12/2004
Initial ISDS to PIC	03/30/2004	05/04/2004
Appraisal	2/27/2008	3/12/2008
Negotiations	4/21/2008	4/22/2008
Board/RVP approval	05/27/2008	
Planned date of effectiveness		
Planned date of mid-term review		
Planned closing date		

Key institutions responsible for preparation of the project:
Albania: Ministry of Environment, Forests, and Water
Montenegro: Ministry of Tourism and Environmental Protection

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Agi Kiss	Lead Ecologist	ECSSD
Aleksandar Crnomarkovic	Financial Management Analyst	ECSPS
Rohan Selvaratnam	Sr. Program Assistant	ECSSD
Nikola Ille	Sr. Rural Development	ECSSD
Drita Dade	Projects Officer	ECSSD
Karin Shepardson	Sr. Operations Officer, TTL	ECSSD
Olav Christensen	Sr. Financial Management Specialist	ECSPS
Arben Maho	Procurement Specialist	ECSPS
Aleksandar Nacev	Sr. Agriculturist	ECSSD
Kirsten Burghardt Propst	Counsel	LEGEM
Danielle Malek	Counsel	LEGEM
Paula M. Lytle	Senior Social Dev. Specialist	ECSSD
Elona Gjika	Financial Management Analyst	ECSPS
Konrad Buchauer	Wastewater Consultant	ECSSD
Katelijn Van den Berg	Environmental Economist	ECSSD
Marina Markovic	Environment Consultant	ECSSD
Wolfhart Pohl	Sr. Environment Specialist	ECSSD
Chris Cosslett	GEF ICA Consultant	ECSSD
Robin Drewett	Industrial Pollution Consultant	ECSSD

Bank funds expended to date on project preparation:

1. Bank resources: BBGEF US$390,100.05
2. Trust funds: PDF-B US$119,349.73
3. BBFAO: US$12,100
4. Total:US$521,549.73

Annex 12: Documents in the Project File

LAKE SKADAR-SHKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

1. Project Concept Note
2. Project Information Document
3. Albania: Environmental Impact Assessment
4. Albania: Resource Access Restriction Process Framework
5. Republic of Montenegro: Environmental Impact Assessment
6. Republic of Montenegro: Resource Access Restriction Process Framework
7. Joint Strategic Action Plan
8. PDF B Audit of the Annual Financial Statements for the year ended 31st. December 2006
9. Lake Shkoder/Skadar: Transboundary Diagnostic Analysis Report
10. Lake Shkoder Integrated Ecosystem Management Project: "Support for Preparation Revision of Montenegrin Draft Water Law – Final Report, February 20, 2006
11. Lake Skadar: Health Screening Assessment Report
12. Social Surveys
13. Draft PIM for the Lake Skadar-Shkoder Integrated Ecosystem Management Project
14. Zero State Analysis (Environmental Audit) of KAP Site
15. Agreement Between the Government of the Republic of Montenegro and the Council of Ministers of the Republic of Albania for the Protection and Sustainable Development of the Lake of Shkodra (Skadar) and its Watershed, February 25, 2008
16. Vranjina Draft Feasibility Study TORs
17. Project Procurement Plan

Annex 13: Statement of Loans and Credit-

ALBANIA

			Original Amount in US$Millions						Difference between expected and actual disbursements	
Project ID	FY	Purpose	IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P096643	2007	BERIS	5.60	3.70	0.00	0.00	0.00	8.85	-0.43	0.00
P096263	2007	LAND ADMIN & MGMT PROJ	19.96	15.00	0.00	0.00	0.00	36.04	0.38	0.00
P096205	2007	DPL	0.00	10.00	0.00	0.00	0.00	10.43	0.00	0.00
P078949	2007	TRANSPORT	20.00	5.00	0.00	0.00	0.00	25.82	0.00	0.00
P100273	2006	AVIAN FLU - AL	0.00	5.00	0.00	0.00	0.00	4.49	1.13	0.00
P082814	2006	HEALTH SYST MOD	0.00	15.40	0.00	0.00	0.00	15.71	1.38	0.00
P078933	2006	EDUC EXCEL & EQUITY	0.00	15.00	0.00	0.00	0.00	14.52	0.28	0.00
P082375	2005	NATURAL RES DEVT	0.00	7.00	0.00	0.00	0.00	5.67	1.98	0.00
P086807	2005	COASTAL ZONE MGMT (APL #1)	0.00	17.50	0.00	0.95	0.00	15.45	5.96	0.00
P089061	2005	NATURAL RES DEVT (GEF)	0.00	0.00	0.00	5.00	0.00	4.08	0.00	0.00
P090656	2005	ECSEE APL2 (ALBANIA)	0.00	27.00	0.00	0.00	0.00	25.76	0.77	0.00
P082128	2004	WATER RES MGMT	0.00	15.00	0.00	0.00	0.00	8.12	-0.80	0.00
P077526	2004	POWER SECTOR GENER & RESTRCT'G	0.00	25.00	0.00	0.00	0.00	24.82	22.16	0.00
P075156	2004	INTGD WATER/ECOSYS MGMT (GEF)	0.00	0.00	0.00	4.87	0.00	4.01	4.67	0.00
P077297	2003	COM WRKS 2	0.00	15.00	0.00	0.00	0.00	2.74	1.42	-0.82
P041442	2003	MUN WATER/WW	0.00	15.00	0.00	0.00	0.00	6.15	1.18	0.00
P069479	2002	FISHERY DEVT	0.00	5.60	0.00	0.00	0.00	0.51	-0.32	0.00
P055383	2001	SOC SERV DEVT	0.00	10.00	0.00	0.00	0.00	7.70	4.50	2.20
P054736	2001	AG SERVICES	0.00	9.90	0.00	0.00	0.00	1.74	-0.02	0.00
		Total:	45.56	216.10	0.00	10.82	0.00	222.61	44.24	1.38

ALBANIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2005	Fushe Kruje	30.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
2002	INSIG	0.00	0.00	6.23	0.00	0.00	0.00	6.22	0.00
2000	NCBank	0.00	2.00	0.00	0.00	0.00	2.00	0.00	0.00
1999	ProCredit ALB	0.00	0.98	0.00	0.00	0.00	0.98	0.00	0.00
2003	Vodafone Albania	17.83	0.00	0.00	3.70	17.83	0.00	0.00	3.70
	Total portfolio:	47.83	2.98	6.23	3.70	47.83	2.98	6.22	3.70

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
2002	Savings Bank	0.00	0.02	0.00	0.00
	Total pending commitment:	0.00	0.02	0.00	0.00

Statement of Loans and Credits
MONTENEGRO:

			Original Amount in US$Millions						Difference between expected and actual disbursements	
Project ID	FY	Purpose	IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P106899	2008	ECSEE APL #3 - MONTENEGRO	0.00	9.00	0.00	0.00	0.00	9.46	0.33	0.00
P093461	2007	SUST TOURISM DEVT	0.00	10.00	0.00	0.00	0.00	10.12	0.70	0.00
P084597	2005	EDUC (MONTENEGRO)	0.00	5.00	0.00	0.00	0.00	0.85	-0.65	0.00
P079116	2004	ENVIRONMENT	0.00	7.00	0.00	0.00	0.00	5.15	4.58	0.00
P082223	2004	HEALTH SYSTEM (MONTENEGRO)	0.00	7.00	0.00	0.00	0.00	3.89	2.83	-1.16
P087470	2004	PENSION ADMIN (MONTENEGRO)	0.00	5.00	0.00	0.00	0.00	4.09	3.00	0.00
		Total:	0.00	43.00	0.00	0.00	0.00	33.56	10.79	- 1.16

MONTENEGRO
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

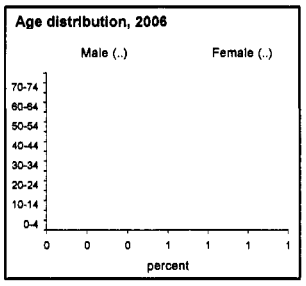
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1982/82/87/87	Gov montenegero1	22.14	0	0	0	22.14	0	0	0
0/00	Gov montenegro 2	3.04	0	0	0	3.04	0	0	0
	Total portfolio:	25.18	0.00	0.000	0.000	25.18	0.00	0.00	0.00

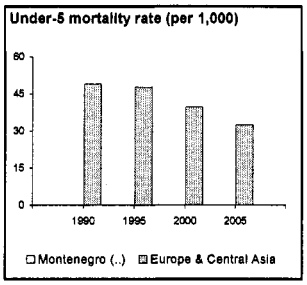
Annex 14: Country at a Glance

MONTENEGRO

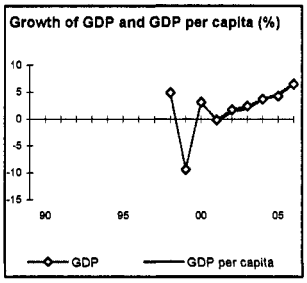
11/5/07

Key Development Indicators (2006)	Montenegro	Europe & Central Asia	Upper middle income
Population, mid-year (millions)	0.62	460	810
Surface area (thousand sq. km)	14	24,114	41,460
Population growth (%)	0.0	0.0	0.7
Urban population (% of total population)	62	64	75
GNI (Atlas method, US$ billions)	2.5	2,206	4,790
GNI per capita (Atlas method, US$)	4,090	4,796	5,913
GNI per capita (PPP, international $)	..	9,662	10,817
GDP growth (%)	6.5	6.8	5.6
GDP per capita growth (%)	6.5	6.8	4.9
(most recent estimate, 2000–2006)			
Poverty headcount ratio at $1 a day (PPP, %)	9	1	..
Poverty headcount ratio at $2 a day (PPP, %)	..	10	..
Life expectancy at birth (years)	..	69	70
Infant mortality (per 1,000 live births)	..	28	26
Child malnutrition (% of children under 5)	..	5	..
Adult literacy, male (% of ages 15 and older)	..	99	94
Adult literacy, female (% of ages 15 and older)	..	96	92
Gross primary enrollment, male (% of age group)	..	103	106
Gross primary enrollment, female (% of age group)	..	100	104
Access to an improved water source (% of population)	..	92	93
Access to improved sanitation facilities (% of population)	..	85	81





Net Aid Flows	1980	1990	2000	2006
(US$ millions)				
Net ODA and official aid	..	..	..	..
Top 3 donors (in 2005):				
n.a.	..	..	..	..
n.a.	..	..	..	..
n.a.	..	..	..	..
Aid (% of GNI)	..	..	..	..
Aid per capita (US$)	..	..	..	..



Long-Term Economic Trends					1980–90	1990–2000	2000–06
					(average annual growth %)		
Consumer prices (annual % change)	..	..	*24.0*	2.1			
GDP implicit deflator (annual % change)	..	..	*22.0*	3.9			
Exchange rate (annual average, local per US$)	..	..	1.1	0.8			
Terms of trade index (2000 = 100)	..	..	..	..			
Population, mid-year (millions)	..	*0.6*	0.6	0.6	..	..	0.2
GDP (US$ millions)	..	..	944	2,491	..	..	3.0
			(% of GDP)				
Agriculture	..	..	13.1	7.8	..	..	2.3
Industry	..	..	24.6	17.6	..	..	2.3
Manufacturing	..	..	*12.3*	12.6	..	..	..
Services	..	..	62.4	74.6	..	..	3.0
Household final consumption expenditure	..	..	70.6	81.5	..	..	3.0
General gov't final consumption expenditure	..	..	22.9	18.5	..	..	3.0
Gross capital formation	..	..	21.4	31.8	..	..	3.0
Exports of goods and services	..	..	38.4	48.0	..	..	3.0
Imports of goods and services	..	..	53.3	80.9	..	..	3.0
Gross savings	..	..	21.9	6.3			

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available.

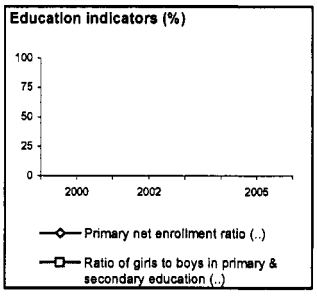
Development Economics, Development Data Group (DECDG).

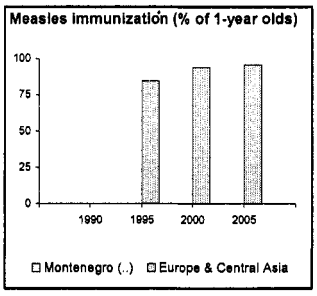
Millennium Development Goals

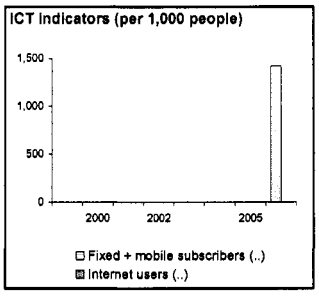
Montenegro

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Montenegro			
Goal 1: halve the rates for $1 a day poverty and malnutrition	**1990**	**1995**	**2000**	**2005**
Poverty headcount ratio at $1 a day (PPP, % of population)	..	..	..	*9.0*
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	..	..	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	..	..
Primary completion rate (% of relevant age group)	..	..	..	..
Secondary school enrollment (gross, %)	..	..	..	..
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	..	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	..	*91*
Proportion of seats held by women in national parliament (%)	..	..	..	..
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	..	..	..	..
Infant mortality rate (per 1,000 live births)	..	..	..	*10*
Measles immunization (proportion of one-year olds immunized, %)	..	..	..	..
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	..
Births attended by skilled health staff (% of total)	..	..	..	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	..	..
Tuberculosis cases detected under DOTS (%)	..	..	..	..
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	..	..	..
Access to improved sanitation facilities (% of population)	..	..	..	..
Forest area (% of total land area)	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..
CO2 emissions (metric tons per capita)	..	..	..	..
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	..	..	..	*1,421*
Internet users (per 1,000 people)	..	..	..	..
Personal computers (per 1,000 people)	..	..	..	..
Youth unemployment (% of total labor force ages 15-24)	..	..	..	*3.8*







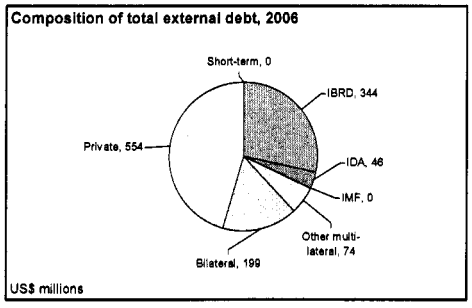
Note: Figures in italics are for years other than those specified. .. indicates data are not available. 11/5/07

Development Economics, Development Data Group (DECDG).

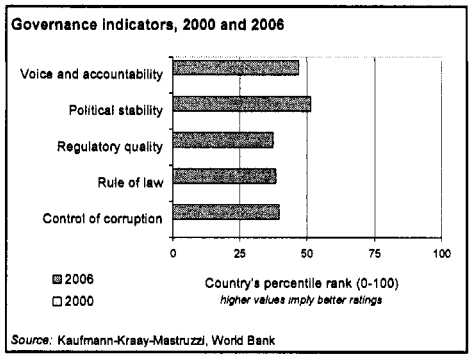
Balance of Payments and Trade	2000	2006
(US$ millions)		
Total merchandise exports (fob)	..	853
Total merchandise imports (cif)	..	1,973
Net trade in goods and services	-141	-836
Current account balance	*-99*	-677
as a % of GDP	*-8.8*	-27.2
Workers' remittances and compensation of employees (receipts)	..	..
Reserves, including gold	*100*	433

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	39.2	34.6
Tax revenue	29.6	27.5
Current expenditure	35.2	33.4
Overall surplus/deficit	0.0	1.7
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	*615*	1,217
Total debt service	..	*29*
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	*55.2*	48.9
Total debt service (% of exports)	..	*2.4*
Foreign direct investment (net inflows)	0	*467*
Portfolio equity (net inflows)	0	*6*



Private Sector Development	2000	2006
Time required to start a business (days)	–	24
Cost to start a business (% of GNI per capita)	–	6.7
Time required to register property (days)	–	86
Ranked as a major constraint to business (% of managers surveyed who agreed)		
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..



Technology and Infrastructure	2000	2005
Paved roads (% of total)	..	..
Fixed line and mobile phone subscribers (per 1,000 people)	..	..
High technology exports (% of manufactured exports)	..	..

Environment		
Agricultural land (% of land area)	..	..
Forest area (% of land area)	..	..
Nationally protected areas (% of land area)	..	..
Freshwater resources per capita (cu. meters)	..	..
Freshwater withdrawal (% of internal resources)	..	..
CO2 emissions per capita (mt)	..	..
GDP per unit of energy use (2000 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	2000	2006
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	–	344
Disbursements	–	14
Principal repayments	–	8
Interest payments	–	17
IDA		
Total debt outstanding and disbursed	–	46
Disbursements	–	6
Total debt service	–	0
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	–	18
of which IFC own account	–	18
Disbursements for IFC own account	–	8
Portfolio sales, prepayments and repayments for IFC own account	–	2
MIGA		
Gross exposure	–	–
New guarantees	–	–

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. 11/5/07
.. Indicates data are not available. – indicates observation is not applicable.

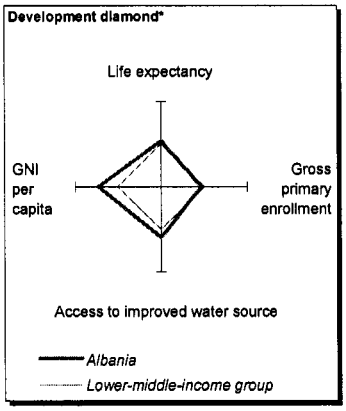
Development Economics, Development Data Group (DECDG).

Annex 14: Country at a Glance

Albania at a glance

9/28/07

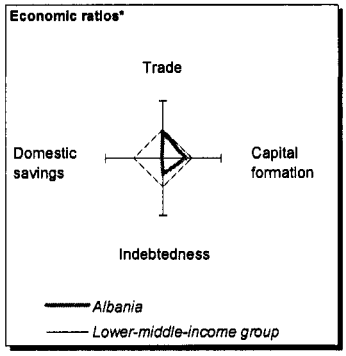
POVERTY and SOCIAL	Albania	Europe & Central Asia	Lower-middle-income
2006			
Population, mid-year *(millions)*	3.1	460	2,276
GNI per capita *(Atlas method, US$)*	2,960	4,796	2,037
GNI *(Atlas method, US$ billions)*	9.3	2,206	4,635
Average annual growth, 2000-06			
Population *(%)*	0.4	0.0	0.9
Labor force *(%)*	0.2	0.5	1.4
Most recent estimate (latest year available, 2000-06)			
Poverty *(% of population below national poverty line)*	25	..	..
Urban population *(% of total population)*	46	64	47
Life expectancy at birth *(years)*	75	69	71
Infant mortality *(per 1,000 live births)*	16	28	31
Child malnutrition *(% of children under 5)*	14	5	13
Access to an improved water source *(% of population)*	96	92	81
Literacy *(% of population age 15+)*	99	97	89
Gross primary enrollment *(% of school-age population)*	106	102	113
Male	106	103	117
Female	105	100	114



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

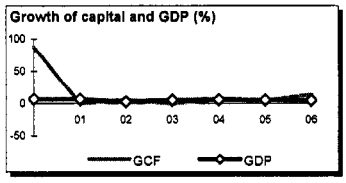
	1986	1996	2005	2006
GDP *(US$ billions)*	2.2	3.0	8.4	9.1
Gross capital formation/GDP	30.9	22.0	23.6	25.6
Exports of goods and services/GDP	15.1	12.3	21.8	22.2
Gross domestic savings/GDP	30.5	-0.9	-0.5	1.3
Gross national savings/GDP	30.5	20.0	16.1	17.4
Current account balance/GDP	..	-3.6	-7.9	-8.0
Interest payments/GDP	..	0.2	0.3	..
Total debt/GDP	..	16.3	21.9	..
Total debt service/exports	..	2.1	2.5	..
Present value of debt/GDP	..	..	16.5	..
Present value of debt/exports	..	..	42.9	..

	1986-96	1996-06	2005	2006	2006-10
(average annual growth)					
GDP	-2.5	5.9	5.5	5.0	6.0
GDP per capita	-2.6	5.7	4.9	4.7	4.8
Exports of goods and services	25.1	21.1	7.2	7.3	9.7

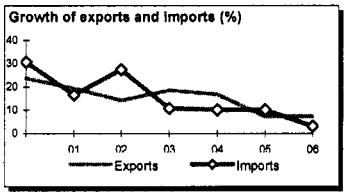


STRUCTURE of the ECONOMY

	1986	1996	2005	2006
(% of GDP)				
Agriculture	34.0	33.0	22.8	..
Industry	44.2	20.2	21.5	..
Manufacturing	..	14.4	..	..
Services	21.8	46.8	55.7	..
Household final consumption expenditure	60.2	91.2	91.2	89.8
General gov't final consumption expenditure	9.3	9.7	9.3	8.9
Imports of goods and services	15.5	35.2	45.9	46.5



	1986-96	1996-06	2005	2006
(average annual growth)				
Agriculture	4.1	1.4	2.6	..
Industry	-11.2	8.6	-3.4	..
Manufacturing	..	5.8	..	..
Services	-1.6	7.9	8.0	3.5
Household final consumption expenditure	2.9	7.3	8.8	0.6
General gov't final consumption expenditure	-3.1	2.9	2.0	5.2
Gross capital formation	19.2	11.7	4.3	13.9
Imports of goods and services	24.2	16.4	10.1	3.1



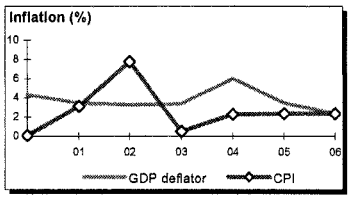
Note: 2006 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

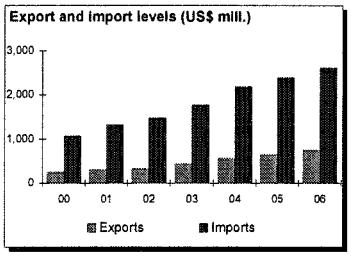
PRICES and GOVERNMENT FINANCE

	1986	1996	2005	2006
Domestic prices				
(% change)				
Consumer prices	..	12.7	2.4	2.4
Implicit GDP deflator	-2.4	28.4	3.5	2.4
Government finance				
(% of GDP, includes current grants)				
Current revenue	48.7	15.8	24.9	25.5
Current budget balance	25.0	-6.2	1.2	1.8
Overall surplus/deficit	..	-11.0	-4.1	-3.9



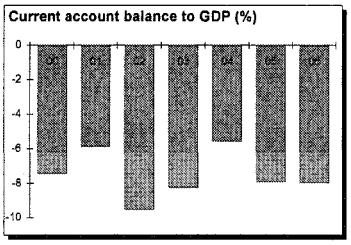
TRADE

	1986	1996	2005	2006
(US$ millions)				
Total exports (fob)	..	229	652	750
Agriculture	..	35	..	..
Mineral products	..	21	..	..
Manufactures	..	111	..	..
Total imports (cif)	..	921	2,397	2,618
Food	..	323	..	..
Fuel and energy	..	22	..	..
Capital goods	..	367	..	..
Export price index *(2000=100)*	..	..	121	120
Import price index *(2000=100)*	..	..	116	117
Terms of trade *(2000=100)*	..	..	104	102



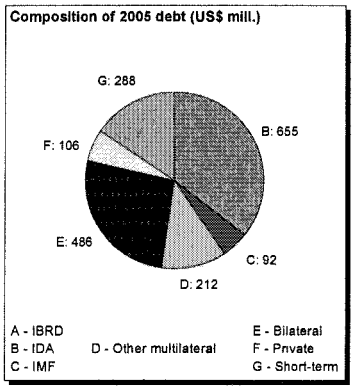
BALANCE of PAYMENTS

	1986	1996	2005	2006
(US$ millions)				
Exports of goods and services	327	373	1,823	1,988
Imports of goods and services	336	1,111	3,858	4,164
Resource balance	-9	-739	-2,035	-2,176
Net income	0	72	144	152
Net current transfers	..	559	1,229	1,297
Current account balance	..	-107	-663	-727
Financing items (net)	..	163	766	807
Changes in net reserves	1	-56	-103	-80
Memo:				
Reserves including gold *(US$ millions)*	..	324	1,263	1,332
Conversion rate *(DEC, local/US$)*	8.0	104.5	99.9	98.5



EXTERNAL DEBT and RESOURCE FLOWS

	1986	1996	2005	2006
(US$ millions)				
Total debt outstanding and disbursed	..	491	1,839	..
IBRD	..	0	0	0
IDA	..	137	655	729
Total debt service	..	21	81	..
IBRD	..	0	0	0
IDA	..	1	10	10
Composition of net resource flows				
Official grants	..	114	154	..
Official creditors	..	80	79	..
Private creditors	..	4	34	..
Foreign direct investment (net inflows)	..	90	262	..
Portfolio equity (net inflows)	..	0	..	..
World Bank program				
Commitments	..	63	52	0
Disbursements	..	32	34	46
Principal repayments	..	0	4	5
Net flows	..	32	30	41
Interest payments	..	1	5	6
Net transfers	..	31	24	35



Note: This table was produced from the Development Economics LDB database. 9/28/07

Annex 15: Incremental Cost Analysis

LAKE SKADAR-SHKODER INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

Project Development Objective and Baseline Scenario

1. The project development objective is to maintain and enhance the long-term economic value of Lake Skadar-Skhoder and its natural resources. The baseline funding in support of the project amounts to US$40.2 million. The baseline scenario and corresponding funding with regards to each project component are described below.

LAKE ECOSYSTEM MONITORING AND MANAGEMENT

2. In the past, both Montenegro and Albania pursued lake management from a predominantly national perspective with little transboundary co-operation. There is no institutional structure for co-ordinating protection and management. As such, under a forward-looking baseline scenario, it would prove increasingly difficult for managers to address mounting challenges to lake sustainability during the planned project period.

3. This situation began to change with the creation of a project involving the two Governments together with the Regional Environment Center (REC) and with the move to develop a GEF project. Launched in 2000, the REC project has a total budget of US$600,000, of which US$170,000 will be spent during the project period. REC project activities include: (i) institutional capacity building to promote cross-border communication and collaboration (especially for communities and NGOs), (ii) public awareness activities, including preparation of promotional materials for ecotourism, (iii) a small amount of equipment for Skadar Lake NP.

4. While the REC project focuses on community/local communication, it does not support high-level government coordination, nor does it implement activities on the ground to make the cooperation concrete. Thus, while the REC project is very valuable to instill the idea of transboundary cooperation, it cannot fund its completion.

5. Both countries carry out environmental quality monitoring within the lake basin and this will continue at a similar rate of expenditure under the baseline scenario. However, this scenario has the following shortcomings: (a) each country uses different monitoring approaches and data collection methods meaning that the data are not inter-comparable; (b) no common database exists for open and efficient exchange of information; (c) data gathering and analysis are not necessarily carried out based on priorities concerning the lake as a whole; (d) the parameters measured are not necessarily the most useful to underpin lake-wide management decisions; (e) research may be too donor-driven, reflecting the priorities of the respective funders, (f) data are not readily available within either country because data collection is done by semi-autonomous institutions, which often charge high fees, and; (g) technical capacities to analyze and interpret data are limited, particularly in Albania.

6. For all these reasons, accurate and up-to-date information on the status and trends of key elements of the lake ecosystem are almost impossible to obtain. However, such information is essential for effective lake-wide management to achieve national and transboundary priorities. These drawbacks tend to limit both national and transboundary benefits from monitoring.

7. Estimated baseline spending for environmental monitoring in the lake area during the project period is US$675,000 in Montenegro[18] and US$68,000 for Albania. Some spending will be reoriented under the GEF Alternative to increase and capture transboundary benefits. As part of baseline funding, data from a transformed program of monitoring will be complemented by a transboundary research project funded by the Norwegian Research Council (NIVA). The three-year DRIMON[19] project involves Montenegro, Albania, and Macedonia and covers Lakes Skadar-Shkoder and Prespa. Total funding for Lake Skadar-Shkoder is estimated at US$237,500. Project activities include: (i) establish nutrient budgets and address siltation challenges for the lake basins, (ii) assess the status of the lakes through dose-response relationships between nutrients and sediment inputs and their effects; (iii) suggest environmental goals for the lakes, based on information on their trophic status and evidence of their reference (or natural) conditions, in dialogue with stakeholders. This NIVA-financed study will provide essential management-related data that would otherwise be available only with GEF support.

8. In addition, GTZ will finance complementary activities under the "*Physical Planning and Transboundary Management*" project that covers both Montenegro and Albania. The project, which has been approved and is expected to begin shortly, will provide US$625,000 over 18 months to prepare detailed urban plans for six pilot lakeside villages (to reduce illegal building, support well-regulated residential and tourism development), some small ecotourism-related infrastructure.[20] The province of Pisa, Italy is financing urban planning activities in cooperation with the Municipality of Shkodra for approximately US$612,000.

LAKE SKADAR-SKHODER WATER AND NATURAL RESOURCES MANAGEMENT

9. At present, no zoning or management plan exists in the areas surrounding the lake so most areas are legally accessible to tourists and fishermen. Local and commercial use of the lake natural resources is allowed everywhere, including fishing, hunting, recreation (boating, hiking, etc.). Ensuring that these resources are used sustainably and limiting negative ecological impacts is an essential and challenging part of lake management. However, these objectives are undermined by capacity constraints in both countries, as evidenced by extensive illegal fishing and hunting and inappropriate alternative uses of the lake waters that promise localized short-term gains. Local authorities have limited experience with modern, integrated, and participatory approaches to natural resources management.

10. In the case of Montenegro, an estimated US$1,875,000 in baseline support will be provided during the full project period,[21] to cover the annual operational budget of the project implementation entity (the Lake Skadar National Park administration), awareness raising and government counterpart funding for USAID and Council of Europe (CoE) projects.

11. In Albania, the lake area received area status only in 2006, near the end of the project preparation period. The move to initiate transboundary co-operation, including the anticipation of international (GEF and others') support for this objective, has been an important impetus underlying the establishment of the PA and the creation of an associated budget. In the absence of GEF support, baseline spending by Albania under this component would have been zero.

[18] Based on an annual figure of Euro1.6 million for country-wide environmental monitoring and an estimate that 10 percent of spending takes place within the lake basin and is therefore relevant to the lake environmental quality.
[19] Interdisciplinary Assessment of Water resource Management in Two Transboundary Lakes in South Eastern Europe
[20] Additional project activity is considered incremental support and is presented below under the Alternative GEF Scenario.
[21] During the PDF-B Phase, GoM invested US$225,000 in PA infrastructure to rehabilitate the National Parks HQ and visitor center at Lake Skadar in conjunction with, the PDF-B Phase, which is reflected in the attached incremental cost matrix.

12. The following donor support is being provided under the baseline scenario for natural resource management in the project area:

GTZ in Montenegro is supporting the "*Improving Touristic Offer of LSNP*" project and is financing small tourism-related infrastructure such as signs, trails, promotional materials, etc. Total financing is estimated at US$225,000. GTZ and Austrian Aide (ADA) are providing US$340,000 to support small/medium tourist-friendly infrastructure, e.g., rehabilitate Virpazar market.

USAID, Council of Europe, and Government of Montenegro: Together are providing financing for tourism development activities based on natural and cultural heritage, including bird watching, lake clean-up, building thematic visitor centers at Bar and Cetinje, and supporting cultural heritage and local traditions that emphasize social inclusion. Total financing: US$340,000.

UNDP: UNDP has a national project to develop GIS for natural resource management, although it does not support on-the-ground activities at Lake Skadar. A three-phase project totaling US$512,500 is expected to provide US$50,000 of geographically relevant support during the project.

WATER QUALITY PROTECTION INVESTMENTS

13. Important baseline investments are controlling pollution within the lake watershed that used to reach the lake. Pollutants included hazardous wastes, solid wastes and wastewater. In the area of *wastewater collection* and *treatment*, major challenges remain, particularly in Albania, where wastewater from the city of Shkodra flows largely untreated into the lake. Overall baseline financing includes the following:

- US$17 million to Albania from KfW and Austria to help provide Shkodra city with wastewater collection and treatment facilities
- US$200,000 to Montenegro from the European Agency for Reconstruction (EAR) to rehabilitate an existing wastewater treatment plant for Podgorica (a significant source of pollution through the Moraca River).
- US$100,000 from Montenegro government to pilot small-scale wastewater treatment along the lake. Some financing will be redirected to innovative approaches under the GEF Alternative.

14. In the area of *hazardous wastes*, the contract to privatize Montenegro's State-owned KAP aluminum plant was awarded to RUSAL, a Russian company. This contract requires that by 2010, "legacy" hazardous and non-hazardous waste dump site on the KAP grounds must be removed or contained in EU-standard sanitary land fill, and RUSAL is responsible for non-hazardous wastes (estimated financing of US$10 million), while Government of Montenegro is responsible for the hazardous waste component.

15. Hazardous waste from KAP presents a particular threat to Lake Skadar as it is contaminating groundwater that enters the lake, primarily through the Moraca River. Addressing the KAP hazardous waste issue will have important national and transboundary benefits by removing a significant threat to lake environmental quality. In conjunction with GEF support, the Government of Montenegro is providing baseline financing of US$100,000 for the feasibility study and US$5.16 million to clean up the site.[22]

[22] The GEF incremental cost contribution of US$1.2 million to the KAP cleanup is described below in para. 35.

16. Management of *solid waste* represents an important task for lake managers and local governments in both countries. Domestic solid waste is a recognized serious and growing problem throughout the lake basin. Wastes from settlements and tourism facilities near the lake and in river basins are blown into the lake and collect at the mouths of rivers, where they damage ecological functions, local health status, and tourism prospects. Shkodra city has an established (though inadequate) waste collection system, but villages and communes on either side of the lake lack waste collection systems.

17. Baseline spending in this area includes the following:

- IDA-financed Montenegro Environmentally Sensitive Tourism Project (MESTAP) is funding two regional municipal solid waste landfills, one for Bar municipality, which borders Lake Skadar. Relevant baseline costs at this site are estimated at US$300,000.[23]

- Baseline spending for the city of Shkodra in Albania is estimated based on an ongoing US$500,000 annual contract for solid waste collection and disposal. An estimated 10 percent of that contract is collecting waste from areas proximate to the lake, therefore reducing the risk of solid waste entering the lake. Thus, US$200,000 of baseline spending is estimated over the four-year life of the project.

Global Environmental Objective and Alternative Scenario

18. The project global environmental objective is to enhance transboundary cooperation for managing sources and impacts of potentially conflicting development objectives and activities affecting the waters of the Lake Skadar-Shkoder basin. The total cost of the alternative scenario is US$46.6 million—US$40.2 million baseline investments and US$6.5 million incremental finance. The proposed project, with total financing of US$15.7 million including a GEF contribution of US$5 million, covers all incremental activities and key baseline activities financed by the two governments. It addresses major gaps in baseline activities and aims to achieve global, transboundary, and national benefits.

COMPONENT 1: CAPACITY BUILDING FOR IMPROVED UNDERSTANDING AND JOINT MANAGEMENT OF THE LAKE

19. Under the alternative GEF scenario, US$2.8 million of incremental support will be provided to enhance and solidify a long-term programme of integrated environmental lake management. This is key to establishing and operating a permanent institutional structure for lake management. The additional support will establish a Skadar-Shkodra Lake Commission (SLC) and bilateral Working Groups to coordinate implementation of key actions called for in the Strategic Action Plan. Working Groups will cover the following activities:

- Coordinate legal and institutional frameworks;
- Coordinate planning, including developing a lake-wide management plan;
- Design and oversee a lake-wide research and water-quality monitoring program;
- Coordinate and resolve conflicts on water management issues;
- Develop and oversee a joint public awareness and education program; and
- Prepare a coordinated strategy and plan to promote sustainable tourism development.

[23] This figure is based on an estimate that 10 percent of the total spending is relevant for the lake.

20. The project will also finance a small Secretariat to support the SLC and Working Groups and to coordinate and facilitate implementation of joint project activities.[24] Accurate and up-to-date information on the status and trends of key elements of lake ecosystem is essential for effective protection and management. For a transboundary lake it is important that both countries use the same monitoring approaches and data collection methods, that a common database is established with open and efficient exchange of information, and that analysis is carried out based on priorities concerning the lake as a whole.

21. Incremental support under this component leveraged by the GEF is as follows:

(i) Government of Montenegro will provide US$160,000 for the SLC and Working Groups; US$25,000 for public outreach and communication, and US$67,000 for monitoring
(ii) Government of Albania will provide US$100,000 for the SLC and Working Groups and US$7,000 for monitoring.
(iii) SNV Netherlands is providing US$112,500 for institutional strengthening, stakeholder participation, and co-operation between the two countries.
(iv) GTZ will provide approximately US$20,000 in technical assistance to develop a framework strategy for preparation of the Lake-wide Management Plan.

22. In addition to the above, US$2,330,000 in incremental support is being requested from the GEF for the following elements:

(i) Technical assistance, training, equipment, and support for incremental operating costs (on a declining basis) to support the establishment of the SLC and Working Groups to enable them to carry out their responsibilities. This includes establishing a small Secretariat for the SLC and one-person technical support units in each country, and the costs of regular meetings and communications.

(ii) Technical assistance, equipment, and support for incremental operating costs to implement joint activities designed and overseen by the Working Groups. These will mainly consist of studies, targeted research, monitoring, and preparing spatial and development plans, and developing and implementing a public outreach and education program. Lead responsibility for implementation of joint activities will be assigned to either Montenegro or Albania, based on capacity of their implementing agencies and their priorities. An important part of the monitoring program will be to establish and maintain a common, publicly accessible data base and networks for information exchange.

COMPONENT 2: PROMOTING SUSTAINABLE USE OF THE LAKE

23. The total cost of the GEF Alternative under Component 2 is US$6.4 million. This total consists of US$4.9 million in baseline support and US$1.5 million in incremental support. Incremental support from GEF totalling US$1.025 million will include the following:

- Technical assistance, training, equipment, and materials, and some incremental operating costs to strengthen the capacity of the local administrations responsible for management of the lake and its natural resources, including both improved communication and partnership with local governments and communities and more effective enforcement of regulations (e.g. against illegal fishing).

[24] Implementation of the programs developed by the WGs will mainly be financed through other components.

- Technical assistance, civil works, equipment, and materials to support development of sustainable tourism as the best alternative for the use of the lake ecosystem. This includes small-scale infrastructure such as hiking trails and signage, birdwatching platforms, and rehabilitation of cultural heritage sites to enhance their touristic and educational value.

- Technical assistance, equipment, and materials to build capacity and provide incentives for sustainable fisheries management. This may include, for example, legal and technical assistance for local fishermen and other resource user associations, improved market facilities accessible to registered fishermen, training in handicrafts based on local resources, among others.

24. An incremental budget of US$420,000 is leveraged from the government of Montenegro and US$60,000 from the government of Albania in support of this component.

COMPONENT 3: CATALYZE POLLUTION REDUCTION INVESTMENTS

25. The total cost of the GEF Alternative under Component 3 is US$34.7 million. It includes US$32.5 million in baseline support and US$2.2 million in incremental support. The GEF incremental support is estimated at US$1.6 million, which will help address urgent pollution hot-spots, including the following:

- Hazardous waste: GEF will provide incremental support to address KAP site hazardous waste; US$1.0 million GEF funding is requested to inventory and categorize wastes and finance an options analysis and feasibility study, and for technical advisory services.

- Wastewater treatment: GEF support is requested to help address the growing problem of untreated wastewater flowing directly into the lake from lakeside villages and communes. Specifically, based on priorities identified in the SAP, GEF would contribute to installing a small-scale, environmentally and economically sustainable wastewater collection and treatment system in one village in Montenegro. The proposed GEF contribution to this effort is US$365,000.

- Restore lake buffer vegetation: GEF will finance TA and investments (estimated US$280,000) in equipment, materials, and labor to control stream bank erosion, and restore tree groves and fish nursery buffer vegetation at priority sites on both sides of the lake

26. An incremental budget is leveraged from the Montenegro government of US$520,000 and from the Albania government for US$20,000 to support this component.

Annex 16: STAP Roster Review

STAP ROSTER TECHNICAL REVIEW OF THE PROPOSED GEF-IW PROJECT: "*LAKE SKADAR-SHKODER INTEGRATED ECOSYSTEM MANAGEMENT*"

(ALBANIA, MONTENEGRO)
by J. A. Thornton PhD PH CLM
Managing Director
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Introduction

This review responds to a request from The World Bank (WB) to provide a technical review of the proposed International Waters project entitled *Lake Skadar-Shkoder Integrated Ecosystem Management.*

I note that I am a designated expert on the STAP Roster of Experts with particular experience and knowledge concerning watershed management and land-ocean interactions. I have served as Government Hydro biologist with the Zimbabwe Government, Chief Limnologist with the South African National Institute for Water Research, Head of Environmental Planning for the City of Cape Town (South Africa), and, most recently, as Principal Environmental Planner with the Southeastern Wisconsin Regional Planning Commission (USA), a position that I hold concurrent with my position as Managing Director of International Environmental Management Services Ltd, a not-for-profit corporation providing environmental education and planning services to governments worldwide. In each of these positions, I have had oversight of projects and programs designed to assess contaminant loads to aquatic ecosystems from land-based activities, and to develop appropriate and affordable mitigation measures to reduce such loads and minimize their impacts on the aquatic environment, both freshwater and marine.

This review is based upon a thorough review of the project document, consisting *inter alia* of the Project Document (22 pages plus Annexes 1, 3-5, 8 and 17); the Project Executive Summary and GEF Council Work Program Submission inclusive of Annex A; and, the (Draft) *Lake Shkoder Transboundary Diagnostics Analysis* (TDA). Other, relevant documents served as reference sources, including the GEF *Operational Strategy*, *Agenda 21*, and related materials establishing the necessity and priority of land-based activities to control marine pollution as set forth in the Global Program of Action for the Protection of the Marine Environment from Land-Based Activities.

Scope of the Review

This review addresses, *seriatim*, the issues identified in the Terms of Reference for Technical Review of Project Proposals.

Key Issues

Key issue 1. Scientific and technical soundness of the project. Overall, the project appears to be scientifically and technically sound. The approach proposed, which includes an on-going diagnostic and demonstration project-based program, adequately addresses the needs to initiate actions to (1) create a binational mechanism to jointly manage the shared water resources of Lake Skadar-Shkoder, (2) quantify the risks associated with a legacy of historic water quality degradation and current threats to the biodiversity and ecology of the Lake, (3) strengthen the existing national mechanisms for management of land- and water-based activities within the drainage basin tributary to the Lake, and (4) encourage implementation of urgent environmental management actions through provision of incremental financing of remedial actions to address identified "hotspots". The need for both a land- and water-based approach is documented in the *Lake Shkoder Transboundary Diagnostics Analysis* that was completed during the preparation of this project. The TDA also identified a number of priority interventions that could be considered as recipient activities under Component 4, targeting priority environmental concerns within the Lake Skadar-Shkoder Basin.

A review of the Components set forth in the project document suggests that the primary focus of this proposed project will be on capacity building and institutional strengthening; to wit, Component 1 focuses on the institutional and human resources necessary to manage and monitor the water resources of Lake Skadar-Shkoder at the binational level, Component 2 focuses on research and monitoring necessary to complete and refine the data available to substantiate the management measures employed, and Component 3 primarily focuses on the human resources necessary to undertake the management of the resource at the national level. In addition, Component 4 will provide important "on-the-ground" experience in problem solving. These needs are adequately documented in the TDA, especially for management actions at both the national and binational levels where the countries appear to have utilized a primarily passive and country-based management strategy, rather than a holistic approach to managing the shared resources of the Lake.

From a scientific standpoint, providing a framework within which the two countries can assemble a shared data base comprised of similar variables, measured in a consistent manner, and stored in an accessible form is an essential first step toward creating the baseline from which disturbances can be measured and assessed. Such a data base will also facilitate both individual and joint enforcement of regulations and standards by the countries within the shared basin. In addition, disseminating these data to interested parties, including citizens, nongovernmental organizations, and corporations, through an accessible data base will help to ensure timely action to correct problems, be they concerns regarding overexploitation of the living resources of the Lake, pollution from lakeshore development, or impacts related to human activities within the drainage basin tributary to the Lake.

With regard to creating an appropriate regulatory framework, an understanding of the current status of the Lake waters is also useful in determining whether or not conditions of impairment continue to exist, and in identifying emerging issues that could potentially adversely affect the Lake ecosystem. Appropriate data will permit a realistic evaluation of the standards likely to be applied by regulators at the country and local government levels. Further, the upgrading of the laboratories and enhancing of the institutional capacities to utilize shared methodologies, implemented by trained and competent staff in the Basin countries, is a necessary element in the shared enforcement process. Joint action of this nature can overcome the possibility that operations could be shifted between Basin countries in order to avoid regulations at the country and local levels.

Key issue 2. Identification of global environmental benefits and/or drawbacks of the project, and consistency with the goals of the GEF. *The proposed project establishes a framework within which to address the major causes of environmental stress within the aquatic environment of Lake Skadar-Shkoder; namely, the historic legacy of contamination, the current threat of overexploitation of aquatic resources, and the likely future risk of uncontrolled development in the drainage area, including the inputs of contaminants washed off the land surface and into the aquatic ecosystem.*

The legacy of contamination stems from the presence of aluminum and steel plants in the drainage basin, and from ongoing discharges of wastewater from the human settlements in the Basin. While the data gathered during the TDA suggest that the legacy of the aluminum and steel processing plants has been mitigated by the rapid flushing rate of the Lake, the threat of ongoing degradation from wastewater discharges from urban and agricultural operations within the drainage basin remains. If unchecked, these discharges threaten the globally significant ecosystems of the Lake, including Ramsar sites in both countries, and downstream areas of the Adriatic Sea. These ecosystems, in addition to be transboundary aquatic systems in their own rights, are either directly or indirectly connected to the transboundary waters of the Mediterranean Large Marine Ecosystem (LME). Consequently, true global benefit is presumed as a result of the connection of the Mediterranean Sea with the North Atlantic Oceanic circulation.

The project is consistent with the goals and objectives of OP 8,[25] contributing to the global effort to address environmental concerns arising from industry, agriculture, fishing, and exploitation of the natural environment for

[25] Operational Program 8 (OP 8) includes as indicative activities, *inter alia*, global pollutant projects which are designed to "help countries collaboratively address damaged and seriously threatened water bodies, and the most imminent transboundary threats to their ecosystems....[by modifying] the ways in which human activities are conducted in different sectors so that the water body and its international drainage basin can sustainably support human activities." "Imminent transboundary concerns that seriously threaten water bodies include pollution, overexploitation of living and non-living resources, habitat degradation, and non-indigenous species." This

tourism and recreation insofar as it relates to Lake Skadar-Shkoder. A regional approach is essential, and provides the basis for GEF participation, given that each country may need to engage in an additional level of effort beyond that required under their current national legal framework.

In this regard, the participation of a broad cross-section of governmental, nongovernmental and civil organizations with interests in the Lake and its drainage basin would be an important element in ensuring the implementation of the project outcomes, even though the outcomes, in the global sense, are environmental in nature. Currently, this participation is provided through the relevant national agencies. Establishment of the various working groups and secretariat, and the stakeholder involvement, as proposed in the project document, will contribute to achieving this objective, and add the necessary community and transboundary dimensions to the management of this resource. Unfortunately, the civil society organizations are not listed in the project document, so it is not possible to gain a full understanding of the extent or nature of the proposed stakeholder involvement in the project.

This project is complementary to other GEF initiatives within the eastern Mediterranean region, including the Lake Ohrid project. Given the GEF aim of incrementally funding projects that contribute to sustainable economic development in a replicable manner, the current proposal and its companion proposal would seem to be well-suited to achieving such an aim.

Key issue 3. Regional context. The participation in this project of the two countries in the Lake Skadar-Shkoder Basin argues persuasively that adequate and appropriate consideration has been given to the regional context of the project. Notwithstanding, the project team noted that a Basin-wide approach to water resources management, which would have significantly increased the area of influence of the project, was discounted due to the size of this larger geographic unit and the fact that the available financial resources would be insufficient to bring about meaningful change in such a large area. It was noted, however, that one reason for discounting this larger project area was the fact that the Basin would be incorporated into the River Basin planning and management program mandated by the European Union (EU) Water Framework Directive. Further, this larger drainage basin was included in the TDA and resultant Strategic Action Program (SAP), which should ensure that actions undertaken within the Lake Skadar-Shkoder ecosystem management project are fully integrated into this larger Basin framework.

Actions proposed to better integrate the national regulatory initiatives into a regional program are fully consistent with the development of a sustainable regional approach to managing this waterway. These actions are supported within the proposed project by complementary actions to strengthen the national regulatory programs and institutions. To this end, however, this reviewer notes that the project funds are expected to be allocated to each country and to the regional working group. It would seem advantageous, however, to further strengthen the binational entity by channeling the funds to each country through the binational organization. This would provide greater surety that the projects undertaken are truly regional in scope, even if located within the national territory of one or other of the Basin countries. By so doing, this financial management mechanism also would create a more substantial role for the binational authority and potentially accelerate the creation of a permanent binational commission tasked with jointly managing the shared water and ecological resources of Lake Skadar-Shkoder.

The proposal clearly indicates an intention to disseminate information and results on a regional basis, both within the Basin and elsewhere in the region. Such a regional (European) effort has been initiated during the project development process through the exchange visits to Lake Geneva and Lake Constance, amongst others. In part, this dissemination process will utilize the proposed binational secretariat as a repository and focal point for information on the protection and conservation of the ecosystem. As suggested above with respect to the fiscal arrangements for the project, delegation of such responsibilities to the Secretariat should help to hasten and strengthen the process of formation of a truly binational commission for the management of the Lake.

Operational Program is intended to play a catalytic role in leveraging public- and private-sector resources, and engender cooperation among the GEF Implementing Agencies.

Key issue 4. Replicability. The implementation of demonstration projects as a key feature of this project clearly contributes to the potential for replication of beneficial practices and techniques. Further, the inclusion of mechanisms for disseminating information and results achieved fosters replication of effective and successful measures throughout the region, and especially within the participating countries. As identified through the Global International Waters Assessment process and related initiatives such as the Lake Basin Management Initiative of the International Lake Environment Committee Foundation (ILEC), GEF International Waters projects are a primary means by which basin-scale management practices are being developed and implemented through the world. These initiatives have endorsed the development and implementation of information sharing mechanisms at both the regional and global scales—in part, through the global IW-LEARN initiative. This endorsement underlines the importance of information sharing and dissemination between projects, a fact that is adequately and clearly identified within the project brief for this project. Nevertheless, it is recommended that this project seek to ensure the dissemination of lessons-learned in the broadest possible manner.

The project document suggests that the proposed activities will continue to embrace the concept of project twinning as one mechanism to enhance exchange of knowledge and experience. As recognized within the project brief for this project, there are considerable complementarities between this project and the projects currently being implemented in the eastern Mediterranean Basin. The inclusion within the Project Document of establishment of explicit linkages between projects is wholly consistent with this concept. Such communication will enhance the replicability of the project outputs and the results of the project, significantly contributing to the coordinated and comprehensive management of the Aegean Sea and Mediterranean Sea basins.

Key issue 5. Sustainability of the project. The project executive summary indicates that a significant element of the sustainability of the project supported interventions rests upon the implementation of the EU Water Framework Directive and related initiatives. In addition, country-level actions in support of the project are identified as indicative of a commitment to ongoing support of project actions and activities, beyond the immediate period of project implementation with GEF support. The project brief acknowledges a number of incentives for the participating countries to provide the necessary resources beyond the project period, including their participation as signatories to the Ramsar Convention. Further, the project proposes to address another key element in the provision of adequate resources to ensure the future sustainability of the project-supported interventions; that is, the availability of information, the development of a trained cadre of individuals, and the strengthening of appropriate institutions with the knowledge and ability to implement actions to protect the Lake environment. To this end, the project document sets forth an array of financial and other mechanisms, both in-hand and proposed, to ensure the sustainability of the land- and water-based elements proposed to be developed during the project. These mechanisms include various bilateral financing arrangements and grass roots activities designed to sustain the project actions beyond the period of application of GEF funds. To a great extent, the to-be-determined stakeholder participation element will be critical to the long-term sustainability of the project, particularly those relating to future environmental challenges and threats.

Key issue 6. Targeted Research Projects. Targeted technical demonstration and capacity building projects are key features envisioned within the GEF International Waters Water body-based Operational Program. These activities are clearly included as major elements of this proposed project, primarily under Component B which is focused on the use of targeted surveys as the means of determining and identifying appropriate and applicable management measures to quantify emerging issues (such as avian influenza that is in part spread by waterfowl), and Component C which is focused on improved environmental management.

There is also provision within the project brief for creating and implementing an on-demand small-grant program that would support creation of capacity and strengthening of academic and research institutions in the Basin. Implementation of these provisions is strongly recommended. The interventions, funded in part by the GEF, strive for sustainability and the continuation of successful interventions beyond the project period. For this reason, it is most important that the lake and watershed management measures identified by the project be internalized within the appropriate ministries such that they continue to be implemented over the longer term. Likewise, it is equally important that the demonstration projects continue to be monitored, and the results reported using the information dissemination mechanisms previously identified, beyond the project period. Such continuity is totally consistent with the catalytic nature of the GEF, and an essential element to the sustainability of the project.

Capacity building and trainer training, envisioned in the project brief, thus become the basic building blocks upon which this project will succeed or fail, both from the point of view of its sustainability and from its scientific and technical integrity.

Secondary Issues

Secondary issue 1. Linkage to other focal areas. This project is formulated as an International Waters project under OP 8 of the GEF *Operational Strategy*. While no specific cross-cutting areas are identified, the project clearly has linkages to the cross-cutting area of land degradation in terms of its focus on land-based activities and to the protection of aquatic biodiversity in terms of its focus on fisheries.

Secondary issue 2. Linkages to other proposals. The project recognizes the complementarities between the management of Lake Skadar-Shkoder and other GEF-related initiatives in the region. Indeed, actual linkages were explored and strengthened during the period of project formulation. Specific linkages with these projects are proposed and identified in the project brief. Where such linkages are based upon project development initiatives, this reviewer recommends that the project team seek to maintain ongoing contacts with relevant sister institutions during the period of project implementation and beyond. As noted above, such linkages include contacts with the Lake Geneva and Lake Constance organizations, among others.

In addition, the project proposes to make use of IW-LEARN. Such an overt linkage provides a high degree of sustainability and connectivity to this project, and contributes to the likelihood that lessons learned can and will be transferred beyond the project boundaries to other, similar situations and locations within the Mediterranean region and beyond.

Secondary issue 3. Other beneficial or damaging environmental effects. *The project has no known or obvious damaging environmental impacts associated with the activities proposed to be executed. The beneficial impacts of the project have been fully articulated above, and include the identification of alternative methods for achieving a high quality lake environment through targeted interventions that address both chronic land-based sources and catastrophic lake-based events that contribute to the degradation of the Lake and its resources. The provision of trained staff and institutional capacities needed to enforce and enhance existing environmental protection regulations, and the dissemination of successful management measures further contribute to the benefit of the Lake and its drainage basin. All of these benefits accrue not only within the project area, but, as a result of their wider dissemination using the electronic and other media provided, also to the wider river basin and beyond.*

Secondary issue 4. Degree of involvement of stakeholders in the project. Component C of the project is geared toward the involvement of stakeholders. Involvement of the wider public is catered for through an information system established by the Regional Environment Center and other media. Active stakeholder participation is encouraged through the committee and working group structure to be created under Component A. Unfortunately, there are few additional details as to the participants proposed to be included. That said, the project brief does allude to the participation of the relevant regulatory agencies and ministries in the execution and implementation of the project activities, and the project explicitly indicates support for capacity building and institutional strengthening with respect to these organizations. Such involvement is in addition to the current level of involvement of the country- and local-level institutions, and is critical to the sustainability of the project and its expansion into areas not specifically involved in the demonstration projects.

Secondary issue 5. Capacity building aspects. Components A through C are aimed in part at the acquisition and dissemination of information on the successful measures to protect the Lake environment through the creation of appropriate institutions (Component A), conduct of targeted research and monitoring (Component B), and the training of agency staff and strengthen institutions (Component C). In addition, Component A, in part, seeks to encourage dissemination of lessons learned with respect to lake and watershed management practices. These elements should be implemented in conjunction with complementary GEF International Waters initiatives, including the best practices data base being compiled by the United Nations Environment Programme (UNEP) and the IW-LEARN initiatives being executed by the United Nations Development Programme (UNDP). These efforts

will enable wider dissemination of knowledge of practices that have positive effects. Such knowledge is an essential element in building capacity and strengthening institutions in the region.

In addition to the dissemination of knowledge and information, the proposed development of standard methods for analysis and impact assessment will benefit institutions and staff throughout the region. In this regard, Component B contains work elements that are likely to be aimed at establishing a certification process for laboratories, common standards, and reinforced institutional capacity within the region. Maintaining such standards and certification requires trained individuals, actively and conscientiously applying their knowledge and skills for the public good.

Secondary issue 6. Innovativeness. Development of appropriate management practices governing the protection of the Lake environment, within the context of an integrated land- and water-based management program, demonstrates a strong desire that the results and outputs of this project reflect the state-of-the-art with respect to the integration of lake management and economic development in transboundary inland lakes. By creating and strengthening the appropriate human resources, institutions, data acquisition and dissemination systems, and shared management mechanisms, the project team has clearly attempted to develop a management program that will be accepted by the basin governments and stakeholders. While many of the actions and approaches reflect state-of-the-art practice, their application in the Lake Skadar-Shkoder Basin will significantly advance current practice in that specific Basin and within the region as a whole. In this manner, the project promotes innovation and development of regionally applicable remedial practices and experiences.

General Conclusion and Recommendations

Overall, it is the conclusion of this reviewer that the proposed project, with the goal of "*Lake Skadar-Shkoder Integrated Ecosystem Management*", is wholly consistent with the GEF International Waters operational program, its broader philosophy, and funding criteria. Consequently, this project is recommended for funding.

In completing the Project Executive Summary and GEF Council Work Program Submission, the reviewer recommends that each of the Components be elaborated so as to clearly summarize the following elements of each activity; namely, (1) the objectives of the Component, (2) the results or outcomes that this Component is intended to achieve, (3) the outputs or deliverables to be generated by the activities carried out under the Component, (4) indicative activities to be conducted, (5) the costs broken out as GEF funds requested, local share provided, and total cost of the Component, and (6) an indication of the likely stakeholders targeted to be participants in executing the activities. This information, to the extent that it is presented, is currently scattered throughout the document or indicated as an expected outcome of the project Appraisal process. The likely participants are not clearly identified, and the activities and component costs are shown in some detail only in Annex A, the Incremental Cost Analysis.

In implementing this project, the GEF Implementing Agency is enjoined to give consideration to strengthening the role of the binational Secretariat by centering project management, including financial management, and monitoring within this Committee. Such strengthening could accelerate the ability of the countries to create a River Basin Authority, pursuant to the EU Water Framework Directive, and contribute to the creation of lasting working relationships between the binational entity and the national ministries having responsibilities for the management of Lake Skadar-Shkoder.

IA RESPONSE TO STAP REVIEW[26]:

The STAP Reviewer's main suggestion is that all GEF funds should be channeled through the binational Secretariat, rather than just funds that will finance jointly implemented activities. The proposal is that this would strengthen the Secretariat and potentially accelerate the creation of a permanent transboundary institution. While the objective is good, the proposal to channel all funds through the Secretariat is not realistic. This Secretariat does

[26] It should be noted that the above STAP review relates to an earlier project design and many aspects are no longer directly relevant to the current project proposal. The following responses to the STAP review also pre-dated the redesign of the project.

not yet have a clear legal status as does the Commission (through the Bilateral Agreement) and establishment of transboundary institutional structures needs to be done through a phased approach, giving them successively greater mandate and responsibilities as their specific roles are clarified, agreed and approved by the two Governments. It should also be borne in mind that the permanent institutional structure may be a formal coordination mechanism, rather than an implementing body. Finally, it is now considered Bank good practice to mainstream project implementation responsibilities within regular government structures to avoid the creation of independent "Project Implementation Units." We believe the implementation structure as proposed provides the bilateral Secretariat with responsibility for implementing some activities to achieve coordination and efficiency (e.g. procurement of equipment which will be the same for both countries), but according to WB good practice the bulk of national level activities will be implemented by the respective responsible government agencies.

The STAP Reviewer also noted that the PAD could include more information regarding civil society organizations and other stakeholders which will participate in the project. We have included some more information on this aspect in Sections 3B and 4D of the PAD, to reflect some of the information from the Social Assessments already carried out in both countries during preparation. These assessments provided a starting point by identifying some relevant formal and informal local organizations (e.g. fishermen's associations, religious organizations), and by raising awareness about the project through public meetings and focus group interviews. The PAD will be further strengthened based on the continued public discussions of the proposed project, which will take place prior to Appraisal.

We note that the "small grants program" referred to on p. 6 of the STAP Review is actually the competitive research grants program under Component B.

The Project Description and the Results Framework have been revised to more clearly identify the objectives, outputs, deliverables, activities and financing (GEF vs. other) for each component, as indicated on p. 8 of the Review. However, we note that in keeping with WB procedures, the PAD includes a Results Framework rather than a LogFrame, and that the former does not call for a detailed breakdown of project activities. Detailed activity and cost breakdowns are not normally part of a WB PAD, but they have been prepared and were used as the basis for the more general descriptions and aggregate project cost tables presented in the PAD.

Map Section

IBRD 35768

ALBANIA AND MONTENEGRO

LAKE SHKODER - SKADAR INTEGRATED ECOSYSTEM MANAGEMENT PROJECT

This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

OCTOBER 2007