

CONFORMED COPY

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CREDIT NUMBER 4180 ALB

# Financing Agreement

(Education Excellence and Equity Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 6, 2006

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**CREDIT NUMBER 4180 ALB**

**FINANCING AGREEMENT**

AGREEMENT dated July 6, 2006, between ALBANIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

**ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II - FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to ten million five hundred thousand Special Drawing Rights (SDR 10,500,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section V of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 1 and September 1 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Euro.

### **ARTICLE III - PROJECT**

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient, through the Ministry of Education and Science, shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV - REMEDIES OF THE ASSOCIATION**

4.01. The Additional Events of Suspension consist of the following:

(a) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof shall be carried out.

(b) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Recipient to withdraw the proceeds of any loan or grant made to the Recipient by a Development Partner for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that:

(A) such suspension, cancellation or termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and

- (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.
  - (c) The Recipient shall have failed to perform any of its obligations under the Memorandum of Understanding.
- 4.02. The Additional Events of Acceleration consist of the following, namely that any events specified in paragraphs (b) and (c) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

#### **ARTICLE V - EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Project Operational Manual has been adopted by the Recipient.
  - (b) The Internal Audit Department and the Economics Department within the Ministry of Education and Science shall have been staffed in a manner satisfactory to the Association, including the appointment of a director of the Internal Audit Department and the assignment of at least one full-time staff to the Economics Department in charge of financial management of the ARPs.
  - (c) The Fiduciary Capacity Building Plan is in place.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

#### **ARTICLE VI - REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance  
Bulevardi "Deshmoret e Kombit"  
Tirana, Albania

Facsimile:

+355 42 28494

6.03. The Association's Address is:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

1-202-477-6391

AGREED at Tirana, Albania, as of the day and year first above written.

ALBANIA

By /s/ Ridvan Bode

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nadir Mohammed

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are to support the Recipient's Program: (a) to improve quality of learning conditions for students; (b) to increase enrollment of students in general secondary education; and (c) to initiate higher education reform.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives:

#### **Part A. Strengthening Management, Leadership and Governance in the Education System**

Activities aimed at strengthening the leadership and management capacities, and to enhance governance and accountability in the education sector, including:

1. development and implementation of a leadership training and professional development program for school principals;
2. preparation of a manual for school improvement grants and selection of participating schools;
3. training of local and regional education authorities on education reform;
4. carrying out of fiduciary capacity enhancement in the MoES, in regional and in local education offices;
5. training of financial and procurement officers at central, regional and local levels;
6. upgrading of professional and institutional capacities of the Qualification and Training Center for Education, the Institute of Curriculum and Standards, and the National Center for Evaluation and Assessment;
7. preparation and organization of semi-annual meetings with Development Partners; and
8. piloting of decentralized education service delivery and development of a rollout plan for decentralized education service delivery.

#### **Part B. Improving the Quality of Learning Outcomes**

Activities to improve the quality of teaching and learning in the pre-university education system, including:

1. launching and implementation of new teaching methods, curricula and information and communication technologies in basic and secondary schools;
2. development of a professional development plan for educators;
3. preparation of a manual for a school improvement network and selection of participating schools;
4. design and carrying out of a baseline assessment of 15-year olds for mathematics, Albanian language and science;
5. carrying out of in-service training for basic and secondary school teachers and provision of conditional grants for in-service training to schools pursuant to eligibility criteria set forth in the POM;
6. provision of school improvement grants to basic and secondary schools pursuant to criteria set forth in the POM;
7. provision of technical support for design and implementation of new curriculum for secondary education;
8. preparation of a national policy on evaluation of education outcomes; and
9. participation in the 2009 PISA Study, including training and field testing, implementation and dissemination of the 2009 PISA Study.

### **Part C. Developing and Improving Education Infrastructure**

Activities to improve and rationalize the education infrastructure, including:

1. preparation and continuous updating of school mapping and educational facility inventory;
2. development of criteria for school rehabilitation and construction of new schools;
3. development and improvement of standards for classrooms and other facilities for primary and secondary schools;
4. improvement of allocation and reallocation mechanisms for the Recipient's education investment budget;
5. provision of specific grants for education investments to the regions pursuant to criteria set forth in the POM;

6. provision of grants for equipment for IT and science laboratories and other educational materials pursuant to criteria set forth in the POM;
7. promotion of community participation in the oversight of school rehabilitation and maintenance; and
8. development and implementation of an action plan for increased enrollment of students in secondary education.

**Part D. Modernization of the System for Higher Education**

Activities to develop and commence implementation of a strategy for the higher education system reform, including:

1. organization of stakeholder consultation meetings on the draft Master Plan for Higher Education;
2. support for the preparation and implementation of a draft amendment to the Higher Education Law in accordance with the draft Master Plan for Higher Education;
3. finalization and implementation of the Master Plan for Higher Education;
4. development of a university-level qualification program for teachers in basic schools;
5. development of an action plan for implementation of the Bologna Process;
6. establishment of governing boards of universities; and
7. development and implementation of strategic development plans for individual universities.



## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Institutional Arrangements**

The Recipient shall maintain the following institutional arrangements throughout the life of the Project:

1. The Ministry of Education and Science shall be responsible for overall Project implementation, including prioritization and coordination of Project activities, preparation of the Annual Reform Programs, and fiduciary and safeguards monitoring, as set forth in more detail in the POM.
2. The Project Steering Committee shall be responsible for policy and Project oversight. Its membership shall consist of the Minister and Deputy Minister of Education and Science, the Advisor to the Prime Minister, the Deputy Minister of Finance, the Deputy Minister of Interior and Decentralization, and the General Secretary of the MoES.
3. The General Secretary of the MoES shall be responsible for the coordination and monitoring of Project activities at the technical level. Designated directors of departments within the MoES and staff within the Qualification and Training Center for Education, the Institute of Curriculum and Standards, and the National Center for Assessment and Examination shall be responsible for implementation of specific Project activities as set forth in the POM.

#### **Section II. Implementation Covenants**

1. The Recipient shall carry out its obligations in accordance with the Project Operational Manual, the EMP and the MOU, and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operational Manual, the EMP or the MOU, without prior approval of the Association.
2. The Recipient, through the MoES, shall:
  - (a) not later than September 15 of each year during the implementation of the Project, starting September 15, 2006, submit to the Association for review and approval an Annual Reform Program for the following calendar year, including indicative amounts needed to implement the activities under the respective ARP, prepared in accordance with the format included in the Project Operational Manual, and shall agree with the Association on steps to be taken in the following calendar year; and
  - (b) not later than April 15 of each year during the implementation of the Project, starting April 15, 2007, submit to the Association a report on the performance of the Annual Reform Program for the preceding calendar year and the overall Program,

monitored pursuant to indicators and monitoring arrangements set forth in the Project Operational Manual; and

(c) jointly undertake with the Association a review of the Project activities based on the report referred to in subparagraph (b) above.

3. The Recipient shall cause an operational review covering the preceding calendar year to be carried out and finalized by independent auditors acceptable to the Association on terms of reference acceptable to the Association each year during Project implementation. Such review shall cover the Recipient's internal control framework and procedures, including procurement processes and the financial management system, for the Recipient's education sector, and shall be conducted in accordance with International Standards of Auditing (ISA) and on terms of reference acceptable to the Association. The results and findings of the audit and review shall be submitted to the Association by April 15 of each year during the implementation of the Project, starting April 15, 2008. The first review and results submitted by April 15, 2008 shall cover the calendar years 2006 and 2007.

4. If, as a result of the reports referenced in paragraphs 2(b) and 3 of this Section II, the Association determines at any time that proceeds of the Credit were not used to finance Eligible Expenditures under the respective Annual Reform Program, or were otherwise not justified, the Association may: (a) require the Recipient to refund to the Association an amount equal to the amount used for expenditures not so eligible or justified; or (b) reduce its share of funding of the activities under the subsequent Annual Reform Program by the amount used for expenditures not so eligible or justified.

5. The Recipient shall, not later than January 1 of each year during the implementation of the Project, starting on January 1, 2007, include in its overall budget an amount covering its share of the Annual Reform Program for the respective calendar year.

6. The Recipient shall, not later than January 1, 2007, have entered into the EIB Co-financing Agreement and the CEDB Co-financing Agreement.

7. The Recipient, shall, not later than January 1, 2007, have entered into the Memorandum of Understanding with the Association, the European Investment Bank and the Council of Europe Development Bank concerning pooled fund support for the Project.

8. The Recipient, through the MoES, shall organize and chair meetings twice a year, in May and October, and, as needed, on an ad hoc basis. During the meetings held in May of each year, the Project and the ARP for the preceding year shall be reviewed. During the meetings held in October of each year, the ARP for the following year, including the amounts needed to implement the activities under the ARP for the following year, shall be agreed. The meetings shall be chaired by the MoES and its

attendees shall consist of senior staff within the MoES, the Ministry of Finance, the Ministry of Interior and Decentralization, the Ministry of Labor and Social Affairs, Regional Councils, Regional and District Education Departments, as well as representatives of the Development Partners and other stakeholders.

9. The Recipient, through the MoES, shall further strengthen the financial management capacity of the MoES in accordance with the Fiduciary Capacity Building Plan and shall maintain adequate financial management capacity within the MoES throughout the life of the Project.

### **Section III. Project Monitoring, Reporting, Evaluation**

#### **A. Project Reports**

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

#### **B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar semester (June 30 and December 31), interim un-audited financial reports for the Project covering the respective six-month period, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

### **Section IV. Procurement**

#### **A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the

requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
(a) National Competitive Bidding – with the modifications set forth in paragraph 3 below
(b) Shopping
(c) Direct Contracting

3. The National Competitive Bidding procedures shall be based on the Open Tendering procedures as defined in the Public Procurement Law of Albania, and the following additional provisions:

- (i) "Open Tendering" procedures as defined in Public Procurement Law of Albania shall apply to all contracts;
- (ii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process. Government-owned enterprises in Albania shall be permitted to bid only if they are legally and financially autonomous and operate under commercial law of the Recipient;

- (iii) procuring entities shall use sample bidding documents approved by the Association;
- (iv) in case of higher bid prices compared to the official estimate, all bids shall not be rejected without the prior concurrence of the Association;
- (v) a single-envelope procedure shall be used for the submission of bids;
- (vi) post-qualification shall be conducted only on the lowest evaluated bidder; no bid shall be rejected at the time of bid opening on qualification grounds;
- (vii) bidders who contract as a joint venture shall be held jointly and severally liable;
- (viii) contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform in accordance with pre-defined and pre-disclosed evaluation criteria;
- (ix) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders; and
- (x) contracts of long duration (more than 18 months) shall contain appropriate price adjustment provisions.

**C. Particular Methods of Procurement of Consultants' Services**

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants' Services. The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) Least Cost Selection
(b) Selection Based on Consultants' Qualification
(c) Quality-Based Selection
(d) Single Source Selection

(e) Fixed Budget
(f) Individual Consultants

**D. Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section V. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, the provisions of this Section, and such additional instructions as the Association may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Goods, works, consultants' services including audit, training and Operating Costs included in the respective ARP for 2006 and subsequent calendar years	10,500,000	Such percentage of Eligible Expenditures as the Association may determine for each calendar year, starting in calendar year 2006, covered by the respective ARP
<b>TOTAL AMOUNT</b>	<u>10,500,000</u>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The withdrawn proceeds of the Financing, as determined by the respective ARP, shall be deposited in a foreign currency account opened and maintained by the

Recipient's Treasury in the Bank of Albania. Upon receipt into the account, the Recipient's Treasury shall deposit an equivalent Lek amount into the Treasury's Lek-denominated Treasury Single Account to be used to finance Eligible Expenditures under the Project as identified in the respective ARP.

3. The Closing Date is December 31, 2010.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 1 and September 1:	
commencing September 1, 2016 to and including March 1, 2026	5%

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\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.



## APPENDIX

### Definitions

1. “2009 PISA Study” means the OECD *Programme for International Student Assessment* to be carried out in 2009.
2. “Annual Reform Program” or “ARP” means each list of annual activities supported by the Project prepared by the Recipient and agreed between the Recipient, the Association and, as of 2007, the Development Partners (as hereinafter defined) pursuant to Section II.2 of Schedule 2 to this Agreement.
3. “Bank of Albania” means the Recipient’s Central Bank and includes any successor thereto.
4. “Bologna Process” means the steps agreed to pursuant to the *Bologna Declaration on the European Space for Higher Education* dated June 19, 1999, of which Albania is a signatory.
5. “Category” means a category set forth in the table in Section V of Schedule 2 to this Agreement.
6. “CEDB Co-financing Agreement” means the agreement to be entered into between the Recipient and the Council of Europe Development Bank to assist in financing the Project.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
8. “Development Partners” mean the signatories of the MOU (as hereinafter defined).
9. “District Education Department” means the district department of the MoES and includes any successor thereto.
10. “EIB Co-financing Agreement” means the agreement to be entered into between the Recipient and the European Investment Bank to assist in financing the Project.
11. “Environmental Management Plan” means the plan adopted by the Recipient on March 15, 2006, satisfactory to the Association, consisting of the set of mitigation, monitoring, and institutional measures to be taken to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement these measures.

12. “Fiduciary Capacity Building Plan” means specific time-bound action plans, prepared by the MoES and satisfactory to the Association, to improve the capacity of financial management and procurement in the MoES and related implementing agencies at the national and local levels, and includes appropriate training of staff and measures for the improvement of the fiduciary systems.
13. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
14. “Higher Education Law” means the Recipient’s law No. 8461, on Higher Education in the Republic of Albania, dated February 25, 1999.
15. “Institute of Curricula and Standards” means the Recipient’s institute for the development and supervision of school curricula and standards, established on September 25, 2003 pursuant to the Decision by the Council of Ministers of the Recipient No. 654.
16. “Lek” means the lawful currency of Albania.
17. “Master Plan for Higher Education” means the Recipient’s draft strategic plan for higher education reform prepared by the MoES.
18. “Memorandum of Understanding” or “MOU” means the memorandum of understanding between Albania and the Development Partners, providing for, *inter alia*, common procedures on procurement, disbursement, financial management, environmental safeguards, cooperation and exchange of information with regard to the financial support of the Project.
19. “Ministry of Education and Science” or “MoES” means the Ministry of Education and Science of the Recipient and includes any successor thereto.
20. “Ministry of Finance” means the Ministry of Finance of the Recipient and includes any successor thereto.
21. “Ministry of Interior and Decentralization” means the Ministry of Interior and Decentralization of the Recipient and includes any successor thereto.
22. “Ministry of Labor and Social Affairs” means the Ministry of Labor and Social Affairs of the Recipient and includes any successor thereto.
23. “National Center for Assessment and Examination” means the Recipient’s center for assessment and examination, established on May 12, 2001 pursuant to the Decision by the Council of Ministers of the Recipient No. 309.
24. “Operating Costs” means expenses incurred on account of Project implementation and management, including the operation and maintenance of

vehicles, office supplies, communication and internet charges, insurance costs, office administration costs, banking charges, domestic travel by MoES officials and related per diem allowances, but excluding salaries of the officials of the Recipient's civil service.

25. "Procurement Guidelines" means the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004.
26. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 18, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
27. "Program" means the first phase of the Recipient's National Education Strategy, dated February 15, 2006.
28. "Project Operational Manual" or "POM" means the document referred to in Section 5.01 (c) of this Agreement, satisfactory to the Association, setting forth the financial management procedures (budgeting, accounting and internal control, disbursement and flow of funds, financial reporting, annual reports and internal and external audit arrangements procedures) and institutional arrangements for carrying out the Project, as the same may be amended from time to time by agreement between the Association and the Recipient.
29. "Public Procurement Law of Albania" means the Recipients law No. 7971, dated July 26, 1995, as last amended by amendment No. 9372, dated April 14, 2005.
30. "Qualification and Training Center for Education" means the Recipient's center for qualification and training of teachers, established on September 25, 2003, pursuant to the Decision by the Council of Ministers of the Recipient No. 655.
31. "Regional Council" means the regional council of the Government of Albania.
32. "Regional Education Department" means the regional department of the MoES.