

Document of
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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
EDUCATION EXCELLENCE AND EQUITY PROJECT
{ LOAN/CREDIT }
TO THE
REPUBLIC OF ALBANIA
SEPTEMBER 23, 2010

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Extension of Closing Date

ALBANIA – EDUCATION EXCELLENCE AND EQUITY PROJECT

P078933

CREDIT 4180 ALB

Restructuring Paper

1. The closing date for **Albania Education Excellence and Equity Project** (EEE-P), Credit Number 4180, will be extended by twelve months from December 31, 2010 until December 31, 2011.
2. After a 23-month restructuring process, the Board approved the Project's restructuring on March 2010. The restructuring was necessary due to the fact that during implementation the Project triggered the Involuntary Resettlement Safeguard (OP 4.01). During the restructuring process, the bulk of civil work activities, accounting for 43 percent of the total project cost, were put on hold pending the completion of the corresponding safeguard due diligence and subsequent approval of the restructuring. As such, and due to poor safeguard and fiduciary ratings, the Project's Implementation Progress rating was lowered to *Moderately Unsatisfactory* in September 2009 and remained MU until June 2010. At the same time, the Project's Development Objective has remained rated *Moderately Satisfactory*, as the team believes the Project continues to be likely to attain its objectives. A supervision mission was carried out between May 17 and 21, 2010, and concluded that there had been significant implementation progress in the last six months, including in complying with the safeguards; as such Implementation Progress was upgraded to *Moderately Satisfactory* to reflect such progress.
3. In terms of Financial Management (FM), the Project has some shortcomings and was rated *Unsatisfactory* as a result of it. Those shortcomings were the result of the partial inadequacy of systems and controls, weak institutional capacity, and slow disbursement. However, the May 2010 supervision found progress in this area and FM rating has been upgraded to *Moderately Satisfactory*. There are no outstanding audit reports for the Project. Another FM issue is that EEE-P has incurred high foreign exchange rate losses, mainly due to transfer of funds received from donors including IDA from the Bank of Albania where the Designated Accounts are maintained to the Treasury Account in local currency to finance project expenditures. The Borrower takes the foreign exchange risk, and any losses would not be financed from the IDA Credit.
4. The proposed extension is necessary to compensate for the time civil works were put on hold pending the restructuring. Without this extension, the Government will not be able to carry out the construction and/or extension of primary and secondary schools, as planned. Whereas it would be ideal to grant the Government a 24 month extension, due to the SWAp nature of this Project and the co-financiers institutional restrictions on granting extensions longer than 12 months at a time, the team seeks management's approval to extend the Project by one full year. This request is supported by the two other co-financiers, who have indicated willingness to consider a 12 month extension during the October 2010 Semi-annual Review Meeting. During the May 2010 supervision mission, the Project's co-financiers,

including the World Bank, discussed with the Minister and his staff the need for prioritization of activities and a detailed action plan covering an additional 12 months of implementation. A revised Annual Reform Program 2010 was submitted to the Bank and Co-financiers on September 13, 2010, and approved by the Bank and the European Investment Bank. Such plan, along with the activities planned by the Government under an extension, will be discussed in detail during the October 2010 Semi-annual Review Meeting. However, as many of the no objections requested by the Government under this project are for activities beyond the current closing date, the team would like your authorization to extend the project now.

5. This will be the first extension for the Project.