

# Evaluation Summary

## *Evaluation of a series of policy-based loans to support Energy Sector Reform in Albania*

Country: **Albania**

Sector: **Energy**

Evaluator: **Adelante Knowledge & Development**

Date of the evaluation: **March-October 2024**

### Key data on AFD's support

**Projet numbers:** CAL 1004 and CAL 1019

**Amounts:** 50 MEUR (loan) + 1.4 MEUR (TA grant) 50 MEUR (loan) + 1.0 MEUR (TA grant)

**Disbursement rate:** 100%

**Signature of financing agreements:** 11/12/2021 and 6/6/2023

**Completion date:** CAL 1019 (on going)

**Total duration:** 5.5 years

### Context

**Albania applied to the European Union in 2009**, driven by the aspiration of the Albanian government (GoA) and the full population support. The country was granted candidate status by the EU in 2014. Accession negotiations commenced in October 2024.

**Albania also participated in the establishment of the Energy Community (EnC) in 2006**, which aims to extend the EU internal energy market to South-Eastern Europe by implementing the 'EU acquis' in the energy sector. Albania intends to reform its electricity sector to align with the EnC directives.

**An initial reform was carried out in the early 2000s** through the unbundling of the incumbent KESH. In 2014, the World Bank financed a 'Power Recovery Project', and in 2015, a law to reform the sector was passed by parliament. However, implementation has been delayed. The new reform, supported by AFD and KfW until 2019, is being implemented in the context of Albania's EU accession negotiations.

### Actors and working methods

**The Ministry of Finance and Economy (MoFE)** was the signatory of the loan agreements, while the Ministry of Infrastructure and Energy (MoIE) served as the technical counterpart.

**ERE**, the regulatory authority, and the three state-owned companies formed after the unbundling of the integrated operator KESH: **KESH** (generation), **OST** (transmission), and **OSHEE** (distribution).

**Expertise France (EF)** led the technical cooperation, while **Artelys** supported the sector modelling. This was a joint programme co-financed with KfW, which initiated the dialogue and provided financial and technical cooperation for drafting a Memorandum of Understanding (MoU) outlining the policy matrix. During implementation, technical cooperation was provided through a Reform Implementation Office (RIO) that integrated experts from MoIE, KfW, and EF, alongside the provision of a loan.

A **Project Steering Committee (PSC)** facilitated public policy dialogue and made decisions on progress and disbursement based on external reviews.



### Objectives

**The high-level objectives of the PBL** were to enable the GoA, through targeted support, to fulfill its international commitments related to energy sector reform, and to assist the GoA in establishing a market-oriented environment in the Albanian energy sector that ensures optimal value for Albanian society, based on international best practices. The specific objectives of the programme were to:

- **Improve the financial situation and long-term sustainability of public energy utilities;**
- **Establish an electricity market** and implement a gradual process of **tariff deregulation** enhancing **transparency** in the sector;
- **Diversify the electricity mix** and promote the development of **renewable energy;**
- Strengthen the **legal and regulatory framework** of the sector.

**The MoU signed on 14 December 2018** between the GoA, KfW, and AFD included a "roadmap for the reform of the electricity sector in Albania." With this MoU, the GoA made significant commitments, referred to as "Policy Reform Elements" (PREs).

**The PREs outlined in the roadmap formed the policy matrix** of the PBL and were further specified by AFD and KfW as disbursement triggers for the loan. Eleven PREs were defined for Phase 1, later extended to 18 PREs in Phase 2, and served as the driving forces behind the reform process. The detailed triggers and their respective weightings were developed independently.

**The PREs were aligned with both EnC and EU directives**, provided a foundation for negotiations under Chapter 15, and thus represented the core of Albania's energy reform policy.

**The design of the PBL** was also **consistent with the National Energy Sector Strategy 2018–2030**, which articulates the government's strategic objectives for the energy sector.

## Performance assessment

### Relevance and Coherence

AFD's intervention through a Policy-Based Loan (PBL) to support the reform of Albania's electricity sector is highly relevant in several respects. It effectively supported the Government of Albania's (GoA) objectives, including—albeit indirectly—its primary political goal of EU integration. The intervention aligns with AFD's sectoral and regional strategies, namely the *Energy Transition Strategy 2019–2022* (specifically the “Energy for All” and “Low-Carbon Energy Supply” components) and the *Eurasia Regional Strategy 2020–2024*.

Structuring the intervention as a series of PBLs with progress monitoring mechanisms was well suited to the Albanian context, especially given the likely extended timeline for reform implementation. The partnership with KfW allowed the disbursement of significant funds, which not only reinforced the partnership and policy dialogue with Albanian authorities but also contributed to creating fiscal space for the GoA.

### Effectiveness and Efficiency

The Programme's effectiveness and efficiency are demonstrated by the tangible progress made in implementing the Policy Reform Elements (PREs), paving the way for the continuation of reform efforts. The policy dialogue was efficient and continuous although atypical, due to the significant delegation granted by KfW to its local consultants during the MoU drafting phase. It played a decisive role in defining the policy matrix and ensuring its adoption by the Albanian stakeholders.

This dialogue was also clearly informed by the principles of the EU's Third Energy Package and their adaptation by the Energy Community for EU accession countries. The technical cooperation made a significant contribution to the implementation of the agreed PREs. The integration of permanent experts into a unified embedded team within the Ministry of Infrastructure and Energy (MoIE), reporting directly to the Vice-Minister of Energy, enhanced the consistency and effectiveness of their actions. It also fostered constructive dialogue among Albanian institutions and between them and AFD/KfW, as well as strengthened policy coordination.

The Project Steering Committee (PSC) proved to be an effective mechanism for driving action and stimulating reforms.

### Sustainability

Sustaining the reform efforts will require not only continued commitment but also an expansion of the programme's objectives—for example, to improve energy efficiency in future phases. Several examples highlight the need to advance further:

**PRE 1 – Financial restructuring of state-owned enterprises:** This key prerequisite for reform success has yet to be fully realized. While political decisions were made and some actions implemented, inter-company debt continues to grow.

**PRE 2 – Legal unbundling of OSHEE:** Although the legal restructuring has been completed, challenges remain in financial governance and in achieving true financial separation and operational autonomy for OSHEE's subsidiaries.

**PRE 5 – Establishment of a power exchange:** The Albania Power Exchange (ALPEX) is operational, but still faces difficulties in attracting participants and achieving sufficient market liquidity.

Energy efficiency, despite being a core priority in AFD's *Energy Transition Strategy 2019–2022*, was not included among the PREs in Phases 1 and 2—only in AFD's technical assistance programme. Yet, it remains a vital component of a sustainable energy policy.

### Added value of AFD's contribution

This power sector reform programme marked AFD's first operation in Albania and served as an entry point into a country where it sought to become active, particularly in a priority sector. AFD's financial and technical cooperation played a crucial role in achieving the progress observed and was welcomed as part of broader EU support for Albania's energy reforms.

AFD has since become an engaged partner in Albania, expanding its support to sectors such as water and sanitation, waste management, gender and social inclusion, and the circular economy. KfW's invitation to AFD to co-implement the energy sector programme and channel EU support also prefigures what is now the *Team Europe Initiative* approach.

## Conclusions and lessons learnt

There was clear alignment between the GoA and AFD (alongside its partner KfW) regarding the importance of reforming the Albanian electricity sector. The intervention by AFD and KfW through a series of PBLs also proved to be a relevant and effective choice.

The ex-post evaluation of the programme highlights several key lessons for AFD in terms of public policy dialogue, technical cooperation, the potential for joint operations, and the content of future programme phases:

### 1. Public Policy Dialogue:

The policy dialogue between the GoA and AFD/KfW, made possible by structured ex-ante discussions and detailed technical work on the reform plan, empowered stakeholders. This dialogue continued effectively during programme implementation, particularly through reform monitoring mechanisms that supported the PSC.

### 2. Technical Cooperation:

Technical cooperation played a crucial role in advancing the reforms supported by the PBLs. Two standout features were the embedding of experts within the Ministry responsible for the reforms (MoIE), and the integration of AFD and KfW's technical assistance into a coherent and unified approach.

### 3. Joint Operations and Replicability:

The successful implementation of this joint series of PBLs, coordinated through a tripartite MoU, suggests that the model could be replicated in other contexts—particularly within the EU's “neighbourhood” and among candidate countries for accession. However, similar opportunities may also arise in other regions.

### 4. Future Reform Priorities:

A potential continuation of the Reform Support Programme would provide an opportunity to address areas insufficiently covered in the first two phases—namely energy efficiency and the social dimensions of reform (e.g., reducing inequalities).