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Report No: 34919-AL

PROJECT APPRAISAL DOCUMENT

ON A

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IN THE AMOUNT OF SDR 10.5 MILLION
(US\$15 MILLION EQUIVALENT)

TO THE

REPUBLIC OF ALBANIA

FOR AN

EDUCATION EXCELLENCE AND EQUITY PROJECT

May 3, 2006

Human Development Sector Unit
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 3, 2006)

Currency Unit = LEK
US\$1.00 = LEK100
US\$1.00 = SDR0.70

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

| | | | |
|-------|--|--------|--|
| AA | Accreditation Agency | MoF | Ministry of Finance |
| ARP | Annual Reform Program | MoES | Ministry of Education and Science |
| BOA | Bank of Albania | MTBF | Medium-Term Budget Framework |
| CAS | Country Assistance Strategy | NCET | National Center for Evaluation and Tests |
| CEDB | Council of Europe Development Bank | NES | National Education Strategy |
| CEM | Country Economic Memorandum | NSSED | National Strategy for Social and Economic Development |
| CFAA | Country Financial Accountability Assessment | OECD | Organisation for Economic Cooperation and Development |
| CFAU | Country Fiduciary Assessment Update | OED | Operations Evaluation Department |
| COM | Council of Ministers | PCN | Project Concept Note |
| CPAR | Country Procurement Assessment Report | PEIR | Public Expenditure and Institutional Review |
| CTQE | Center of Training and Qualification for Education | PHRD | Policy and Human Resources Development |
| DO | Development Objective | PID | Project Information Document |
| ECA | Europe and Central Asia | PISA | Programme for International Student Assessment |
| EEE-P | Education Excellence and Equity Project | PIU | Project Implementation Unit |
| EIB | European Investment Bank | POM | Project Operational Manual |
| EMIS | Education Management Information System | PPA | Public Procurement Agency |
| EMP | Environmental Management Plan | PPL | Public Procurement Law |
| EO | Education Offices | RC | Regional Councils |
| EU | European Union | RDE | Regional Directorates of Education |
| FM | Financial Management | RFP | Request for Proposal |
| FMR | Financial Monitoring Report | SDR | Special Drawing Rights |
| GDP | Gross Domestic Product | SEE | South East Europe |
| GOA | Government of Albania | SIL | Specific Investment Loan |
| HSC | High State Control | STA | Single Treasury Account |
| ICT | Information and Communications Technology | SWAp | Sector-Wide Approach |
| IDA | International Development Association | TA | Technical Assistance |
| ICS | Institute of Curricula and Standards | TOR | Terms of Reference |
| IFAC | International Federation of Accountants | UNDB | United Nations Development Business |
| IP | Implementation Progress | UNESCO | United Nations Educational, Scientific and Cultural Organization |
| IPSAS | International Public Sector Accounting Standard | UNICEF | United Nations Children's Fund |
| ISA | International Standards on Auditing | VAT | Value Added Tax |
| ISCED | International Standard Classification of Education | VET | Vocational Education and Training |
| ISR | Implementation Status Report | WB | World Bank |
| LSMS | Living Standards Measurement Survey | | |

| | |
|-------------------|------------------------|
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REPUBLIC OF ALBANIA
Education Quality & Equity Project

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Map: IBRD 33359

REPUBLIC OF ALBANIA

EDUCATION EXCELLENCE AND EQUITY PROJECT

PROJECT APPRAISAL DOCUMENT

**EUROPE AND CENTRAL ASIA
ECSHD**

| | |
|---|--|
| Date: May 3, 2006 Country Director: Orsalia Kalantzopoulos Sector Manager/Director: Maureen McLaughlin/ Charles C. Griffin Project ID: P078933 Lending Instrument: Specific Investment Loan (SIL) | Team Leader: Keiko Miwa Sectors: Primary education (40%); Secondary education (25%); Tertiary education (20%); Central government administration (10%); Sub- national government administration (5%) Themes: Education for all (P); Vulnerability assessment and monitoring (S); Administrative and civil service reform (S); Decentralization (S); Education for the knowledge economy (S) Environmental screening category: B |
|---|--|

Project Financing Data

| | |
|--|-------|
| <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other: | |
| For Loans/Credits/Others: | |
| Total Project Cost (US\$ m.): | 75.00 |
| Co-financing: | 30.00 |
| Total Bank Financing (US\$ m.): | 15.00 |

Financing Plan (US\$ million)

| Source | Local | Foreign | Total |
|---------------------------------------|--------------|-------------|--------------|
| Recipient | 30.00 | 0.00 | 30.00 |
| International Development Association | 15.00 | 0.00 | 15.00 |
| European Investment Bank | 15.00 | 0.00 | 15.00 |
| Council of Europe Development Bank | 15.00 | 0.00 | 15.00 |
| Total: | 75.00 | 0.00 | 75.00 |

Recipient: Albania

Responsible Agency: Ministry of Education and Science (MoES)

Project Implementation Period: Four years

Start: October 1, 2006 End: December 31, 2010

| FY | 2007 | 2008 | 2009 | 2010 | | | | | |
|------------|------|------|-------|-------|--|--|--|--|--|
| Annual | 3.00 | 4.00 | 4.00 | 4.00 | | | | | |
| Cumulative | 3.00 | 7.00 | 11.00 | 15.00 | | | | | |

Project implementation period: Start: October 1, 2006 End: December 31, 2010

Expected effectiveness date: October 1, 2006

Expected closing date: December 31, 2010

Does the project depart from the CAS in content or other significant respects? *Ref.* Yes No

PAD A.3

Does the project require any exceptions from Bank policies? Yes No

Ref. PAD D.7

| | |
|--|----------------|
| Have these been approved by Bank management? | [] Yes [X] 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"? <i>Ref. PAD C.5</i> | [X] Yes [] No |
| Does the project meet the Regional criteria for readiness for implementation? <i>Ref. PAD D.7</i> | [X] Yes [] No |
| Project development objective <i>Ref. PAD B.2, Technical Annex 3</i> | |
| <p>The proposed Education Excellence and Equity Project (EEE-P) will support Government in the implementation of the first phase of Albania's National Education Strategy (NES). <i>The objective of EEE-P is improved quality of learning conditions for all students and increased enrollment in general secondary education, especially for the poor.</i> The intermediate goals are that leadership, management and governance of the education system are improved, teachers use new methods of teaching and a wider variety of learning aids in schools, the quality of school infrastructure and the efficiency of its use are improved, and the initial steps of higher education reform are taken.</p> | |
| Project description <i>Ref. PAD B.3.a, Technical Annex 4</i> | |
| <p>Project priority areas are: (i) strengthening leadership, management and governance of the education system, (ii) improving conditions for teaching and learning, (iii) improving and rationalizing education infrastructure, especially in secondary education and (iv) setting the stage for higher education reform.</p> | |
| Which safeguard policies are triggered, if any? <i>Ref. PAD D.6, Technical Annex 10</i> | |
| <p>Environmental Assessment, category (B)</p> <p>An Environmental Management Plan has been prepared by the MoES, and cleared by the ECA Regional Safeguards Coordinator. It was disclosed in-country prior to Appraisal on March 6, 2006 and its final version submitted to the InfoShop for public disclosure on March 15, 2006.</p> | |
| Significant, non-standard conditions, if any, for: <i>Ref. PAD C.7</i> | |
| <p>Board presentation (package not to be distributed until this condition has been met): None</p> <p>Credit effectiveness:</p> <ul style="list-style-type: none"> ▪ The Project Operational Manual (POM), satisfactory to IDA, has been adopted by the Recipient. ▪ 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. ▪ The Fiduciary Capacity Building Plan is in place. ▪ The Recipient has delivered to IDA of legal opinion satisfactory to the Association to the effect that the FA has been duly authorized or ratified by the Recipient and is legally binding upon the Recipient in accordance with its terms. <p>Project Implementation Covenants</p> <ul style="list-style-type: none"> ▪ The Recipient shall carry out its obligations in accordance with the POM, the Environmental Management Plan (EMP) and the Memorandum of Understanding (MOU), and shall not amend, suspend, abrogate, repeal or waive any provision of the POM, the EMP or the MOU, without prior approval of the Association. | |

- 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; (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.
- 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.
- If, as a result of the reports referenced above (the report on the performance of ARP and the report on the annual operational review), 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.
- 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.
- The Recipient shall, not later than January 1, 2007, have entered into the EIB Co-financing Agreement and the CEDB Co-financing Agreement.
- 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.
- 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.
- 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.

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

Albania has successfully built the foundations of a market-based economy, created democratic institutions and gradually built capacity in the public administration since the economic and political transition in the early 1990s. Albania has maintained macroeconomic stability and average real Gross Domestic Product (GDP) growth rates of over 5 percent for the last five years – the highest in Southeastern Europe. Maintaining this performance will be increasingly difficult, however, and Albania will need to attract foreign direct investment, increase public and private savings, accelerate accumulation of physical and human capital, and improve governance structures. Despite GDP per capita reaching an estimated US\$2,060 in 2004, widespread poverty, high unemployment, wide regional disparities, and corruption remain daunting challenges. Eventual membership in the European Union (EU) remains an overarching long-term vision in the country, and negotiations on a Stabilization and Association Agreement with the EU are a national priority.

The performance of the education sector would be a key determinant of Albania's future competitiveness and economic growth. Given Albania's aspirations to maintain its growth, narrow regional disparities and join the EU, the main challenge in the education sector is to develop a system and institutions which prepare school graduates to function effectively in labor markets, become active citizens and contribute to strengthening Albania's competitiveness. The importance of investing in human capital is especially pronounced in resource-scarce Albania. The reform of secondary and tertiary education remains high in the education sector development agenda. The quality and relevance of education must be raised substantially at all levels, and the continuation of recent reforms to this end is thus of critical importance.

Albania's educational outcomes are poor, particularly when measured against labor market needs and achievements in other countries in the region with which Albania's labor force needs to compete. Albanian children on average complete 8.6 years of schooling, which lags substantially behind that of its neighbors and falls almost 6 years below the EU average. While universal primary education has been achieved, secondary education (Grades 9-12) enrollment rate is low at around 50 percent. Low average educational attainments are compounded by marked variations across regions and income groups. For example, the net secondary enrollment rate is 70 percent in Tirana, 60 percent in other urban cities, and only 25 percent in rural areas. In addition, Albanian students scored very poorly in the Programme for International Student Assessment (PISA) 2000 in reading, mathematics and science literacy. Their performance lags behind other countries in the region against which Albania's labor force competes. Although the trend is on the rise, higher education enrollment rate remains low at around 13 percent, and the system is not adapted to changing labor market needs.

Declining public spending on education contributed to declines in education quality, especially for children coming from poor families, rural areas, and peri-urban areas. Limited public spending on education resulted in cost sharing of schooling with households, which has negatively affected the enrollment of poor children. Public spending on education as a share of GDP declined steadily from 3.7 percent in 1995 to 3.1 percent in 2004. This is substantially

lower than the EU average (approximately 4.9 percent) or the average of other Southeast European countries (above 4 percent) or other lower-middle income countries.¹ Public spending on education as a share of the total public expenditure has remained at approximately 10 percent since 1995, which again compares unfavorably to the average of new EU countries (10 - 14 percent) or other lower-middle income countries.² Schools in urban and peri-urban areas are overcrowded, sometimes over 50-60 students in a classroom, and many schools are operating with double or triple shifts. On the other hand, schools in remote areas have very small student-teacher ratios as the population declines or migrates to urban cities. While efforts have been made to increase wages for teachers, particularly in rural areas, the budget for non-salary recurrent expenditures has remained at approximately 10-12 percent of the total recurrent budget in education, resulting in inadequate provision of teaching-learning materials, teacher training and facilities maintenance.

New National Education Strategy (NES) provides a framework for a sector-wide reform.

Albania developed the National Education Strategy 2004-2015 for pre-university education during the previous government. The Strategy identifies four priority areas, and establishes related objectives, indicators to measure achievement and the timetable for implementation. The four priority areas include: (i) governance – reforming and strengthening management capacity, (ii) improving the quality of the teaching and learning process, (iii) financing pre-university education, and (iv) capacity building and human resource development. This Strategy provides a commonly agreed view to help strengthen the sector’s performance and serves as a basis for concerted efforts to achieve better learning outcomes in a more equitable and efficient manner. Building on the NES 2004-2015, the Ministry of Education and Science (MoES) aims to develop a comprehensive strategy, which will cover from early childhood development to tertiary education.

As the participation in education is increasing, the quality and equity remain as the key issues.

To upgrade the quality and relevance of pre-tertiary education, curriculum and textbook reforms have been initiated, aiming to complete implementation of a revised basic education curriculum by 2010 and of a secondary education curriculum by 2015. Efforts to improve the quality of teaching include creating a system of professional development for teachers and school principals, a reform of the initial teacher training programs in the universities, financing research and development related to teaching and learning, school improvement and education management. Competition in textbook printing was introduced in 2003, which resulted in 50 percent reduction in printing costs. The National Assessment and Examination Center was established to carry out independent national student assessments and to administer the state *matura* examinations.

Modernization of the higher education system and strengthening of governance in universities are critical. The reform agenda in tertiary education includes the modernization of the course structure and curriculum, strengthening of university governance structures, improvement of

¹ For example, 5.4 percent in Ukraine, 4.9 percent in Iran, 4.6 percent in Vietnam, 4.9 percent in Moldova, and 6.3 percent in Bolivia.

² For example, 20.3 percent in Ukraine, 17.7 percent in Iran, 18.6 percent in Vietnam, 21.4 percent in Moldova, and 19.7 percent in Bolivia.

legislation and funding formulae, stronger linkages between research and teaching, an enhanced quality assurance and accreditation mechanism, and enhanced linkages with the labor market.

Education governance, especially decentralization, needs urgent review and development.

Decentralization of the education system management and service delivery at the pre-university level is a core aspect of Albania's ongoing broader decentralization efforts. The decentralization process of the pre-university education system is based on the following guiding principles³: (i) striving for high academic achievements and administrative effectiveness and transparency, (ii) a culture of measurement, (iii) performance-based management, (iv) new role for school principals, and (v) participatory approach. As the local and school autonomies increase, schools and individuals working in schools are required to take increased responsibility for planning and managing the development of services they deliver along with the associated quality improvement procedures.⁴

All of these reform initiatives are ambitious and in their early stages of implementation. A critical task for the MoES and all the stakeholders is to prioritize and sequence reform activities, set the medium-term and annual targets and monitoring indicators, develop detailed implementation plans, clarify the responsibility and accountability framework, strengthen leadership in schools and institutions, and make adjustments along the way.

2. Rationale for Bank involvement

The Bank's long-term engagement in the education sector since the start of the transition, its ability to help the government address policy and strategic issues, and its global and regional experience and knowledge in supporting educational reform place the Bank in a critical position to support the government in the education sector. The first education project, the School Rehabilitation and Capacity Building Project (1994-2000), aimed to support the government in providing basic education services during the difficult initial transition period, and focused on the school rehabilitation and capacity building of key sector institutes. The objective of the subsequent Education Reform Project (2000-2004) was to assist the MoES in planning and managing the delivery of educational services and strengthening its accountability to stakeholders for the delivery. The outcomes, as well as Recipient's and Bank's performances of both projects, were rated satisfactory. The focus of the Bank's support has been shifting from pure inputs such as school rehabilitation to system reform (decentralization) and improving learning outcomes. It is vital that the Bank builds on the past experience and continues its support to Albania's educational reform.

The Bank is one of the few, and the largest, development partners supporting education sector reform in Albania. The government's ambitious reform agenda spanning from primary to higher education requires a better coordinated, systemic and increased support in the sector. The Bank is in a key position to help the government to mobilize and coordinate resources under the government's own strategy and to advise the Ministry in its implementation.

³ Policy Paper on Decentralization of the Education System in Albania. 2004. MoES.

⁴ National Education Strategy 2004-2015. MoES.

3. Higher level objectives to which the project contributes

The proposed Education Excellence and Equity Project (EEE-P) will address, directly and indirectly, priority areas of the Country Assistance Strategy (FY2006-2009), namely (i) continued economic growth through support to private sector development, and (ii) improving public service delivery, particularly in the social sectors, through the introduction of a governance filter. For private sector development, the modernized education system which equips a new generation with appropriate knowledge, skills and attitude to respond to the changing demands of the competitive regional and global markets is necessary. The proposed project aims to improve the conditions of student learning and increase enrolment in secondary education, which is expected to lay the ground for a better human capital base. The proposed project also aims to improve the efficiency and equity of service delivery through strengthened management, leadership and governance. Thus, the EEE-P aims to contribute to enhanced service delivery as well as private sector development.

B. PROJECT DESCRIPTION

1. Lending instrument

The proposed project will support the implementation of the priority areas of the Government's National Education Strategy (NES) during 2006-2010 through a Specific Investment Loan (SIL) using a sector-wide approach (SWAp). The NES 2004-2015, prepared by the MoES, covers pre-university education. The MoES is currently developing strategies for higher education and vocational education so that the NES will address the entire education sector. The NES forms the basis of the EEE Project, and annual reform programs (ARP)⁵ will be developed within the framework of the NES. A SWAp is chosen because it is expected that it will, compared to a traditional project approach, strengthen the government ownership, facilitate cooperation and coordination among partners, strengthen sectoral management capacity, enable the government to address strategic issues, and reduce transaction costs of multiple reporting and procedures. While advantages of a SWAp to address the issues of a systemic education reform in Albania are recognized, risks associated with this approach are also fully appreciated, and mitigation measures are proposed.

The EEE-P will provide financial and technical support to the Government over a period of four years (CY2006-2010), covering four full cycles of government fiscal years. The EEE-P will use the Recipient's financial management and procurement systems and procedures to the extent possible and acceptable to the Bank. The Bank will pool funds with the MoES annual reform program budget together with other partners, namely the European Investment Bank (EIB) and the Council of Europe Development Bank (CEDB).

⁵ Although it is called "Annual Reform Program," it is an annual implementation plan of a multi-year reform program.

2. Project development objective and key indicators

The proposed EEE-P will support Government in the implementation of the first phase of Albania's National Education Strategy (NES). *The objective of EEE-P is improved quality of learning conditions for all students and increased enrollment in general secondary education, especially for the poor.* The intermediate goals are that leadership, management and governance of the education system are improved, teachers use new methods of teaching and wider variety of learning aids in schools, the quality of school infrastructure and the efficiency of its use are improved, and the initial steps of higher education reform are taken.

Key indicators to assess progress towards and achievement in the project development objective are outlined in the Result Framework (Annex 3). In addition, the MoES will use the *Education System Performance Indicators* to monitor the overall structural and quality improvement in the education sector in the long-term, beyond the EEE-P. The intermediate targets for 2009 and the longer-term targets for 2012 and 2015 are specified (Annex 3).

3. Project priorities

The priority areas of the proposed project are: (i) strengthening leadership, management and governance of the education system, (ii) improving conditions for teaching and learning, (iii) improving and rationalizing education infrastructure, and (iv) setting the stage for higher education reform. The details of the proposed project priorities are presented below.

| Priority Areas | Key Project Activities |
|--|--|
| <p>1. Strengthening leadership, management and governance of the education system</p> <p>(US\$10 million)</p> | <p>This priority area aims to strengthen the leadership and management capacities, and to enhance governance and accountability of the education system. This includes activities associated with the decentralization, strengthening the leadership, professional development of school principals, decision making and resource management at the school level, increasing the communities' participation, introduction of performance-based management system, and full utilization of the Education Management Information System (EMIS) for decision making. Decentralized service delivery will be piloted in 2-3 regions before deciding on a rollout plan. This is expected to form an institutional foundation to address other priority areas.</p> |
| <p>2. Improving conditions for teaching and learning</p> <p>(US\$26 million)</p> | <p>This priority area focuses on improving quality of teaching and learning conditions in a holistic manner. Special attention will be paid to support teachers' professional development to enable them to use more effective teaching methods in their classrooms. It will also address the issues of curriculum reform, including the development of a national curriculum framework, rationalization of subjects, integration and textbook development. To implement curriculum reform, teacher education policies and practices will be closely aligned. The development of assessment and evaluation of education will continue through strengthening the capacity of the National Assessment and Examination Center, development of a national plan for evaluation in education, and improving the transparency and integrity of the national <i>matura</i> examination system. This priority area enables teachers and students to use a wider range of appropriate educational tools and methods in teaching and learning process.</p> |

| Priority Areas | Key Project Activities |
|---|--|
| 3. Improving and rationalizing education infrastructure, especially in secondary education (US\$32 million) | This priority area addresses more efficient investment and (re)allocation in physical infrastructure and human resources especially at the secondary education level. It will support the MoES in making investment decision based on school mapping, which takes into consideration the demographic development in Albania. Science laboratories and ICT facilities will be provided to general secondary schools in line with the new curriculum and teacher training to be supported in priority area two. |
| 4. Setting the stage for higher education reform (US\$7 million) | This priority area focuses on supporting the initial stages of the higher education reform . It supports the MoES and universities to carry out a review of the system to identify and sequence reform activities, which include strengthening of university governance, increasing financial autonomy and accountability of universities, strengthening the quality assurance mechanism, and promoting university partnership arrangements. It will support the development and implementation of the strategic development plan of key universities. It also aims to expand the opportunities for students by mobilizing private financing and provision and making the use of public resources more efficient. |

4. Lessons learned and reflected in the project design

Lessons from previous education projects in Albania and from other sector-wide approaches are reflected in the proposed project. The Implementation Completion Report of the Education Reform Project in Albania (2000-2004) recommended that the next project should be closely linked with the education strategy, and that stronger governmental ownership and adequate monitoring arrangements need to be carefully established at the lending phase. In addition, the Project Implementation Unit (PIU) was viewed as the extension of the World Bank's office, and was perceived as an outside unit of the MoES. Therefore, it is critical that the new project will be implemented within the existing MoES and decentralized administration structure, using the Ministry's line departments. The work started during the previous Education Reform Project, such as the development of the Education Management Information System (EMIS), school mapping and student assessment, will be continued and enhanced under the proposed project.

While sector-wide approaches in the education sector in other countries often focus on a part of the education system, especially on primary education, it was judged that it will be more appropriate to focus on the primary, secondary and higher education in Albania given the nature of the education reform underway and the relatively small size of the country in order to contribute to the overall objectives of further growth, equity, and poverty reduction in Albania.

5. Alternatives considered and reasons for rejection

The Government and the Bank gained significant experience with traditional investment projects in Albania over the past 11 years, as have many other partners providing this type of support. The main constraints with project-based support are: (i) it lacks flexibility to respond to the rapidly changing needs of the education system, (ii) its long-term impact on the government institutional development tends to be weak if/when projects are implemented by specific project implementation units, and (iii) transaction costs are high as different donors require different,

often incompatible fiduciary, procurement and reporting requirements. Therefore, this alternative was dropped.

Development policy lending (DPL) will have a less emphasis on the Bank team's support in the operational and implementation aspects of the education reform. There is a need for technical assistance, capacity building and efficient capital investment to implement the National Education Strategy, which could be more effectively addressed by SIL with a sector-wide approach rather than a DPL. In addition, a multi-sectoral DPL is currently being prepared to support Albania's growth, governance and social service delivery agenda, and the proposed EEE-P will be complementary to the proposed DPL. Thus, an alternative of a sectoral DPL was dropped. A SIL with a sector-wide approach, therefore, was considered as an effective instrument for addressing the current needs and opportunities in the education sector in Albania although the risk is significant. In addition, the EU would shift its partnership arrangement with Albania using a SWAp from 2007 onward.

C. IMPLEMENTATION

1. Partnership arrangements

A number of partners are supporting education in Albania, as summarized in Annex 2. In the past, each partner supported or implemented stand-alone discrete projects without an overall framework designed by the government although donor coordination in terms of information sharing was good. Recently, the MoES initiated, and aims to strengthen, a mechanism to solicit and coordinate support in the education sector through "Partners for Education" meetings. The proposed EEE Project aims to help the MoES to lead the coordination of partners using the NES as a common framework. The MoES intends to organize semi-annual review meetings for partners, one in the autumn and the other in the spring. The MoES will present the following year's annual reform program with its cost estimate during the autumn meeting, and the partners will be expected to review, comment and endorse the project. The MoES and partners will review the consistency between the proposed activities and the four priority areas, cost effectiveness and sustainability of the activities, recurrent cost implications, the capacity required for the implementation, and the procurement plan. During the autumn meeting, progress made in the first six months of the calendar year will also be discussed. During the spring meeting, the MoES will present the progress of the previous year and the operational audit report, and progress in the monitoring indicators. The compliance with the financial management and procurement processes will also be reviewed in the spring meeting.

The European Investment Bank (EIB) and the Council of Europe Development Bank (CEDB) have agreed to co-finance the EEE-P through pooled financing. The European Union will continue its ongoing Community Assistance for Reconstruction, Development and Stabilization (CARDS) program within the framework of the overall education strategy. However they indicated that they would move into a sector-wide approach starting in 2007. Bilateral donors who have been supporting vocational training and education will continue to do so; however, the support will be more integrated with the vocational education strategy currently being developed as part of the overall strategy. The European Training Foundation will also continue to cooperate with the MoES and its stakeholders in vocational education and training (VET),

especially in the development of the VET strategy. The Soros Foundation and UNICEF aim to work closer with the government so that their value added in the quality of education and community involvement could be mainstreamed in the government education system.

2. Institutional and implementation arrangements

The EEE-P will be implemented by the MoES, using its existing staff and structures. A project implementation unit will not be established. The MoES will be responsible for the prioritization and preparation of the annual reform program, the coordination of various activities in the reform program across different departments of the MoES, specialized institutes, regions, municipalities and communes, and ensure independence and reliability in the handling of complaints and fiduciary and safeguards monitoring mechanisms. Policy oversight and project steering will be the responsibility of a Steering Committee consisting of the Minister and Deputy Ministers of Education and Science, Advisor to the Prime Minister, Deputy Minister of Finance, Deputy Minister of Interior and Decentralization, and General Secretary of the MoES. The General Secretary of the MoES will be responsible for the coordination and monitoring of activities at the technical level. The directors of relevant departments of the MoES and heads of institutes will be responsible for the implementation of activities. The General Secretary of Education and Science will call for monthly meetings of the director of departments to coordinate and monitor progress of the EEE-P, and the Minister will provide policy guidance to these technical meetings on a quarterly and on demand basis.

3. Monitoring and evaluation of outcomes and results

The results orientation of the EEE-P will place a high priority on good planning, continuous monitoring and timely evaluation. The monitoring indicators and the system of joint semi-annual reviews of the project will be critical for a successful implementation and positive outcomes of the project. The monitoring and evaluation of the proposed EEE-P will be carried out at two levels: (i) long-term system performance; and (ii) EEE Project progress and performance. Project progress and performance will be monitored using specific set of indicators, including input and intermediate indicators as presented in the results framework. In addition, system indicators with a longer-term vision (until 2015) will help Albania to benchmark the development of the education system with the current situation in the EU and the South-East Europe region. These indicators with envisaged targets are described in Annex 3.

Monitoring of the EEE-P in a reliable manner requires strengthening the statistical and information management capacities and processes in the MoES. The foundation of the Education Management Information System (EMIS) was created by the Education Reform Project (2000-2004), which needs to be strengthened. During the first year of implementation of the EEE-P, the institutional and professional capacities of the statistics and policy analysis departments of the MoES and corresponding units of the regional and district education departments will be improved to meet the requirements to serve the needs of the EEE-P monitoring and evaluation.

The main forum for education sector planning and monitoring will be the semi-annual review meetings organized by the MoES and chaired by the Minister, as described above. The World

Bank together with other partners and key stakeholders will participate in these review meetings. The MoES will be responsible for producing and distributing monitoring reports that will be used during the semi-annual review meetings (Annex 6).

4. Sustainability

The sustainability of the EEE-P and the Bank's contribution will be determined by three aspects: first, the government's ownership of the EEE-P and annual reform programs; second, fiscal sustainability and cost effectiveness of the annual reform programs aligned with the Medium-Term Budget Framework (MTBF); and third, capacity building of the technical level staff and fiduciary management in the education sector and the implementation of the EEE-P using the existing structure and staff.

The government's commitment to education reform is strong as shown in the increased government budget in the education sector for 2006, a strong leadership taken by the MoES in coordinating donors' inputs, and the new Minister's willingness to build on the NES 2004-2015. The MoES will update the NES by adding the sub-sector strategies regarding vocational and tertiary education. However, this strong commitment may be undermined if there is a change in the leadership in the government. Measures to ensure sustained government commitment to education reform, such as civil society engagement and broadening of stakeholders, are part of the EEE-P.

The EEE-P, with financing from partners, is expected to fill the gaps between the projected expenditure level by the MTBF and the annual education budget for the next 3-4 years. The cost effectiveness of the activities proposed in annual reform programs and the recurrent cost implications will be carefully reviewed during the semi-annual review processes to ensure fiscal sustainability of the project. Efficiency in investment for school buildings will be improved using the school mapping systems which take into consideration the declining fertility rate and migration factors. In addition, community participation and the mobilization of private financing especially in higher education will contribute to fiscal sustainability of the proposed reform program.

The third factor that will strengthen the sustainability of the proposed EEE Project is its integration as a part of the MoES mainstream functions. A strong emphasis will be placed on continuous capacity building of the technical staff in the MoES, its affiliate institutes and the region and municipality levels to plan, implement and monitor the EEE-P without a PIU. Decentralized administration and support to initiatives by schools and teachers are expected to contribute to institutional sustainability of the education reform.

5. Critical risks and possible controversial aspects

It is recognized that the EEE-P is a high risk and high reward operation. The risks and related mitigation measures were identified and discussed with the MoES. The MoES prepared an action plan to mitigate possible risks related to the EEE-P, which are described in the matrix below and the fiduciary risk matrix in Annex 7. The risks and associated mitigation measures specific to fiduciary aspects are listed in Annex 7.

| Risks | Mitigation Measures | Rating with Mitigation |
|---|--|-------------------------------|
| Political instability may change leadership and key personnel in the education sector. | Establish a firm agreement at the Council of Ministers level for a sector-wide approach and the priority areas of the education reform. Ensure capacity building activities within and beyond the MoES. Establish a management team that will have representation from various departments and affiliate institutes. | S |
| The overall project (covering from primary to higher education) is ambitious to manage and implement as planned. | Prioritize key targets and activities, sequence inputs and activities well, and assign responsible teams for each sub-sector within the government institutional framework. Develop realistic and detailed implementation plans. Provide appropriate and intensive implementation support upfront. | S |
| Fiduciary capacities at the levels of MoES, regional education departments, municipalities, communes and schools remain weak. | Develop a rigorous fiduciary capacity development plan (ongoing - condition for effectiveness), and implement throughout the life of the project. Clarify roles and responsibilities at each level, and provide intensive training on procurement and financial management at every level. Make the information of the budget execution (implemented budget) available to public at each level. | S |
| Perceived Corruption. High level of corruption and state capture according to a number of reports including BEEPs. | Assist the government in instituting a more output-based use of public funds, focusing on service delivery. Emphasize the purpose, function and importance of the Semi-Annual Reviews, monitoring and evaluation and annual audit. Assist MoES in transparent fiduciary management and reporting. Make the information of the education budget and actual expenditure available to the general public. | H |
| Other partners (donors) might continue to have their own procedures and projects rather than supporting the common program. | Agree on the code of conduct at the outset and clarify division of labor between the MoES and partners. Work with other partners from the beginning to solicit pooled financing. Carry out joint review missions twice a year. | M |

Risk ratings: H (high risk), S (substantial risk), M (modest risk), N (negligible risk)

The Government of Albania has an active agenda for combating corruption and enhancing good governance. The EEE-P will also aim to take a rigorous approach in addressing potential risks for corruption. The use of the “governance filter” in this project is discussed in Annex 6B.

6. Credit conditions and covenants

Credit effectiveness:

- The Project Operational Manual (POM), satisfactory to IDA, has been adopted by the Recipient.

- 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 Unit and the assignment of at least one full-time staff to the Finance and Budget Department in charge of financial management of the ARPs.
- The Fiduciary Capacity Building Plan is in place.
- The Recipient has delivered to IDA of legal opinion satisfactory to the Association to the effect that the FA has been duly authorized or ratified by the Recipient and is legally binding upon the Recipient in accordance with its terms.

Project Implementation Covenants

- The Recipient shall carry out its obligations in accordance with the POM, the Environmental Management Plan (EMP) and the Memorandum of Understanding (MOU), and shall not amend, suspend, abrogate, repeal or waive any provision of the POM, the EMP or the MOU, without prior approval of the Association.
- 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; (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.
- 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.
- If, as a result of the reports referenced above (the report on the performance of ARP and the report on the annual operational review), 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.

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

D. APPRAISAL SUMMARY

1. Economic and financial analyses

Because this operation will support implementation of the Government's Education Excellence and Equity (EEE) Project rather than pre-identified expenditures within that project, the economic analysis in Annex 9 focuses on two questions. The first concerns the key needs in the education sector to make education a more effective instrument to support economic growth and poverty alleviation. The second concerns the process that will be used for reviewing the annual reform programs to be carried out under the EEE-P to ensure that they are cost-effective and consistent with the objectives and priorities of the overall program. The question of fiscal sustainability is addressed in the second section of Annex 9, on financial analysis.

The EEE-P will support the implementation of annual reform programs for four government budget years, coinciding with the calendar years 2007, 2008, 2009 and 2010. The EEE-P will also finance specific capacity building activities in the last quarter of the calendar year 2006. The total cost of implementing the EEE-P is estimated at a total of US\$75 million (or 7.5 billion *leks*) over the four year implementation period. As shown in Table 9.4 of Annex 9, the proposed project represents approximately one-third of the proposed investment budget for education under the 2006-2008 MTBF for the CY2007 and 2008, declining to slightly less than 30 percent of the projected investment budget for the CY2009 and 2010. The IDA credit of US\$15 million (or 1.5 billion *leks*) will finance about 20 percent of the cost of the Annual Reform Program. As shown in Annex 9, the resources which are proposed under the MTBF will be adequate to support the proposed expansion of secondary enrollments, assuming that school financing is able

to introduce effective incentives to reduce the number of teachers as primary enrollments decline due to shrinkage of the primary-school cohort.

2. Technical

The EEE-P will provide support to systemic development of the education sector in Albania based on the NES. A holistic and systemic approach is critical for making a significant impact on the education system performance. The four priority areas are ambitious, but sequenced well over the next four years based on the long-term reform framework (Annex 4). Technical soundness of the annual reform program will be reviewed carefully twice each year with other partners using agreed-upon criteria and guiding principles (which are elaborated in the Project Operations Manual).

Five principles will guide the development of the Annual Reform Programs: (i) maximizing support to teachers and school principals in order to improve the quality of teaching and learning; (ii) increasing opportunities of good education for all; (iii) targeting support to regions and populations that are most affected by poverty and lack of opportunities; (iv) recognizing and encouraging local and regional initiatives to improve the quality of schools; and (v) raising efficiency and reducing corruption by participatory transparent review procedures of the sector performance.

3. Fiduciary

The fiduciary arrangements for the project and the reform program are acceptable to the Bank considering the suggested risk mitigating measures.

As part of the project preparation, specific fiduciary issues related to the education sector were assessed with the objectives to: (i) determine the fiduciary reliance that may be placed on the financial management, procurement and internal control arrangements of the institutions as procuring entities and/or entities reporting on the use of funds from this project; and (ii) assess the financial management, procurement and internal control arrangements of the institutions implementing the project with a view to make recommendations to improve the capacity of those institutions in the short-, medium- and long-terms.

The latest Country Financial Accountability Assessment (CFAA, April 2002) and the Country Procurement Assessment Report (CPAR, January 2001) confirm that improvement is required in management of public expenditures, including cash management in Treasury and better internal control throughout the public sector. Improvements were also needed in the public procurement law and implementation regulations to improve transparency, economy and efficiency aspects of the procurement process. The Procurement Agency supported by EU technical assistance is amending the laws and regulations. A Country Fiduciary Assessment Update (CFAU) is ongoing as well as a Public Expenditure and Institutional Review to be completed before the end of June 2006. These reports will provide further recommendations for improvements towards a more efficient use of public resources.

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 as well as giving more analytical information down to the level of individual service units) through the implementation of a new computerized treasury information system which is expected to be ready by January 2007. The proposed project will use the treasury system for the payment and reporting functions. An internal audit mechanism is currently being fully developed to improve the government's internal control environment and the internal audit should also be utilized to monitor the implementation of the project. A Public Internal Financial Control framework based on EU principles is being implemented. The supreme audit institution is also being strengthened through EU support.

The assessment of the procurement system concluded that an acceptable legislative framework, despite its weaknesses discussed above, is in place at the country level. However, the capacity at the sector level is weak and underdeveloped. The public procurement law is not being complied with in an effective manner. The issue of capacity will be addressed through the extensive capacity development plan to be financed by the proposed project. The Bank will require a combination of prior reviews and ex post audits – a safeguards approach to satisfy itself that procurement procedures are being followed correctly. Project Operational Manual (POM) describes in detail the applicable procurement procedures, a format of the detailed procurement plan, standard bidding documents, Request for Proposals (RFPs), evaluation reports, contract forms and procurement reporting formats. The bidding documents will be compatible with the Bank's procurement guidelines, agreed with the Bank, and be used by all those conducting procurement for the Annual Reform Program.

The assessment of the education sector concludes that the fiduciary arrangements in the education sector is weak and there is a substantial fiduciary risk, which requires a set of immediate risk mitigation measures to provide reasonable fiduciary assurances from the start of the project, and long term measures to build sustainable management capacity in the sector. The risk mitigating measures include the following: (i) the pooling of funds will cover only a well described reform program as detailed in the Annual Reform Program; (ii) a memorandum of understanding (MOU) will be signed between the government and participating donors which outline the specific procurement procedures to be applied compatible with Bank's procurement guidelines; (iii) a list of immediate actions to be taken prior to effectiveness is provided in Annex 7 and 8; and (iv) an operational review will be conducted to achieve additional assurance that internal control procedures both in financial management and procurement are strictly followed. Implementation of these actions, together with the proposed longer term capacity development measures, will ensure that the procurement and financial management arrangements are capable of tracking and recording all transactions and balances in a satisfactory manner. Specific mitigation measures on the misuse of funds and corruptions are also included in the Annex 7 and 8, and included in the governance filter described in Annex 6b.

As of the date of this report, the Recipient is in compliance with its audit covenants of previous Bank-financed projects with the MoES. The financial statements, auditing and procurement

arrangements have been satisfactory. The supreme audit institution is planned to be involved in the audit of the project utilizing a twinning arrangement with one of the EU member states' Supreme Audit Institution which are acceptable to the Bank. The annual audited project financial statements will be provided to the Bank and the other participating donors within six months of the end of each fiscal year and also at the closing of the project. To supplement the audit of the annual financial statements, a regular annual operational review will be carried out by an acceptable audit firm as mentioned above, which will review internal control framework and procedures, including procurement processes supported by the project.

4. Social

The existing quantitative and qualitative analysis on Albania, including, Living Standards Measurement Survey (LSMS) 2002 and 2003, Poverty Assessment 2003, and a study on Poverty and Education in Albania of 2005 were reviewed.

Key findings of the social assessment in the Education Reform Project were that poverty, political instability and migration had affected the school attendance for boys and also for girls as parents are often afraid to send girls to schools in a fear of violence. The disparity of attendance particularly in secondary education between rural and urban areas has remained as a major social issue regarding education. The proposed EEE-P will aim to narrow the disparities in enrollment in secondary education.

Roma and Egyptians in Albania are identified as one of the poorest segments of society. However, they are not formally recognized as minority groups. Both groups face social exclusion in different aspects of their lives. These aspects are identified to be related to economic restructuring, unemployment, poverty, weak government capacity, and discrimination. The combination of these factors, their linkages and dynamics increasingly trap their families into poverty, and make the majority of both Roma and Egyptians “outsiders” to Albanian society. The proposed EEE-P will enhance open dialogue on education of minorities and help to give voice to them in local education decision-making through school boards and other open forums.

The EEE-P will introduce mechanisms to increase the participation of key stakeholders in education and enhance transparent planning and reporting by the education authorities. Education reform focused consultation process is underway to build awareness and commitment of the stakeholders to the sector-wide education development efforts. These consultations include thematic conferences, public information in the media following these events, workshops for local and regional specialists and the dissemination of the National Education Strategy 2004-2015.

5. Environment

The Project has been classified as Category B due to anticipated rehabilitation and reconstruction of schools and educational facilities through the proposed credit as part of the government annual reform program expenditures. An environmental review that is based on the previous projects has been conducted to assess the application of Albanian environmental laws, permits, and

practice to schools construction in Albania in line with this credit’s reliance on national systems. This has been compared with the typical requirements of World Bank environmental safeguards to assess similarities and gaps in practice.

The review of existing Environmental Management documents concluded that the construction proposed under this project will not trigger a full Environmental Impact Assessment under either the Albanian laws or World Bank policies. The type of environmental impacts of concern are localized in nature and more adequately addressed through environment permits and good construction practice, or in the case of World Bank policies, through an environmental management plan (EMP). The issues to be addressed through these instruments include proper waste management and disposal of construction debris (including asbestos), proper waste water treatment; heating and fuel system assembly, lab operation safety plans where applicable, dust and noise control, sensitivity of designs to cultural settings, and cultural heritage/chance finds procedures. An Environmental Management Plan for the Project has been prepared as an example of the issues that will be addressed through the permitting, construction, contracting, and operations of the facilities (See Annex 10 for details).

In practice, these issues will be addressed through a series of local permits, through contractor site supervisor oversight, through the local municipality requirements, and in some cases through a small construction unit in the MoES. Responsibilities for school construction in Albania has been decentralized to the municipal level, however, school construction with national funding remain with some central oversight. The MoES plays a role in establishing guidance to all municipalities through the establishment of a “Code of Good Practice.” The EEE-P will support the finalization of the Ministry of Education’s Code of Good Practice to ensure that it incorporates international and EU standards for the environment as a more systemic way to capture the environmental management plan issues.

6. Safeguard policies

| Safeguard Policies Triggered by the Project | Yes | No |
|---|------------|-----------|
| Environmental Assessment (OP/BP/GP 4.01) | [X] | [] |
| Natural Habitats (OP/BP 4.04) | [] | [X] |
| Pest Management (OP 4.09) | [] | [X] |
| Cultural Property (OPN 11.03, being revised as OP 4.11) | [] | [X] |
| Involuntary Resettlement (OP/BP 4.12) | [] | [X] |
| Indigenous Peoples (OD 4.20, being revised as OP 4.10) | [] | [X] |
| Forests (OP/BP 4.36) | [] | [X] |
| Safety of Dams (OP/BP 4.37) | [] | [X] |
| Projects in Disputed Areas (OP/BP/GP 7.60)* | [] | [X] |
| Projects on International Waterways (OP/BP/GP 7.50) | [] | [X] |

7. Policy Exceptions and Readiness

There are no exceptions required from Bank policies, and none are anticipated. All disclosure requirements continue to be met. Counterpart funds requirements have been identified and

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

represent part of the MoES' annual budgets, which are approved by the Parliament. As noted in Annex 3, a comprehensive and results-oriented monitoring plan has been developed and agreed under the project. No land acquisition plans have been identified as required at this stage of the project.

Annex 1: Country and Sector or Project Background

ALBANIA: Education Quality & Equity Project

Education System in Albania

The education system in Albania consists of the following: (i) *Pre-school education* for children 3-6 years old which is not compulsory; (ii) *Basic education* starting at the age 6, continuing for 8 years as compulsory with two cycles: lower cycle for grades 1-4 and upper cycle for grades 5-8. Starting from the academic year 2004-2005, the government decided to extend basic compulsory education from 8 to 9 years so that it is compatible with the education system in European Union (EU) countries; (iii) General *secondary education* consists of 4 years, and this will be reduced to 3 years when the implementation of compulsory education is complete. Vocational education is organized at two levels, one lasting 3 years and preparing qualified students for all professions and graduates are not eligible to register in the university, and the other lasting 5 years and preparing technicians to work in different enterprises, and graduates are eligible to enroll in higher education; and (iv) *Higher education* offers Bachelors degrees, and some faculties in the University of Tirana started to offer Master's degree programs.

The education sector suffered during the initial transition period since 1991 with reduced resources, deteriorated physical infrastructure and the need to realign the education system to demands of market economy. The level of physical destruction was significant and maintenance was poor during the transition, and Albania still has to make substantial efforts to improve the quality of school infrastructure. Many vocational schools were closed down during the 1990s. The enrollment rate in all levels, except higher education, declined during the 1990s. In the past few years, however, the government adopted more pro-active responses to challenges associated with transition in the education sector as outlined in the National Strategy for Social and Economic Development (NSSSED). Education is one of the top priority areas for the new government.

Albania has several macro-level policy and strategy documents which include the strategies on education, which is commendable. Key, however, is the implementation of these strategies and ensuring coherence among them. Albania has developed a comprehensive education sector strategy, especially for pre-university education, as spelled out in the National Strategy for Social and Economic Development, National Education Strategy 2004-2015 and the MTBF. The main challenge today is to develop financing strategies to support the sector strategy, translate the strategy into actionable implementation plans, and closely monitor its progress, outputs and outcomes.

Institutional Framework

Institutional framework surrounding basic and secondary schools is fairly complex with multiple lines of authorities. Several institutions support the education system at the central, local and school levels. **Central level:** (i) *The Parliament* approves the government program, annual budget and specific laws, including the education sector. The Parliamentarian Committee for Education and Public Information discusses proposed draft laws prior to their approval. (ii)

The Council of Ministers approves the national and sectoral development strategies, Medium Term Budget Framework (MTBF) and the draft annual state budget, and it issues decrees and orders for the application of laws. (iii) *The Ministry of Education and Science* is the main governmental body responsible for the implementation of educational policies and management of the education system. This responsibility is exercised by administration and management staff in the Ministry and 13 administration entities functioning at local level. In addition, four main subordinate institutions operate in the education sector. The Institute of Curricula and Standards is responsible for drafting and developing curricula and standards for pre-university education and carrying out research on psycho-pedagogical aspects of pre-university education. The Center of Training and Qualification for Education (CTQE) is responsible for developing and supporting the training and certification program of teachers in pre-university education system. The National Center for Assessment and Examination is responsible for drafting and administering tests and other evaluation instruments for students, certification of teachers on evaluations and publishing results of evaluations and national tests. The Accreditation Agency (AA) is responsible for evaluating the quality of universities, accrediting the academic program, and supporting the universities for self evaluation.

Local level: (i) *The Regional Directorates of Education* (RDEs), located in 12 Regions of the country and Tirana City, are responsible for implementing development policies for pre-university education at the Regional level, organizing inspections in public and non-public schools, assessing the quality of services, and organizing teachers' certification in the region through cooperation with specialized institutions. (ii) *The Education Offices* (EO), located in 24 districts of the country, are responsible for managing human resources in their districts, collecting statistical information, supervising classroom and extra-curricula activities, and managing financial resources for some items such as teaching materials. (iii) *The Regional Councils*⁶ (RC) are elected bodies in the regional level that starting from this year are in charge of execution of the education investment funds in the municipalities other than the central municipalities (where the RC is located) and the communes under their administrative territory; and (iv) *The Municipalities/Communes Councils* are responsible for executing the funds for wages and salaries transferred from the central budget as conditional grant and the funds for school maintenance transferred as unconditioned grant.

School level: (i) *The School Directorate* is made up of one director and three deputy directors. School directors report to the EO or to the RDE. School directors are responsible for the quality of teaching process in schools and for some administrative issues as defined by the RDE. Schools are not allowed to have their own bank accounts and do not have financial management responsibilities. (ii) *The Parents' Councils* serve to strengthen the links and cooperation between schools and families. They are advisory bodies and the level of their involvement varies. (iii) *The School Board* is a consultative body which aims to involve the whole community, including the business community, in solving the problems of the school.

⁶ In Albania there are two levels of the Local Government: the first level is the Municipality/Commune Council and the second one is the Regional Council. The Albanian territory is divided in 12 Regions, 76 Municipalities (from which 12 are central municipalities) and 309 Communes.

Overall Spending

Despite the government's stated objective to invest in education, the share of education in total public spending and in the GDP has continued to decline since 1996, and it is below the average of other Southeast Europe and lower-middle income countries. In 2004, the government spent 23,606 million Lek in education (Table A1.1). The overall public spending on education as a percentage of GDP declined from 3.5 percent in 1997 to 3.1 percent in 2000, and has remained at around 3.1 percent since 2000 although the target set by the NSSED is 3.4 percent in 2005 or 3.5 percent in the MTBF.

Table A1.1: Executed Public Expenditure in Education, 1996-2005

| Public Expenditure in Education | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005* |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total (million Lek) | 10,310 | 11,197 | 13,482 | 16,105 | 16,421 | 18,305 | 19,294 | 21,306 | 23,606 | 26,640 |
| % of GDP | 3.3 | 3.5 | 3.3 | 3.4 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.2 |
| % of the total public expenditure | 13 | 13.7 | 12.9 | 12.9 | 12.2 | 12.0 | 11.3 | 10.6 | 10.7 | 10.4 |

Source: MoF, June 2005 * planned figure

Education accounts for the second largest share of the government expenditure after social security and welfare. However, despite increases in the budget for education, education expenditure as a share of total public expenditure has been steadily decreasing from 13.7 percent in 1997 to 10.7 percent in 2004 (see Table A1.1).

Looked at in the international context, Albania's spending as a proportion of GDP is well below the average of other South East European (SEE), other lower-middle income countries (see table A1.2 below). Spending as a proportion of government expenditure is also lower than some other lower-middle income countries.

Table A1.2: Public education expenditures as a share of GDP and of total public expenditures, Albania (2004), OECD countries (2002), regional comparators (2002), and other lower-middle income countries (2002)

| | % of GDP | % of Total Public Expenditures |
|--------------------|----------|--------------------------------|
| Albania | 3.0 | 10.7 |
| Azerbaijan | 3.2 | 20.7 |
| Singapore | 3.6 | 17.4 |
| Vietnam* | 4.6 | 18.6 |
| Macedonia | 4.7 | 10.5 |
| Croatia | 4.8 | 9.5 |
| Moldova | 4.9 | 21.4 |
| Thailand | 5.2 | 28.3 |
| OECD average | 5.3 | 12.9 |
| Hungary | 5.4 | 10.3 |
| Ukraine | 5.4 | 20.3 |
| Bosnia-Herzegovina | 5.6 | 10.9 |
| Bolivia | 6.3 | 19.7 |
| Malaysia | 7.9 | 20.0 |

Funding Sources

Public finance in education in Albania is predominantly by the national government. Funding sources for the education sector include the state budget, local government contributions and extra budgetary sources. The state budget remains the principal funding source for the education sector (Table A1.3), financing every year more than 93 percent of the total budget for education. There is little outside assistance to the sector; domestic financing dominates education finance, accounting for more than 97 percent for the last four years.

Table A1.3: Financing Sources of Education Expenditures⁷ (million Lek/ nominal)

| Funding Sources | 2002 | | 2003 | | 2004 | | 2005 | |
|-------------------------------------|--------|-------|--------|-------|--------|-------|--------|-------|
| | Total | % | Total | % | Total | % | Total | % |
| State Budget (MoES) | 17,959 | 93.0 | 20,057 | 94.1 | 22,156 | 93.9 | 25,040 | 94.0 |
| Local Government⁸ | 1,335 | 7.0 | 1,249 | 5.9 | 1,450 | 6.1 | 1,600 | 5.8 |
| Total (million Lek) | 19,294 | 100.0 | 21,306 | 100.0 | 23,606 | 100.0 | 26,640 | 100.0 |
| Domestic Financing | 19,196 | 99.5 | 20,677 | 97.0 | 22,960 | 97.3 | 26,042 | 97.8 |
| Foreign Financing | 98 | 0.5 | 629 | 3.0 | 646 | 2.7 | 598 | 2.2 |

Source: MoF, June 2005

Planned versus executed expenditure

While annual execution of the budget has been 97 percent according to the planned budget, consolidated education expenditure has consistently failed to meet the targets the government has set for itself in the MTBF for the last four years. The linkage between the MTBF and annual budget remains weak. Government Program 2005-2009 presented by the new government of Albania states that human development is the most important goal of Albania, and that the government considers the increase of access to good-quality education for all Albanians as the top priority. The Government's three-year plans for spending are set out in its Medium Term Budget Framework (MTBF). In the past four years, consolidated education expenditure has consistently failed to meet the targets the government has set for itself in the MTBF.

On the other hand, the execution of the annual budget against its plan is good. Since 2001, the overall public expenditure in the education sector has always been at least 98 percent of what was put into the budget plans at the beginning of the year. This suggests that the short-term financial planning of the Ministry and Government is effective. Also encouraging is the fact that within the separate categories of expenditure, the items which were most often short-changed were not those that went directly to schools (such as textbook provision and capital expenditures) but rather transfers to students.

Enrollment rate

Low enrollment in secondary education is a serious concern. Enrollment in secondary education (Grades 9-12) at 50% and higher education at 14% is low, and lower than other

⁷ All level of educations included

⁸ This includes the part of the unconditional grant provided to local authorities and their own revenues that contribute to the education sector.

countries at similar levels of income in the region. The Albanian economy increasingly needs a more sophisticated labor force equipped with competencies, knowledge, and workplace skills that cannot be developed only in primary or basic education. Continued lags in coverage of secondary and tertiary education would constitute a constraining factor to the country's future economic prospects. Specific government action is required to ensure that enrollment rates at these levels increase with appropriate quality.

Table A1.4: Per-Capita Income and Education Coverage for Albania and Comparator Countries

| | 2003 Per-Capita Income (\$) ^a | 2002 Gross Enrollment Ratio (%) | | | |
|---------------------|--|------------------------------------|---------|-----------|--------|
| | | Preschool | Primary | Secondary | Higher |
| Albania | 1,740 | 34.3 | 104.0 | 48.9 | 14.3 |
| Belarus | 1,600 | 69.2 | 93.3 | 71.5 | 34.3 |
| Bosnia-Herzegovina | 1,530 | 8.9 | 79.3 | 51.7 | 19.2 |
| Bulgaria | 2,130 | 74.2 | 98.7 | 85.6 | 33.9 |
| Macedonia | 1,980 | 27.1 | 97.1 | 69.5 | 22.5 |
| Kazakhstan | 1,780 | 13.5 | 100.0 | 62.0 | 38.0 |
| Romania | 2,260 | 71.0 | 100.9 | 73.6 | 32.5 |
| Serbia & Montenegro | 1,910 | 44.6 | 65.9 | 55.0 | 23.9 |

a. Gross national income per capita.

Source: Income figures from *World Development Indicators, 2005*; enrollment figures from *Innocenti Social Monitor, 2004* (UNICEF). Enrollment figures for Albania and Serbia-Montenegro refer to 2001, but for all other countries refer to 2002.

Enrollment in higher education is increasing steadily although the participation rate is still lower than that of other SEE or transitional countries. The number of students in higher education increased from 28,000 in 1990 to 36,000 in 1997, and to 63,000 (43,000 full-time students and 20,000 part-time) in 2005. There are 13 public tertiary education institutions, and 4 non-public ones. Only Tirana University has more than 10,000 students, and the rest of the institutions have less than 5,000 students (6 institutions less than 1,000 students). The students in non-public universities account for less than one percent of the total students. The gross enrollment rate is estimated at 14% in 2003, which is lower than 25-35% levels in other SEE or transitional economies (Bosnia-Herzegovina 24%; Macedonia 27%; Georgia 38%; Armenia 28%, Croatia 39%, and Romania 30%).⁹

There are considerable differences in secondary and tertiary enrollment ratios by regions and income levels. No difference exists in net enrollment ratios for primary education between urban and rural areas, and little differences are observed between not poor and poor, 94% and 88% respectively. In contrast, net secondary and tertiary education enrollment rates are significantly lower in rural than urban areas. Net secondary enrollment rate is 70% in Tirana, 60% in other urban cities, but only 25% in rural areas. The gaps in education coverage by regions and income levels widen from secondary school and up. Children from poor families, and rural families, have enrollment rates less than half of non-poor families and urban families. Although there are slight differences in enrollment rates by gender, they are not significant. These findings suggest that this is a particular problem for households in rural areas, where incomes are generally low and basic and secondary schools are generally of inferior quality; constraints exist both at the

⁹World Development Indicator 2005.

demand (willingness and ability to pay for direct and opportunity costs of education) and supply (availability of schools within the geographical proximity) side.

Table A1.5: Net enrollment ratios in different levels of education, for different sub-populations (%)

| | Male | Female | Tirana | Other Urban | All Urban | Rural | Not poor | Poor | Extremely poor | Total |
|------------|------|--------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|-------|
| Pre school | 30.7 | 32.3 | 20.2 | 50.8 | 43.4 | 25.1 | 38.4 | 18.2 | 10.0 | 31.5 |
| Primary | 93.5 | 93.0 | 92.2 | 93.2 | 92.9 | 93.5 | 94.1 | 91.6 | 88.6 | 93.3 |
| Secondary | 38.3 | 38.7 | 70.8 | 59.5 | 62.2 | 24.9 | 46.7 | 19.4 | 19.8 | 38.7 |
| Tertiary | 7.6 | 9.6 | 22.7 | 16.6 | 18.3 | 2.6 | 11.2 | 0.4 | 0.0 | 8.7 |

Source: Albania Poverty Assessment. World Bank (2003).

Both supply and demand constraints are negatively affecting secondary school enrollment in rural areas. According to the poverty assessment, the determinants of secondary school enrollment in urban areas in Albania are the education of the household head, the education of his/her spouse and the age of the child. In rural areas, the main determinants of secondary school enrollment are: (i) the presence of a secondary school in the community, (ii) the education of the spouse of the household head, (iii) per capita household consumption, and (iv) ownership of cattle.¹⁰ Poverty is concentrated in rural areas, and family poverty depresses the demand for education. The supply and quality of educational services are also worse in rural areas, factors that further reduce demand. Rural populations are migrating to Albania's cities and peri-urban areas. Thus, schools in the cities and peri-urban areas have to deal with the effects of rural-urban differences in families' demand for education and the poorer quality of preparation that rural students bring with them.

Education attainment

Education attainment with an average of 8.6 years is very low, and it exhibits wide regional variations. Albania's low overall educational attainment can be explained by relatively low enrollment in secondary and tertiary education that is lagging behind other transitional countries. In 2002, the average years of schooling among the adult population (21 years and older) was 8.5, which is one year less than in Bosnia-Herzegovina. Significant differences also exist in educational attainment across income and place of residence.¹¹ For example, an adult living in a poor household has two years less schooling than an adult living in a non-poor household. Similarly, adults living in Tirana have about 3.5 years more schooling than adults living in rural areas.¹² The average years of education among the adult population is relatively low when compared with other SEE countries (ranging 9-12 years) and the OECD average of 14 years.

Student Learning Outcomes

Student learning outcomes are poor. Student learning outcomes provides one of the most important indicators in assessing the performance of the education system, especially with regard to the objective of equipping students with critical skills and knowledge. The Programme for International Student Assessment (PISA), one of the most comprehensive and rigorous

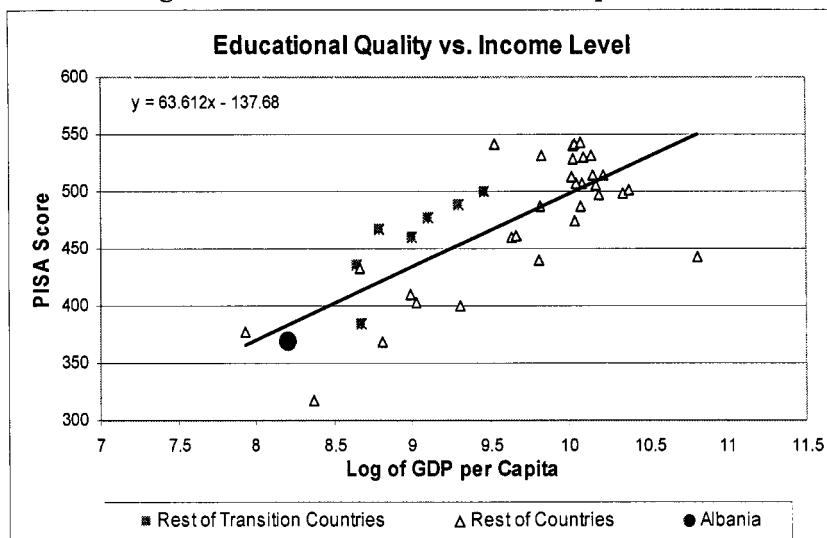
¹⁰ A probit analysis conducted as part of the Albania Poverty Assessment. World Bank 2003 (p.95)

¹¹ Albania Census Atlas 2001. INSTAT.

¹² Albania Poverty Assessment. World Bank 2003. (p.92). Albania Census Atlas 2001. INSTAT.

international studies to assess student performance, seeks to measure how well young adults at the age 15 (the last years of compulsory education) are prepared to meet the challenges of today's knowledge societies. This assessment is forward-looking, focusing on young people's ability to use their knowledge and skills to meet real-life challenges, rather than merely on the extent to which they have mastered a specific school curriculum. Figure A1.1 below shows the plotting of PISA scores against per capita GDP of participating countries in 2000. Albanian students' performance lags far behind other transition countries whose performance is better than the average given their GDP per capita level. Albanian students scored second worst among the participating countries. Its PISA scores were consistent with, and slightly below what would be predicted given Albania's level of economic development. Since Albania aims to integrate into and compete in the European and global market, it will have to develop a skilled workforce which can compete with the rest of transitional countries.

Figure A1.1: PISA scores and Per Capita GDP



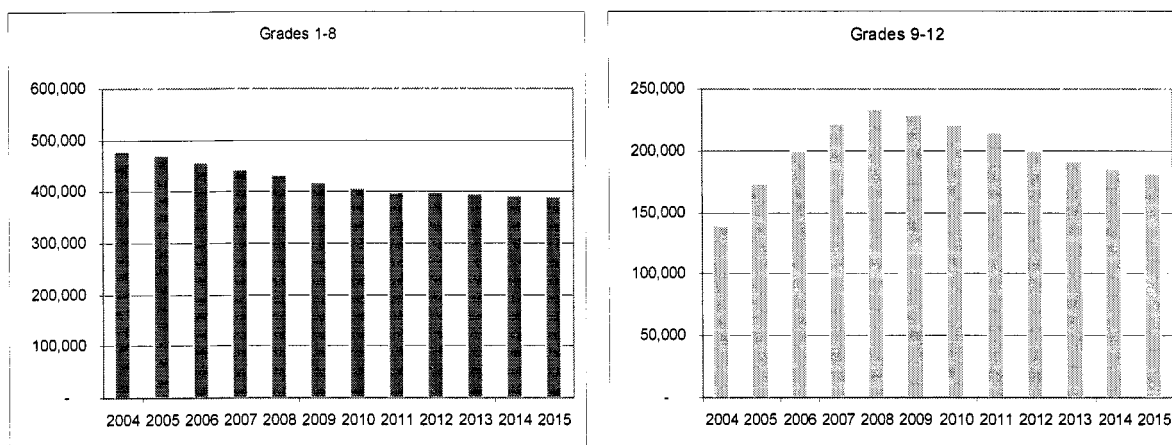
Source: PISA 2000

A number of factors contribute to poor learning outcomes in Albania, including overcrowded curriculum, traditional and rigid teaching style of many teachers, less time on task due to double-shifts in schools and short school hours (even without double shifts), lack of pedagogical materials, lack of laboratories, among others. In this context, PISA provides not only a basic profile of knowledge and skills among 15-year-old students, but also contextual indicators relating result to student and school characteristics and trends indicators showing how results change over time. Albania dropped out from PISA after its first participation in 2000, but it is highly beneficial for Albania to re-join PISA so that it can provide much-needed knowledge basis for student learning, family background and school characteristics and Albania can benchmark its performance against other transitional and European countries. In addition, national-level assessment should continue on a regular basis to provide information on student learning by region and by income-groups.

Student Projection

Due to lowering fertility rate, the total enrollment in basic education is expected to start declining from 2004/2005 while enrollment in secondary education will increase fairly significantly over the next five years. Figure A1.2 presents a high-case projection of student enrollment in basic and secondary education. This projection is based on: (i) the medium variant of the population projection figure for 2005, 2010 and 2015 produced by the United Nation's Population Division¹³, (ii) promotion rates of 99 percent, 98 percent and 97 percent for grades 1-4, 5-7, and 9-12 respectively, and (iii) drop out rate of 1 percent in grades 5-8 and 2 percent in grades 9-12. With these assumptions, student enrollment in basic education is expected to decrease steadily over the next 10 years. Students in secondary education are expected to increase significantly until 2008/2009, and start to decline gradually from 2009/2010 (due to the expected decline in fertility rate).

Figure A1.2: Enrollment Projection (grades 1-8, and 9-12): 2004-2015



Source: Staff estimate.

The decline in the student enrollment in basic education presents an opportunity to reduce the number of double shift schools, make single shift the norm, and lengthen hours in school over the next 3-5 years. Increased demand for secondary education requires more physical investment (including IT and laboratories) and recurrent cost.

¹³ This is based on future assumptions about trends in fertility, mortality, and migration. The four variants (low, medium, high and constant-fertility) are all based on the same assumptions on future mortality patterns and international migration; but they are different with respect to fertility assumptions.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

ALBANIA: Education Quality & Equity Project

The Bank is one of the largest and longest development partners supporting the education sector in Albania. To date, the Bank has supported two education sector operations. The first project, the School Rehabilitation and Capacity Building Project, was completed in 2000 and aimed to support provision of basic education services through capacity building of key sector institutes and rehabilitation/reconstruction of school facilities. The subsequent project, Education Reform Project, aimed at assisting the MoES in planning and managing the delivery of educational services and strengthening its accountability to stakeholders for the delivery. This project closed in 2004.

The respective Implementation Completion Reports for both operations rated Outcomes, as well as Recipient's and Bank's Performances as Satisfactory. Independent evaluation from the Operations Evaluation Department (OED) rated outcomes for both operations as Moderately Satisfactory and performance by both Bank and Recipient as Satisfactory.

Albania also receives substantial support from international partners and donors, mostly through grants and some in soft loans. Details are shown in the table below. However, this table is not exhaustive, and it does not contain all the partners in education in Albania.

Table 2A.1: Key Partners Activities in Education

| Development Partner | Areas of Support | Amount | Duration |
|---------------------------------------|--|-------------------|-----------------|
| Austria | Vocational education and training (tourism and agriculture) | Euro 0.5 million | 2004-2008 |
| China | IT equipment for secondary schools | Euro 1.0 million | ongoing |
| Council of Europe Development Bank | School reconstruction and rehabilitation | Euro 18.0 million | 2005-2008 |
| European Union | Improvement of higher education standards and implementation of Bologna process; | Euro 9.5 million | 2000-2007 |
| | Improvement of VET system | Euro 0.7 million | 2006-2008 |
| Germany | Vocational education and training | | ongoing |
| Italy | School construction and rehabilitation; IT and lab equipment for secondary schools Higher education: inter-university connectivity | Euro 12 million | 2003-2005 |
| Switzerland | Vocational education improvement | CHF 0.2 million | 2005-2006 |
| Save the Children | In-service teacher training and access for children with disability | Euro 0.4 million | 2004-2009 |
| UNDP | Technical assistance for e-schools | | 2006-2009 |
| UNICEF | In-service teacher training Minimum learning achievement | | 2001-2005 |
| UNFPA | Youth education for healthier life | US\$0.035 million | 2005-2007 |

Annex 3: Results Framework and Monitoring
ALBANIA: Education Quality & Equity Project

Results Framework

| PDO | Project Outcome Indicators | Use of Project Outcome Information |
|---|--|--|
| <p>Improved conditions for teaching and learning in education.</p> <p>Increased enrollment rate in secondary education, especially in rural/poor areas.</p> | <p>Basic education dropout rate.</p> <p>The level of teachers' satisfaction in their working conditions.</p> <p>Progression rate from basic education (9 years) to secondary education by region.</p> <p>Enrollment rate of secondary education disaggregated by region and income groups.</p> | <p>Outcome information will be used together with annual progress reports and financial reports to determine whether modifications are needed to program strategy, and provide feedback to the preparation of the Annual Reform Program.</p> |
| Intermediate Outcomes | Intermediate Outcome Indicators | Use of Intermediate Outcome Monitoring |
| <p>Management capacity and governance of MoES, regions, municipalities/communes and schools strengthened.</p> | <p>Progress on the pilot and evaluation of the decentralization of education service delivery in 2-3 regions.</p> <p>% of school principals trained in management and education leadership.</p> <p>% of schools with functioning schools boards.</p> | <p>Assess if decentralization pilot is implemented as scheduled, and inform a roll-out strategy.</p> <p>Below target achievement will signal delays in implementation, which in turn point to the need for (i) targeted capacity building, and (ii) intensive implementation support and monitoring.</p> |
| | <p>Standard deviation of the per student expenditure by province.</p> | <p>Inform the design and implementation of a formula-based financing and a more equitable distribution of resources.</p> |
| <p>New teaching methods and tools used in basic and secondary schools.</p> | <p>% of primary schools using new curriculum and textbooks.</p> <p>Number of schools and clusters of schools engaged in school improvement activities.</p> <p>% of teachers who participate in continuous professional development.</p> | <p>Below target achievement will signal delays in implementation, which in turn point to the need for (i) targeted capacity building, and (ii) intensive implementation support and monitoring.</p> |

| | | |
|---|--|--|
| <p>Improved and more efficient use of education infrastructure and school facilities.</p> | <p>% of schools meeting the minimum standard requirements.</p> <p>% of students in schools with multiple shifts.</p> <p>Student-computer ratio in secondary education disaggregated by regions.</p> | <p>Assess progress in the quality and equitable distribution of school infrastructure and educational materials.</p> |
| <p>Institutional framework to strengthen university governance is in place.</p> | <p>Amendment, adoption and implementation of the Higher Education Law.</p> <p>% of universities which developed strategic plans.</p> <p>% of universities which established an external governing board.</p> | <p>Assess the depth of and commitment to higher education reform at the policy and institutional levels.</p> |

Arrangements for results monitoring

| Project Outcome Indicators | Data Collection and Reporting | | | | | | Responsibility for Data Collection | |
|--|---|----------------|----------------|----------------|-------------------|--|---|--|
| | Baseline | 2007 | 2008 | 2009 | 2010 | Frequency and Reports | | Data Collection Instruments |
| Basic education dropout rate | n/a | upward from 06 | upward from 07 | upward from 08 | 3% upward from 09 | Annual Statistical Report of Education | EMIS | MoES |
| Teachers' satisfaction level | n/a | | | | | | Sample survey | |
| Progression rate form basic to secondary education | n/a | | | | | | EMIS | |
| Secondary education enrolment by region and income groups | 55% (75% Tirana, less than 50% in some regions) | 58% | 62% | 67% | 70% | | EMIS | |
| Intermediate Outcome Indicators (by priority area) | | | | | | | | |
| Progress on the decentralization pilot | | | | | | | | |
| % of school principals trained | None | Pilot 10% | Evaluation 30% | Roll-out 50% | Evaluation 70% | Annual progress report of education reform program | Project monitoring report, field visits | MoES Regional Education Depts. |
| % of schools with functioning board | n/a | 4000 | 3500 | 3000 | 70% | Annual MoES budget execution report | EMIS | |
| Standard deviation of per student expenditure in basic education by region (LEK) | 4435 | | | | 2500 | | EMIS/MoES budget report | |
| % of primary schools using new curriculum and textbooks | n/a | | | | 95% | Annual progress report on education reform program | EMIS | MoES Institute of Teacher Training |
| # of schools and clusters of school engaged in school improvement activities | None | 20 | 100 | 200 | 400 | | Project monitoring report | Institute of Curriculum Municipalities Regional Education Depts. |
| % of teacher participate in continuous professional development | None | 10% | 25% | 40% | 70% | | Project monitoring report | |
| % of school meeting the minimum standards requirements of the physical space | n/a | | | | 50% | Annual progress report on education reform program | EMIS | MoES Municipalities Regional Education Depts. |

| | | | | | | | | | |
|---|---------|--------|----------|----------------|-------|--|------|-------------------------|-------------------|
| % of students in schools with multiple shifts (Basic/Secondary) | 36%/15% | 33/13% | 30/12% | 27/10% | 25/8% | Annual Statistical Report on Education | EMIS | EMIS | MoES Universities |
| Student-computer ratio in secondary schools | n/a | | | | 30 | | | | |
| Progress on the revision of higher education law | | Draft | Approval | Implementation | | Annual progress report on education reform program | | Higher Education Report | |
| % of universities which developed strategic plans | None | 10% | 30% | 60% | 100% | | | | |
| % of universities with external governing boards | None | 10% | 20% | 35% | 50% | | | | |

Education System Performance Indicators (2006-2015)

| | System Performance Indicator | Present level (latest data) | | Targets for Albania | | |
|---|---|-------------------------------------|--|----------------------------------|----------------------------------|----------------------------------|
| | | Albania | EU mean (04) | 2009 | 2012 | 2015 |
| 1 | School expectancy for 5-year olds (ISCED 0-6) | 11.1 | 17.4 | 13 | 14 | 15 |
| 2 | Teaching and learning time in school Average number of hours per year for ages of total compulsory instruction time ➤ Ages 7-8 ➤ Age 15 Number of days of instruction Number of weeks of instruction | 570 780 167 35 | 750 900 185 37 (estimates) | 600 800 175 35 | 660 850 180 36 | 750 900 185 36 |
| 3 | Net enrolment ratio Pre-school (ISCED 0) Basic compulsory school (ISCED 1 – 2) Secondary school (ISCED 3) ○ rural ○ urban Percentage of students in vocational secondary programs | 50 94 55 25 85 19 | 75.0 95.0 85.0 62.7 | 59 94 72 32 85 25 | 68 95 75 36 86 30 | 75 95 80 40 90 35 |
| 4 | Participation of youth in education Percentage of young people aged 15 to 24 in education and training ➤ Males ➤ Females Percentage of population aged 18-24 with only lower secondary education (ISCED 1-2) and not in education/training | 33 33 | 62.6 65.9 15.9 | 40 40 | 50 50 | 55 55 |
| 5 | Participation in tertiary education ✓ Number of full and part time students in tertiary education ✓ Students in tertiary education (ISCED 5 and 6) as a percentage of all students ✓ Percentage of students in 'science, mathematics and computing' and 'engineering, manufacturing and construction' programs | (2005) 63,250 9.0 11.0 | ... 15.6 26.0 | 77,000 11.0 12.5 | 89,000 12.5 14.5 | 102,000 14.0 16.0 |
| 6 | Making use of resources ✓ Public education expenditure of GDP (%) ✓ Expenditure on educational institutions from private sources as percentage of GDP ✓ Total public expenditure on education as a share of total public expenditure (ISCED 0-6) | (2004) 3.1 0.6 10.7 | 5.2 0.6 10.8 | 3.4 0.7 11.0 | 3.5 0.75 12.0 | 3.6 0.8 13.0 |

| | System Performance Indicator | Present level (latest data) | | Targets for Albania | | |
|---|--|-----------------------------|---------------|---------------------|------|------|
| | | Albania | EU mean (04) | 2009 | 2012 | 2015 |
| | <ul style="list-style-type: none"> ✓ Proportion of educational expenditure (ISCED 1-6) from private sources ✓ Distribution of total annual expenditure in public sector institutions (ISCED 0-6) <ul style="list-style-type: none"> ○ Current – staff ○ Current – other ○ Capital ✓ Total expenditure on public and non-public educational institutions per pupil/student compared to GDP per capita <ul style="list-style-type: none"> ○ ISCED 1 ○ ISCED 2-4 ○ ISCED 5-6 | 4.0 | 10.8 | | | |
| | | 67.0 | 72.1 | 70.0 | 70.0 | 73.0 |
| | | 10.0 | 19.9 | 12.0 | 13.0 | 15.0 |
| | | 23.0 | 8.0 | 8.0 | 17.0 | 12.0 |
| 7 | Learning information society skills | | | | | |
| | <ul style="list-style-type: none"> ✓ Average number of pupils per computer in public sector schools attended by pupils at age 15 ✓ Proportion of the computers with the Internet connection in schools attended by pupils aged 15 | 900 | 10 (estimate) | 300 | 100 | 50 |
| | | 1 | 75 (estimate) | | | |
| 8 | Skills for the knowledge society | | (PISA 2003) | | | |
| | <ul style="list-style-type: none"> ✓ Mean performance (and distribution) of students (age 15) on PISA reading literacy scale ✓ Mean performance (and distribution) of students (age 15) on PISA mathematics literacy scale ✓ Mean performance (and distribution) of students (age 15) on PISA science literacy scale ✓ Percentage of low-achieving (proficiency level 1 or below) 15 year olds in reading literacy ✓ Percentage of those aged 22 who have successfully completed at least upper secondary education (ISCED 3) | (PISA 2000) 349 | 491 | 390 | 420 | 450 |
| | | 381 | 495 | 400 | 425 | 450 |
| | | 376 | 499 | 420 | 435 | 450 |
| | | 44 | 19.8 | 35 | 30 | 25 |
| | | NA | 76.4 | 40 | 50 | 60 |

Definitions

1. **School expectancy** is the average duration of formal education in which a five-year-old child can expect to enroll over his or her lifetime. It is calculated by adding the net enrolment percentages for each single year of age from the age of five onwards.

2. **Teaching and learning time in school:** Average number of hours per year for ages of total compulsory instruction time refers to the net contact hours of teaching (not lessons but actual hours). It is calculated on the basis of the annual number of weeks of instruction multiplied by the minimum/maximum number of periods, which a teacher is supposed to spend teaching a class or a group, multiplied by the length of a period in minutes and divided by 60. Periods of time formally allowed for breaks between lessons or groups of lessons, and days when schools are closed for public holidays and festivities, are excluded. In primary education, however, short breaks that teachers spend with the class are typically included.

- 3. The net enrolment ratio** is the ratio of enrolled children of the official age for the education level indicated to the total population at that age.
- 4. Participation of youth in education:** A person in education and training has received some kind of education or training in the four weeks preceding the survey. The data collected refer to all education or vocational training whether or not relevant to respondent's current or future employment and any kind of education and training.
- This is also known as 'Early school leavers' indicator. **Early school leavers** is the percentage of the population aged 18-24 with at most lower secondary education and not in further education or training. It refers to persons aged 18 to 24 in the following two conditions: the highest level of education or training attained is ISCED 0, 1, 2 or 3c short and respondents declared not having received any education or training in the four weeks preceding the survey (numerator). The denominator consist in the total population of the same age group, excluding no answers to the questions 'highest level of education or training attained' and 'participation to education and training'.
- 5. Percentage of students in 'science, mathematics and computing' and 'engineering, manufacturing and construction' programs** is calculated by dividing the number of students in tertiary education (ISCED 5-6) enrolled in the fields of 'science, mathematics and computing' and 'engineering, manufacturing and construction' by the total number of students in tertiary education (excluding those in the 'unknown' category), and then multiplying the result by 100.
- 6. Expenditure on educational institutions from private sources as percentage of GDP** corresponds to the percentage of direct educational expenditure by private 'consumers' of education services. Final private expenditure includes tuition fees and all other payments made to education institutions.
- Private expenditure** refers to expenditure financed by private sources, e.g. households and other private entities. Household here means students and their families. Other private entities include private business firms and non-profit organizations, including religious organizations, charitable organizations, and business and labor associations.
- Private expenditure comprises school fees as well as fees for materials such as textbooks and teaching equipment, transportation to school (if organized by the school), meals (if provided by the school) and boarding, and expenditure by employers on initial vocational education (expenditure by private companies on the work-based element of school- and work-based training of apprentices and students)
- 8. The student achievement scores** are based on assessment administrated as part of the Programme for International Student Achievement (PISA) undertaken by the Organisation for Economic Cooperation and Development (OECD). PISA has been administrated three times, in 2000, 2003 and 2006. The target population studied for the indicator is 15-year olds students. Operationally, this refers to students who were 15 years and 3 months to 16 years and 2 months at the beginning of the testing period and who were enrolled in an educational institution at the secondary level, irrespective of grade level of type of institution in which they were enrolled, and irrespective of whether they participated in school full time or part time. The OECD mean performance score in each subject is 500 with 100 score point standard deviation.

Annex 4: Detailed Project Description
ALBANIA: Education Quality & Equity Project

The Education Excellence and Equity Project (EEE-P) will support the implementation of the first phase of Albania's National Education Strategy.

The project is designed based on the long-term vision and strategy of the sector (2006-2015), which is broken down to three reform phases: 2006-2010, 2010-2012, and 2012-2015. The first matrix presents the overall framework of the reform program and key objectives of each reform phase. The second matrix illustrates the priority areas for the first phase of the reform, namely 2006-2010.

ALBANIA NATIONAL EDUCATION STRATEGY 2006 – 2015
Key Objectives of Three Reform Phases

| | | Key Objectives of Each Reform Phase | | |
|--|---|--|--|---|
| | | 2006-2010 | 2010-2012 | 2012-2015 |
| Priority 1 Strengthening leadership, management and governance of the education system | Improved conditions for teaching and learning in basic school and increased participation in secondary education | <ul style="list-style-type: none"> - Decentralization of the education service strategy piloted as per the policy paper and the rollout strategy developed. - Desired responsibilities and professional criteria for school principals defined - School Leadership Training program for school principals piloted and appraised - School Boards established in all schools - Pilot and evaluation of activities of schools with own budget - Professional capacities of the Institutes for Curriculum and Standards, Teacher Training, and the Examinations and Assessment strengthened - Education Management Information System (EMIS) fully functional at central and regional levels - National education statistics system enhanced (taking into account international practices) | <ul style="list-style-type: none"> - Decentralized education service delivery fully functional. - All basic school principals completed the foundation courses on School Leadership Training - School principals' training established as an official system - School Boards actively participate in school management - Institutes for Curriculum and Standards, Teacher Training, and Examinations and Assessment actively engage in data management and contribute to policy development - EMIS fully functional at all levels of the education system. | <ul style="list-style-type: none"> - All school principals completed the foundation courses on school leadership training - 50% of school principals completed the advanced School Leadership Training - School principals are able to evaluate teachers' performance based on pre-established standards - Schools have their own budget, annual work plans and self-evaluation plans |
| | Priority 2 Improving the conditions of teaching and learning | <ul style="list-style-type: none"> - Curriculum renewed for basic education, and new textbooks in use in all basic schools - All basic school teachers trained to use new curriculum and textbooks - Curriculum framework and strategic development plan for secondary education developed - A pool of trainers (30-40) and school improvement experts available | <ul style="list-style-type: none"> - Basic school teachers use new teaching methods - Teachers use ICT in teaching and learning - Secondary school teachers trained to use the new curriculum - renewed secondary school curriculum used in all schools (general and vocational) | <ul style="list-style-type: none"> - Teachers involved in continuous professional development - Teachers use new teaching methods and classroom practices - Improved student learning in basic and secondary schools - Most schools engaged in continuous development and improvement |

| Key Objectives of Each Reform Phase | | |
|--|---|--|
| 2006-2010 | 2010-2012 | 2012-2015 |
| <p>Priority 2 Improving the conditions of teaching and learning</p> <ul style="list-style-type: none"> - Schools involved in regional and local development initiatives (networking) in improving quality of teaching - A model for school self-evaluation according to performance indicators designed and piloted. - Self-evaluation of schools initiated - National Matura Examination experimented and appraised - Teacher educators in the faculties trained and new modules included in the pre-service curricula - National assessments to provide annual information about students' achievement in grades 4 and 8 (mathematics, Albanian language and science) - All teachers in basic schools have two annual staff development days as part of their lifelong professional learning - Inspection framework developed and published. Inspectors participate in training - Annual Education Quality Report prepared - Regional inspectors trained to support teachers' professional development and school improvement - Basic training for ICT in education available for teachers - More students enroll and complete secondary education of some kind | <p>Improved teaching practices and increased school autonomy</p> <ul style="list-style-type: none"> - Textbooks renewed according to new curriculum in all schools - Teachers engaged in school improvement activities in their own schools - Self-evaluation process expanded in all schools in Albania. - All schools have their own school development plan and they engage in improvement activities - National Matura Examination fully functional. - Teacher educators in the faculties trained on active teaching methods and pedagogies - PISA 2009 implemented and results discussed and used in policy development - National policy for evaluating education outcomes approved and related national assessment system operational - All teachers in basic schools have three annual staff development days - All teachers have passed the basic training for using ICT in teaching and learning - More students enroll and complete secondary education of some kind | <p>Improved student learning at all levels and system accountability and efficiency</p> <ul style="list-style-type: none"> - PISA 2012 and 2015 implemented - National policy for evaluating education outcomes fully implemented - All teachers have three annual staff development days based on their professional needs - Participation rate in secondary education is 85 percent or higher |

| Key Objectives of Each Reform Phase | | | |
|---|---|---|--|
| | 2006-2010 | 2010-2012 | |
| Priority 3 Improving and rationalizing education infrastructure | Improved conditions for teaching and learning in basic school and increased participation in secondary education <ul style="list-style-type: none"> - School mapping completed in all Regions - Standards for facilities and classrooms for primary and secondary schools adopted especially in rural areas - Improved school and classroom infrastructure - Reduced class-sizes in overcrowded schools - Reduced number of students studying in multi-shift schools - Improved student-computer ratio in basic and secondary schools - Improved educational facilities in basic schools | Improved teaching practices and increased school autonomy <ul style="list-style-type: none"> - School mapping continuously updated in all Regions and used for decision making on investment - Increased number of schools that meet the minimum standards for classroom and school facilities. - Class-sizes optimized throughout the system - Reduced number of students studying in multi-shift schools - Increased ratio of computers that are connected to the Internet in basic and secondary schools. - Improved educational facilities in basic schools | 2012-2015 Improved student learning at all levels and system accountability and efficiency <ul style="list-style-type: none"> - All basic schools meet the minimum standards for classroom and school facilities. - All schools operate in single shift. - All schools have adequate information and communication technologies and trained staff - All schools have necessary teaching facilities, including at least basic science laboratories |
| | Priority 4 Setting the stage for higher education reform | Improved conditions for teaching and learning in higher education <ul style="list-style-type: none"> - Master plan on higher education developed - Higher Education Law 1999 revised, and the new Law implemented - Governing boards established in all universities - All universities develop a strategic development plan - Teaching and learning conditions, and pre-service teacher training program revised/improved in universities | Improved teaching practices and increased school autonomy <ul style="list-style-type: none"> - A quality assurance system for higher education system fully functional - Performance-based management introduced in all/___% of universities. - A student loan system (graduates to repay once they are employed) established - Bachelor's degree is reorganized as a 3 year degree, and a credit system established in all universities. - Master's degrees offered in ___ Universities. |

Annual Reform Programs: Proposed Activities for 2006-2010

| Priority 1. Strengthening leadership, management, and governance in the education system | |
|--|-------------|
| <i>Main outcomes:</i> | |
| <ul style="list-style-type: none"> ▪ Clearly defined roles and responsibilities and accountability structures in the education system, and decentralized service delivery system defined ▪ Increased school leadership, autonomy and accountability ▪ Education Management Information System fully functional and used for decision making at the MoES and Regional level ▪ Capacities for financial management and procurement at the MoES, regional and local levels close to the international standard | 2010 |
| <p>2006/2007</p> <p>Activities:</p> <ul style="list-style-type: none"> ▪ Pilot decentralized education service delivery in 2-3 regions/districts ▪ Develop a leadership training program for school principals ▪ Prepare a manual for school improvement grant and network, and select participating schools ▪ Design a professional development program for principals, and experiment with 50 schools ▪ Train approximately 100 local and regional education authorities on education reform ▪ Carry out the first phase of fiduciary capacity enhancement in the MoES, regions and local education offices ▪ Carry out upgrading of professional capacities of the Institutes of Teacher Training, Curriculum and Assessment ▪ Plan and organize two semiannual review meetings with partners ▪ Develop capacities for an enhanced use of EMIS at MoES <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Decentralized education service delivery piloted, and roles and responsibilities of various levels defined ▪ Local and regional authorities aware of planned changes ▪ Development of the leadership training system for school principals initiated | 2008 |
| <p>Activities:</p> <ul style="list-style-type: none"> ▪ Develop a roll-out strategy for a decentralization of education service delivery based on a pilot ▪ Train approximately 100 local and regional education authorities ▪ Carry out professional development program for school principals in 500 schools ▪ Carry out intensive training for financial and procurement officers at central, regional and local levels ▪ Plan and organize two semiannual review meetings with partners ▪ Develop capacities and expand EMIS to regional and municipalities levels ▪ Carry out the Education Expenditure Tracking Survey <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Improved leadership and management capacities in those schools that have trained headmasters ▪ School principals' basic level training program tested and improved ▪ EMIS operational at regional and municipalities levels ▪ A report of the Education Expenditure Tracking Survey ▪ Enhanced fiduciary capacity in the education sector | 2009 |
| <p>Activities:</p> <ul style="list-style-type: none"> ▪ Train approximately 200 local and regional education authorities ▪ Design advanced modules for school principals' training ▪ Train 700 school principals in the foundation course of the principals' training program ▪ Carry out upgrading of professional capacities of the three Institutes ▪ Carry out intensive training for financial and procurement officers at central, regional and local level ▪ Develop further capacities and expand EMIS to regional and municipalities levels ▪ Plan and organize two semiannual review meetings with partners <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Local and regional education management capacities improved ▪ Improved leadership and management capacities in schools that have trained school principals ▪ EMIS fully functional in all levels of the education system ▪ Clear understanding and functioning of the roles at the different levels of the education system | 2010 |

Priority 2: Improving the conditions of teaching and learning

Main outcomes:

- New curriculum fully implemented in all basic schools, and teachers' knowledge and skills improved to teach according to intended educational goals
- Teacher professional development system established, and all teachers engaged in lifelong professional development
- State *Matura* operating in a reliable and sustainable way, and a national assessments of student achievement working satisfactorily
- PISA 2009 conducted successfully
- School improvement processes underway in first batch of schools

| 2006/2007 | 2008 | 2009 | 2010 |
|--|---|---|--|
| <p>Activities:</p> <ul style="list-style-type: none"> ▪ Launch training of trainers program ▪ Develop Professional Development Plan for educators for 2007–2009 ▪ Prepare School Improvement Network Manual, and select participating schools ▪ Make regulatory decisions concerning teachers professional development, school headmasters professional training and responsibilities related to providing in-service training ▪ Assess/evaluate the implementation of basic education curriculum and new textbooks ▪ Develop a concept for the secondary education reform, including curriculum ▪ Design baseline assessment of 15-year olds' learning in mathematics, Albanian language and science ▪ Design a model and manual for school self-evaluation ▪ Carry out capacity building activities for inspectors <p>Outputs:</p> <ul style="list-style-type: none"> ▪ policy framework for lifelong teachers' professional development drafted | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Prepare for PISA 2009, including training and field testing ▪ Implement the next phase of basic school curriculum ▪ Continue training of trainers program ▪ Organize in-service training for 15,000 teachers ▪ Allocate conditional grants for in-service training to all regions ▪ Provide approximately 100 School Improvement grants ▪ Improve the basic education curriculum and textbooks based on evaluation ▪ Draft secondary education curriculum ▪ Conduct baseline assessment of 15-year olds' learning in mathematics, Albanian language and science ▪ Prepare a national policy on evaluating education outcomes ▪ Upgrade professional capacities of the Institutes of Teacher Training, Curriculum and Assessment ▪ Pilot school self-evaluation model and manual. | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Implement PISA 2009 ▪ Adopt a national policy on evaluating education outcomes ▪ Improve the basic education curriculum and textbooks based on evaluation ▪ Finalize secondary education curriculum ▪ Organize in-service training for 12,000 teachers ▪ Complete training of trainers ▪ Train approximately 200 local and regional education authorities on management including self-evaluation of schools ▪ Train approximately 200 local and regional education authorities on management, including self-evaluation of schools ▪ Design advanced modules for training of school principals ▪ Provide conditional grants for in-service training to all regions ▪ Provide approximately 200 School Improvement grants <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Teachers knowledge of new pedagogical requirements improved ▪ All schools have updated School | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Analyze and draw lessons from PISA 2009 ▪ Organize in-service training for 10,000 teachers ▪ Provide conditional grants for in-service training to all regions ▪ Provide approximately 300 School Improvement grants ▪ Develop a professional development plan for educators for 2010–2012 <p>Outputs:</p> <ul style="list-style-type: none"> ▪ National consensus on evaluation and assessment of education outcomes ▪ All schools have completed the first round of self-evaluation ▪ All teachers engage in continuous professional development ▪ Local and regional education management capacities improved ▪ Approximately 300 schools engaging in school improvement processes ▪ PISA results analyzed and used for policy recommendations |

| | | | |
|---|--|---|--|
| <ul style="list-style-type: none"> ▪ School Improvement Network ready to be launched ▪ Performance indicators for school external- and self-evaluations developed ▪ All schools have an evaluation framework | <p>Outputs:</p> <ul style="list-style-type: none"> ▪ All schools have initial School Development Plan ▪ All teachers engage in continuous professional development ▪ Approximately 100 schools engage in school improvement processes ▪ Improved basic education curriculum ▪ First draft of secondary education framework and curriculum developed. ▪ Results of 2 year pilot of school self-evaluation process analyzed, and the policy/legal framework for school evaluation prepared. | <p>Development Plan</p> <ul style="list-style-type: none"> ▪ Secondary education curriculum approved and ready for implementation ▪ All teachers engage in continuous professional development ▪ Local and regional education management capacities improved ▪ School principals' training at the basic level operational ▪ Approximately 200 schools engage in school improvement processes ▪ First education quality report prepared | |
|---|--|---|--|

Priority 3. Improving and rationalizing education infrastructure

Main outcomes:

- Enrollment rates in secondary education increased, especially in areas affected by poverty
- Students' learning environment improved
- Teachers' conditions for productive teaching improved
- Student per computer ratio in basic and secondary schools improved
- Computers with Internet connection ratio in schools increased
- Efficiency of the use of school buildings and facilities improved

| 2006/2007 | 2008 | 2009 | 2010 |
|--|--|--|---|
| <p>Activities:</p> <ul style="list-style-type: none"> ▪ Prepare school mapping and educational facility inventory ▪ Develop criteria for school rehabilitation and new construction ▪ Develop/update standards for classrooms and facilities for basic schools ▪ Update/refine allocation mechanism for investment budget ▪ Develop school maintenance standards ▪ Increase the number of computer labs in secondary schools based on a strategy and criteria ▪ Promote community participation in oversight of school rehabilitation and maintenance through implementation of national standards for maintenance ▪ Provide conditional grants for education investment to Regions based on agreed-upon formula and criteria <p>Outputs:</p> <ul style="list-style-type: none"> ▪ A plan and preparatory work for improving learning environment for basic schools ▪ A plan and preparatory work for improving learning environment for secondary schools | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Prepare school mapping and educational facility inventory ▪ Develop criteria for school rehabilitation and new construction ▪ Develop standards for classrooms and facilities for secondary schools ▪ Provide conditional grants for education investment to Regions based on agreed-upon formula and criteria ▪ Develop a strategy for increased participation in secondary education, analyze both demand and supply constraints ▪ Increase the number of computer labs with internet connection in secondary schools based on a strategy and criteria <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Improved student-computer ratio ▪ A strategy and action plans for increased secondary enrollment ▪ A more efficient and equitable distribution of resources for investment budget | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Update school mapping and educational facility inventory ▪ Review standards for classrooms and facilities for basic schools ▪ Provide conditional grants for education investment to Regions based on agreed-upon formula and criteria ▪ Increase the number of basic schools with computer labs based on a strategy and criteria <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Improved learning and teaching environment in provinces ▪ Improved student-computer ratio ▪ A plan and preparatory work for improving learning environment for secondary schools ▪ A strategy and action plans for increased secondary enrollment | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Update school mapping and educational facility inventory ▪ Review standards for classrooms and facilities for secondary schools ▪ Provide conditional grants for education investment to Regions based on agreed-upon formula and criteria ▪ Provide conditional grants for education investment to Regions based on agreed-upon formula and criteria <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Increased secondary enrollment rate |

Priority 4. Setting the stage for higher education reform

Main outcomes:

- Higher Education Master Plan (strategy) developed
- Higher Education Law 1999 revised and adopted
- Governance structure of universities strengthened
- Strategic development plan of universities developed and implemented

| 2006/2007 | 2008 | 2009 | 2010 |
|---|---|--|---|
| <p>Activities:</p> <ul style="list-style-type: none"> ▪ Organize stakeholder consultation meetings on the draft Higher Education Master Plan and the Higher Education Law ▪ Draft and adopt the amendment for Higher Education Law in accordance with the Master Plan ▪ Develop an action plan for the implementation of the Bologna process ▪ Assess curriculum standards in universities <p>Outputs:</p> <ul style="list-style-type: none"> ▪ A final Master Plan for higher education developed and discussed widely by stakeholders ▪ A Higher Education Law revised ▪ Report on curriculum assessment prepared. | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Start the implementation of the Master Plan for Higher Education ▪ Adopt and develop an action plan to implement the amended Higher Education Law ▪ Improve teaching conditions and develop a qualification program at university level for less qualified teachers ▪ Develop strategic plans in 4 universities ▪ Introduce academic credit systems in universities <p>Outputs:</p> <ul style="list-style-type: none"> ▪ A revised Higher Education Law adopted ▪ Strategic plan in 4 universities developed and implemented ▪ A university which certifies a teaching diploma ▪ Universities equipped with appropriate teaching materials | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Establish governing board in 50% of universities ▪ Develop and implement strategic plan in 6 universities ▪ Improve teaching conditions and quality in universities <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Strategic plans developed and implemented in 6 universities ▪ Strengthened governance structure in 50% of universities | <p>Activities:</p> <ul style="list-style-type: none"> ▪ Establish governing board in 70% of universities ▪ Develop strategic plans in all universities ▪ Improve teaching conditions and quality in universities <p>Outputs:</p> <ul style="list-style-type: none"> ▪ Strategic plans developed and implemented in all universities ▪ Strengthened governance structure in 70% of universities |

Annex 5: Project Costs
ALBANIA: Education Quality & Equity Project

| Project Cost by Priority Areas | Local US \$million | Foreign US \$million | Total US \$million |
|---|-----------------------|-------------------------|-----------------------|
| Priority 1. Strengthening leadership, management and governance of the system | 10 | 0 | 10 |
| Priority 2. Improving conditions for teaching and learning | 26 | 0 | 26 |
| Priority 3. Improving and rationalizing education infrastructure | 32 | 0 | 32 |
| Priority 4. Setting the stage for higher education reform | 7 | 0 | 7 |
| <hr/> | | | |
| Total Baseline Cost | 75 | 0 | 75 |
| Physical Contingencies | 0 | 0 | 0 |
| Price Contingencies | 0 | 0 | 0 |
| Total Project Costs | 75 | 0 | 75 |
| Interest during construction | 0 | 0 | 0 |
| Front-end Fee | 0 | 0 | 0 |
| <hr/> | | | |
| Total Financing Required | 75 | 0 | 75 |

Annex 6a: Implementation Arrangements
ALBANIA: Education Quality & Equity Project

The Education Excellence and Equity Project (EEE-P) will be implemented by the Ministry of Education and Science, using its existing structures and staff. A Project Implementation Unit will not be established. The MoES will be responsible for the prioritization and preparation of the Annual Reform Program, the coordination of various activities in the reform program across different departments of the MoES, specialized institutes, regions, municipalities and communes, and ensure independence and reliability of the handling of complaints and fiduciary and safeguards monitoring mechanisms. Policy oversight and program steering will be the responsibility of a steering committee consisting of the Minister and Deputy Ministers of Education and Science, Advisor to the Prime Minister, Deputy Minister of Finance, Deputy Minister of Interior and Decentralization, and General Secretary of the MoES. General Secretary of the MoES will be responsible for the coordination and monitoring of activities at the technical level. Directors of relevant department of the MoES and heads of institutes will be responsible for the implementation of activities.

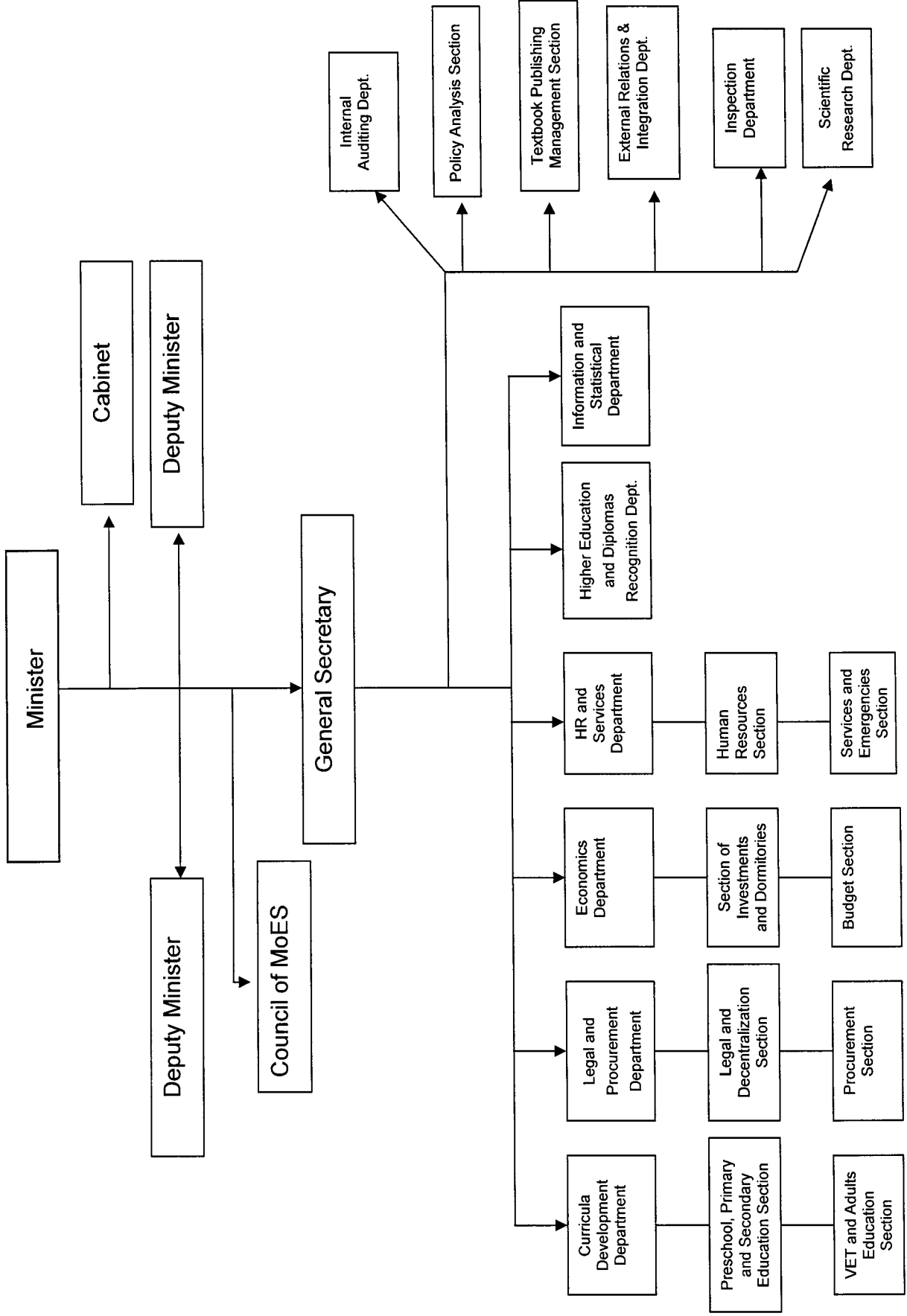
Each year, the MoES will organize semi-annual review meetings as outlined below. These review meetings are expected to serve as a mechanism for planning, monitoring and decision making as well as consultation with development partners and key stakeholders.

Table A6.1: Semi-Annual Review Meetings for the EEE-P

| Timing | Areas of Focus | Participating Partners |
|-----------------------------------|---|--|
| Autumn Review Meeting (October) | <p>The MoES will present the Annual Development Plan, its budget and procurement plan for the following year, and the partners will review, comment and endorse the Plan. The meeting will specifically review, discuss and agree:</p> <ul style="list-style-type: none"> ▪ Proposed annual reform program and its targets for the following year, its consistency with the MTBF and four priority areas of the EEE-P ▪ Proposed budget of the annual reform program and proposed share of partners' financing ▪ Procurement plan of the following year ▪ Progress and key performance indicators in each of the four program priority areas ▪ Plan for the capacity building, including the capacity associated with fiduciary aspects ▪ Key education sector issues that merit discussion | <ul style="list-style-type: none"> ▪ MoES as the Chair ▪ Ministry of Finance ▪ Ministry of Interior and Decentralization ▪ Ministry of Labor and Social Affairs ▪ Regional Councils, Regional and District Education Departments, communes and municipalities ▪ Partners/donors ▪ Key stakeholders including teachers union, civil society. ▪ Representatives of school boards |
| Spring Review Meeting (April/May) | <p>The MoES will present implementation progress and key performance indicators of the previous year and the first quarter. The meeting will</p> | <ul style="list-style-type: none"> ▪ MoES as the Chair ▪ Ministry of Finance ▪ Ministry of Interior and |

| Timing | Areas of Focus | Participating Partners |
|---------------|--|---|
| | specifically review, discuss and agree: <ul style="list-style-type: none"> ▪ Implementation progress of the key activities of the previous annual reform program, including performance audit report ▪ Progress and key performance indicators in each of the four program priority areas ▪ Compliance with agreed procedures for procurement and financial management ▪ Progress in capacity building in the education sector, including fiduciary aspects ▪ Key education sector issues that merit discussion | Decentralization <ul style="list-style-type: none"> ▪ Ministry of Labor and Social Affairs ▪ Regional Councils, Regional and District Education Departments, communes and municipalities ▪ Partners/donors ▪ Key stakeholders including teachers union, civil society ▪ Representatives of school boards |

Chart A6.1: The Organogram of the Ministry of Education and Science of Albania



Annex 6b: Governance Filter in the Education Excellence and Equity Project

ALBANIA: Education Quality & Equity Project

The 2006-2009 Country Assistance Strategy for Albania introduces “governance filters” to ensure that the World Bank consistently takes all opportunities to support the authorities in improving governance. The design of the Education Excellence and Equity Project was driven by the principles of the governance filter, and it aims to translate them into action. The first priority area of EEE-P, strengthening leadership, management and governance, is aligned with the concept of governance filter, and intends to form a basis for the other three priority areas. Four key principles of the governance filter presented in the CAS, and how EEE-P will attempt to “operationalize” these principles are outlined in this annex.

Principle I: Seek greater transparency in the use of public resources. This principle implies the need to work on strengthening the lines of accountability, improving transparency and participation in resource allocation and enabling better access to information by all stakeholders. Specific attention needs to be given to the functioning of oversight bodies, to procurement, to internal and external audit, to transparent financial reporting, to public-private partnerships, and to the functioning of integrated planning and budgeting processes and their execution by government.

Greater transparency in the use of MoES resources will be achieved through the following activities to be supported by the project:

- The MoES will align its annual reform program with the MTBF and NSSD. The Director of the MoES Economics Department will coordinate with other line departments of the MoES and the Ministry of Finance and help them prepare the annual reform program budget driven by program objectives and output targets. The Director will also ensure consistency between the MTBF and the annual reform program. Transparency will be assured by posting the draft annual reform program and draft/proposed annual budget allocations on the MoES public website and through other appropriate means.
- The MoES will strengthen public consultation in budget planning and execution by:
 - Providing at least two weeks for inviting comments and suggestions from the public and civil society on the draft annual reform program and draft annual budget allocations. These comments will be taken into account in finalizing the draft annual budget and reform program.
 - Arranging periodic (at least once in six months) consultation meetings with local governments, a sample of schools and civil society.
 - The MoES will invite the PPA and representatives of Civil Society (in particular Parent Associations) to conduct an annual review of procurement undertaken in MoES.
- The MoES will improve the quality and widen the dissemination of the annual education statistical report.
- The regional education department will publish locally relevant education report cards for parents and other stakeholders of the school system.

- Education expenditure tracking surveys will be administered in time for the results to be available for the mid-term review of the EEE-P so as to inform policy makers of fund flows and use of resources in the education sector.
- Measures to ensure close attention to checks and balances in the budget execution of the reform program are included both in procurement and financial management arrangements as described in annex 7 and 8. Mechanisms to report corruption, such as the establishment of a hotline enabling reporting of any fraudulent and corrupt practices, harmonization of procurement procedures and documents with Bank procurement guidelines, enhanced use of financial reporting, internal and external audit, and operational reviews, are examples of additional measures ensuring greater transparency in the use of public resources. In addition, close monitoring from the development partners of the reform program is expected to contribute to the decrease of the probability of corrupt practices and misuse of funds.

Principle II: Support increased autonomy and de-politicization of key public sector counterpart organizations. Delineation between the political and administrative spheres in government is vital for improved public sector performance and the creation of a professional administration. Checks and balances between political and administrative institutions need to be effective. The practices of a merit-based bureaucracy need to be expanded to encompass a larger numbers of officials with direct involvement in service delivery, in particular in line ministries and in local governments.

The following actions will help implement the above principle:

- An annual reform program, including milestones to assess progress, will be agreed between the MoES Minister, the MoES General Secretary and the Directors responsible for EEE-P, by November 30 of each year for the following year.
- Based on the agreed annual reform program, implementation of the EEE-P will be managed by the line departments of the MoES, technical institutes, regional and local governments. That is, technical civil servants and public servants will be given the responsibility, autonomy and accountability to carry out the activities. They will be provided with training opportunities, including on-the-job training, to enhance their administrative and technical competence.
- The General Secretary of the MoES will organize monthly meetings and on-demand meetings of the EEE-P with the directors of departments and institutes to discuss and resolve any issues as well as to monitor implementation progress.
- The minister will hold semi-annual review meetings of the EEE-P to review MoES technical officials' performance, make mid-course corrections as needed, strengthen civil servants' autonomy and hold them accountable.

Principle III: Analyze the formal (and likely future) roles of local governments, and work to develop capacity -- and local mechanisms of accountability -- to enable local governments to effectively take on these roles. Local government needs to play a central role to improve service delivery, and there are opportunities to improve governance by strengthening local government. Albania has made progress in laying the foundations for decentralization, and ongoing reform at the central level will be implemented at the local government level in the next four years.

Implementation of these reforms needs to be accompanied by a solid understanding of the constraints faced at this level of government.

Decentralization is a critical element in the National Education Strategy, and the Education Excellence and Equity Project. Its importance is also recognized in the Development Policy Lending currently being prepared, and the key condition for the education sector is the sound preparation of the pilot of decentralization of the education service delivery in 2 or 3 regions. The pilot will implement at all levels of government the roles and responsibilities of each level laid out in the decentralization policy paper prepared in 2005. The pilot will be used to develop and assess the institutional arrangements between schools, local governments and the deconcentrated offices of the MoES. The pilot will be used to review the adequacy and timeliness of intergovernmental funding arrangements for education and lines of accountability for the funds transferred and raised. Through this pilot, it is expected that the MoES will accumulate much needed knowledge on the opportunities and constraints of the decentralized education service delivery in Albania. EEE-P will provide necessary financial and technical support to facilitate the pilot and the subsequent development of roll-out (or phase-out) strategies based on the evaluation of the pilot.

Principle IV: Seek to strengthen mechanisms for advocacy and increased involvement of citizens (including nongovernmental stakeholders) to encourage improved performance of public service delivery and policy-making bodies. ‘Voice and accountability’ is a dimension of governance in which Albania shows strength. There is a vibrant civil society and press, as well as demand and opportunity to express and discuss views publicly. The existing mechanisms need to be harnessed and strengthened by empowering communities. Strengthened stakeholder involvement is required as a corollary to decentralization.

During the preparation of the EEE-P, the MoES initiated “Partners of Education” meetings where education sector strategies are discussed with development partners, and also with the stakeholders at various levels of the government. The MoES plans to continue with “Partners of Education” meetings to discuss thematic issues such as curriculum reform, student assessment, secondary education development, professional development of teachers, etc., with a wide range of stakeholders during the implementation of the EEE-P. In addition, the EEE-P will promote active participation of communities and parents in school management through establishing and revitalizing the school boards. The participation of parents and communities must be based on their intrinsic need and value; mandatory school board might mean very little in practice unless the value of such is made and felt clear by stakeholders.

Annex 7: Financial Management and Disbursement Arrangements

ALBANIA: Education Quality & Equity Project

Background and Conclusion

An assessment of the financial management for the proposed EEE-P was carried out during November 2005 to March 2006. The objectives of the assessment were: (i) to ensure the Bank's fiduciary compliance by identifying the strengths and weaknesses of the financial management in the education institutions in order to assess the proposed mitigating measures, and (ii) to develop common understanding between the Government, the Bank and other development partners supporting the education reform on the risks associated with financial management and to build an appropriate capacity building program. Concurrently with this assessment, a Country Fiduciary Assessment Update (CFAU) is being carried out to update the report on public financial management in 2002 and the report on procurement in 2001. The assessment of the education sector benefited from the assessment carried out at the general level. Public Expenditure and Institutional Review which includes specific focus on the education sector, was also carried out during the preparation of this program.

The conclusion is that, overall, the financial management capacity across the education sector is weak, mirroring the weaknesses in public sector financial management in the country. Although the risk is considered to be high, it is assessed that the fiduciary arrangements are acceptable to the Bank with the suggested risk mitigating measures, bringing the overall risk down to substantial (see the Financial Risk Assessment below). The pooling of funds will cover only a well described reform program.

While the fiduciary arrangements are acceptable, an experienced consultant (funded by PHRD grant) will during 2006 refine the sections of the Project Operations Manual (POM) related to the financial management of the program, and assist the MoES in developing a fiduciary capacity building plan as included in priority one activities (see Annex 4). The capacity building is meant to further increase the efficiency of the financial management work in support of the management of the education sector, and enabling the financial management staff to provide assistance in the reform of the education sector towards a more programmatic approach in the budgeting and utilization of the scarce resources.

An annual audit of the reform program will take place starting with the year 2006. An agreement is being sought with the supreme audit institution (the High State Control) for it to conduct the audit, initially utilizing the twinning arrangement supported by the EU with one of the EU's member states' Supreme Audit Institutions to ensure that the financial audit can be performed according to generally accepted auditing standards on terms of reference acceptable to IDA. In addition, an annual operational review will be carried out by an acceptable audit firm which will review internal control framework and procedures including procurement procedures.

Country Issues

The latest Country Financial Accountability Assessment (CFAA, April 2002) and the Country Procurement Assessment Report (CPAR, January 2001) confirm that improvement is required in the management of public expenditures, including cash management in Treasury and better internal control throughout the public sector. Improvements are also needed in the application of the procurement rules. Internal audit is currently being fully developed to improve the government's internal control environment. A public internal financial control framework is being implemented, and a new computerized treasury system is also under implementation. The supreme audit institution is being strengthened. A Country Fiduciary Assessment Update (CFAU) and a Public Expenditure and Institutional Review are ongoing, and expected to be completed before the end of June 2006. These reports will underpin further improvements for a more efficient use of public resources. Recommendations will be supported by a series of programmatic development policy lending currently being prepared. Key findings of the CFAU are integrated into the individual sections below.

Implementing Entity

Overall responsibility for the implementation and management of the reform program will be with the Ministry of Education and Science (MoES). The MoES has a supervisory role in relation to other education-related organizations, including the activities implemented through the local government system. The priority areas identified for support will be implemented by the MoES, municipalities and communes, Regional Councils, universities, Teacher Training Institute and a number of other institutions directly under the MoES. The project will cover mainly costs for investment, goods, services, training, and technical assistance, but it will be implemented by the agencies mandated with the specific task agreed. Part of the implementation of the investment budgets has been gradually decentralized to local government since 2005. The MoES is still involved in the planning, budgeting, and monitoring of these activities while the implementation responsibility is decentralized either to municipalities or the regional councils. The budget execution is synchronized by the treasury system that is used by all budget entities. The MoES manages the budget for the entire sector, and they distribute (open) the budget to the institutions implementing the budget, making funds available for respective institution in the beginning of each fiscal year. All financial management activities including reporting and disbursement will be the overall responsibility of the MoES.

Budgeting

The National Education Strategy will be implemented through the three-year Medium-Term Budget Plan (MTBP) converted into the annual budget which includes the Annual Reform Program (ARP) prepared by the MoES. The ARP will be shown as a separate budget line in the annual budget. The ARP will give the details of the implementation of the needed education reform as an integral part of the annual budget for the education sector. The ARP will include the mechanisms for monitoring of inputs needed to achieve the planned outputs and outcomes. This will include information, indicators and performance benchmarking at school level. The overall education budget and the financed ARP will be reconciled with the overall government budget at the approval stage and during in-year adjustments of budgetary allocations. For the

initial activities in the last quarter of 2006 which is financed from the government budget and the IDA credit, re-allocation of government budget will take place during the mid-year adjustment of the budget in July 2006, showing the ARP separately.

The mechanisms for budgeting and opening the budget for each institution in the education sector are considered to be adequate to cater for the needs of the proposed project. The overall difference between the planned budget and actual expenditures (excluding debt service payments and foreign financed expenditure) has substantially decreased from 7.38 percent in 2002 to 1.27 percent in 2004. Within the education sector, there are no unreported extra-budgetary expenditures. Budgets are approved on time by Parliament before the fiscal year starts, and the budget calendar is generally followed. Although the MTBP has been prepared since 2000, improvements are needed to make this an effective tool to link policies and strategies with actual budgets. In addition, improvements are needed in the presentation of financial statements, such as the inclusion of major parts of donor funding in these statements. Specific reporting for the proposed project was agreed with the MoES.

Funds Flow Arrangements

The program funds will flow from IDA (and other development partners participating in the pooled financing separately) via a foreign currency-denominated designated account (previously called a special account) in the Bank of Albania (BOA), from which the funds will be transferred to the Single Treasury Account (STA) in local currency, but “earmarked” for the agreed Annual Reform Program. Treasury will keep track of the funding going to this program to enable a separate but integrated reporting on the sources and uses of the program funds. The funding from the government budget will be provided in a similar way. Payments for specific expenditures within the agreed ARP cannot be identified according to the source of funding, but the percentage contribution for each source (the government or each development partner) of funding and the unspent balance for each development partner financing the program will be reported on a semiannual basis.

The MoES will report every six months on its use of the funds in accordance with normal budget reporting procedures as described below. Disbursement from the Bank (and the other development partners participating in the pooled financing arrangement) is expected to be made as advances two times each year (for the Bank on February 15 and August 15) in the form of on-budget pooling, in the amount agreed between the government and the development partners in the semi-annual review meetings, normally in October each year. The level of disbursement will be agreed based on the ARP budget and a cash flow forecast, and will be adjusted annually based on the performance towards meeting the development objective and the completeness of budget execution against agreed targets of the reform activities. If the Bank notices substantial deviations in actual implementation of the project, it reserves the right to review and adjust, in consultation with other development partners, the agreed-upon amounts during the year.

Financial Management Staffing

The finance and budget department of the MoES has eight staff members, and two additional positions are currently vacant. The head of the department seems to have a detailed

understanding of both budget formulation and execution issues of the education sector. The MoES will assign one staff to be responsible for financial management issues of the project and foreign financing in general. However, due to the ongoing functional review of the MoES supported by the Bank, decisions on new staffing are pending the approval of the new structure by the Council of Ministers (COM). This structure will be discussed and agreed with the development partners during the semiannual review meeting in October 2006 to ensure adequate fiduciary staff are assigned to deal with the increased workload from the additional funding of the education sector. In 2006, MoES will hire an experienced consultant (using PHRD grant) to assist in the finalization of the program's financial management manual as part of the Project Operational Manual. The consultant is also assisting the MoES in developing a fiduciary capacity building plan as included under the priority one (see annex 4). The draft plan should be ready before effectiveness.

In general, the finance staff in institutions within the education sector (including universities and other institutions) and finance staff in local governments have appropriate skills, and follow internal control procedures to ensure payments are made according to approved budgets. However, there is a need to provide further training for the finance staff to develop more analytical financial management skills. The education sector fiduciary capacity building plan will also include training of staff in local governments, universities, etc. Terms of Reference for the fiduciary staff are included in the draft Project Operational Manual.

Accounting Policies and Procedures

The organic budget law from 1998 and a comprehensive treasury instruction from 1996 with additional instructions, including the detailed yearly budget instructions, form the basis of the accounting policies and procedures as well as the internal control procedures. Procedures are used consistently by all implementing entities in the education sector.

All cash transactions pass through the treasury system. The treasury reconciles the account balance of the STA in the BOA with the consolidated records of the treasury's accounting system on a monthly basis. A consolidated budget execution report is prepared by the MOF and presented to the government every six months. This report is eventually submitted to the Parliament no later than July each year. In addition, the government submits to Parliament reports on the execution of extra-budgetary funds and the consolidated local government budget execution. The classification of in-year budget execution reports allows for comparison between planned budget and actual expenditure amounts as per economic and organizational classification. Budget execution reports for in-year periods are issued within 6 weeks of the end of each period. Some inaccuracies in the budget execution data are likely due to the quality and inherent risks associated with manual bookkeeping. However, data issues are recognized by the MOF, and do not compromise overall usefulness of financial reporting. Within 6 months of the end of the fiscal year (before July 1), the COM submits to Parliament a report containing the consolidated state accounts for the preceding fiscal year. The COM report comprises complete information on revenues, expenditures, financial assets and liabilities. The COM report is provided to the HSC at the same time as it is submitted to Parliament. The budget cycle is completed when Parliament approves the COM report taking into account the HSC report on the state budget implementation. The cycle normally concludes in the month of October. The

financial statements contained in the COM report do not comply with IPSAS or equivalent national accounting standards, but are presented in a consistent format over time and with disclosure of the accounting rules. The additional specific policies and procedures for the proposed project are included in the draft POM, and will be further elaborated before the POM is finalized.

Internal Control

The ongoing Country Fiduciary Assessment Update (CFAU 2006) is likely to indicate that appropriate procedures for payroll controls exist but payroll and personnel records are usually not integrated or often not computerized. The segregation of duties in the control process of the payroll seems to be sound, and ensures that salaries are paid according to established rules and regulations. Databases of personnel records are maintained by the individual institutions, and there are no direct links between personnel record databases and payroll. Payroll is executed through the treasury system. Reconciliations between the information in timesheets and the budget execution data received from the treasury are performed by finance officers of each budget institution. Updates of personnel records including payroll are done manually in paper records or “books” at the level of budget institutions on a continuous basis. The records provide an audit trail of the changes made, which are authorized by the budget institutions’ finance offices. The procedures for making changes in personnel and payroll records are determined through the application of the Law on the Status of the Civil Servant and a number of related implementing government decrees. In addition to the controls performed by the budget institutions’ finance offices, the Internal Audit Units (IAU) of line ministries, the MOF’s General Directorate for Internal Audit and the HSC audit the budget institutions’ payroll management on an annual basis. The internal audit of some budget institutions, including the MoES, performs 100 percent checks on payroll transactions. Approximately 75-80 percent of the total education sector budget is used for salaries.

Basic government regulations exist for processing transactions and approving contracts, but written guidelines, including detailed job descriptions, are generally lacking in the budget institutions. At the level of the treasury, procedures for controls and release of all types of non-salary expenditure exist and are followed. However, for capital spending, procurement regulations tie the hands of the budget institutions at the beginning of the fiscal year, which results in reallocations being requested and made through the treasury to expedite spending for the remaining part of the fiscal year. Significant under-spending was observed over the last five fiscal years for capital budget. Enhanced procurement planning capacity for the ARP, and the expected higher degree of assurance on availability of funds will assist solving this problem. Compliance with rules is fairly high, but simplified procedures are used occasionally without adequate justification. Commitment controls appear to be effective and the compliance with rules fairly high, but existing rules and procedures in some cases lead to inefficiencies in the use of funds. The POM will provide increased fiduciary assurance through a specific description of the most important internal control procedures as well as job descriptions.

Internal Audit

Internal audit in the Albanian public sector is at an early stage of development. Since the adoption of the Law on public sector internal audit (Law No. 9009/2003) all budget institutions with a budget of more than LEK 50 million have been required to have in place Internal Audit Units (IAUs), whereas other budget institutions may be audited by the IAUs of the line ministry they are reporting to. A manual reflecting the approach promoted through the application of the International Standards for the Professional Practice of Internal Audit has been developed and its use is mandatory for all IAUs. Nevertheless most auditors are not sufficiently trained to apply the manual's methodologies. Some audits are systems audits but most often audits are focused narrowly on compliance issues. The IAU of the MOF presents an annual report to the COM on the audits performed and the major findings and recommendations. There are no formal requirements for the COM to react on the recommendations of this report. In accordance with procedures laid down in the internal audit manual, IAUs produce summary reports to the heads of the budget institutions on a monthly, quarterly and yearly basis. The procedures for following up on recommendations of other IAUs are not harmonized across the government administration. The independence of IAUs is formally ensured through the provisions of the mandatory internal audit manual and the law on internal audit. In the manual it is specified that the "General Directorate of Internal Audit and the internal audit units in the public sector" shall be functionally as well as organizationally independent from the audited entity. This implies among other things that the IAU of a particular entity "report directly to the principal director of the public entity and through him to the General Director" of the MOF's General Directorate of Internal Auditing. A fair degree of action is taken by many managers on major issues but often with delay.

MoES's internal audit department will audit the project activities as a normal part of their work. The department has a staff of five auditors, but currently only an acting Director of the unit is appointed. As soon as the decision on new staffing based on the new structure of the Ministry has been adopted by the Council of Ministers, an internal audit Director should be appointed to strengthen the department. The internal audit staffing should be maintained throughout the life of the project. As the capacity of the department is still low, the fiduciary capacity building plan will support the further development of the internal audit complementing the general twinning support provided through the EU's CARDS program. The internal audit of local government is either performed by the internal audit units in the bigger municipalities or by the audit units in the Regional offices. These units will benefit from further training and the capacity building program. Internal audit reports will be shared with the development partners supporting the project, and follow-up actions will be monitored as part of the overall monitoring of the project. No major issues have been identified in recent internal audit reports in the MoES.

Financial Reporting

The ongoing country fiduciary assessment update (CFAU 2006) is likely to indicate 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 universities and local governments. 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 assessment concluded that the current manual system will be able to report according to the agreed formats for the reform program to be supported with a pooled financing arrangement. In addition, the ongoing computerization will lessen resources needed to produce these reports for MoES, most probably from 2007.

Currently the MoES reporting can be presented for each program (7 main programs), according to economic classification (7 recurrent and 2 investment classes), spending unit (the institutional code), and source of fund (divided in budget funds, own resources, foreign financed, local cost, and VAT). Reports are systematically reconciled with treasury data. Some of the reporting produced by the department appeared to overlap with information available in treasury involving substantial work, though information produced by the MoES includes more data on investments including donor funded projects. The MoES financial reports are always reconciled with the treasury reports.

On an annual basis, accrual-based consolidated financial statements are produced based on manual forms which are filled in by each budget entity. The standards used are not fully in compliance with the international standards (IPSAS), and not consistently reconciled with the cash based financial reporting from treasury. The project will not rely on these accrual-based financial statements. A computerized treasury system was implemented in Tirana in 2005. The expansion of the computerized treasury system to the other treasury offices is on-going, and it is expected that the implementation of computerized treasury system in all treasury offices in Albania will be completed by the end of 2006. The new computerized treasury system (Oracle Financials) will capture both commitments and invoiced amounts, providing the possibility of reporting on a modified accrual basis. Fixed assets and inventories are not included in the new treasury system. The chart of accounts has been extended in the new system to include sub-programs and projects. This will enable a more analytical coding of transactions, and make financial reports more useful for the monitoring of an output based/programmatic system. The system will also enable the continued tracking of the reform program and is expected to be able to provide reliable reporting for the pooled funding suggested for the project. Contract management reports can be provided by the system as well. An assessment of the financial reporting will be repeated before the new treasury system's automated reporting features will be used as the basis of reporting of the project. This new system is expected to be used from January 2007.

The accounting for the project will be cash based with additional information provided on contractual commitments. The project accounting will be based on the reporting from the treasury system.

Interim un-audited financial reports (IFRs) - previously known as Financial Monitoring Reports or FMRs – which is oriented towards project management will be used for project monitoring and supervision, and the indicative formats of these are included in the POM based on reporting formats currently used in the MoES. Project financial statements will be presented in local currency, on a cash basis. Reports on the contract execution will be included for the entire ARP and the reporting for the pooled financing will follow the budget as presented in the ARP. Reporting to all development partners who are financing the ARPs will be made on a half-yearly basis to be received 45 days after the end of each six month period. The IFRs includes a report

splitting any unused balance between development partners at the end of each reporting period. No balance will be recognized for the government contribution. Each development partner's advance will be calculated based on previous balance and the agreed expenditures to be covered. When disbursement is made according to the agreement, a balance at the end of the year will be the result of lower than agreed actual expenditures. The under-spending will be distributed according to the percentage share of the planned expenditures for each development partner. The reports will also include financial information on the MoES's global activities, but with less detail than the project related reports and fully based on the regular reporting received by the management of the ministry. The MoES will produce a full set of financial reports every six months throughout the life of the project.

Accounting and Information Systems

Currently the treasury uses a manual system for its accounting books and records, which is done on cash basis. The manual treasury system is also used for monthly and annual reports on cash expenditures, which is compared with the annual budgets approved by parliament.

As mentioned above, the MoES will utilize the reporting generated by the new computerized treasury system currently being implemented in all treasury offices. It is expected that this system will contain adequate user access controls, and will be capable of generating financial reports for the project. The Bank will review the reporting generated by the new treasury system prior to relying on this system to ensure that it has the capability of generating consolidated program or sub-program budgeting and reporting.

The Financial Management Manual included in the POM will set out the financial management and internal controls policies and procedures, and is intended to guide staff and minimize the risk of errors and omissions as well as delays in recording and reporting. These written standards also clarify responsibilities, including level of authority, clear control over assets, cash, and bank accounts, and it ensures timely and accurate financial reporting.

External Audit

The Albanian supreme audit institution, the High State Control (HSC), reported in its 2004 report that 43 percent of the problems in procurement came from MoES, mainly in civil works contracts, leading to a number of legal actions and dismissals etc. in reaction to the audit findings. The audit report noted that some of the damage did not become effective, because as soon as it was identified by the HSC, the MoES undertook relevant measures in order to amend the situation. The HSC found only insignificant problems in other areas including salaries. The findings of the HSC document that checks and balances are in place to mitigate weaknesses in the financial controls, but the mitigating measures for the jointly financed program will further ensure that procurement processes are utilizing satisfactory procurement methods and also ensure that these procedures are followed (refer to the section on corruption below).

No significant issues were identified in the audits of previous Bank-financed projects implemented by MoES. These audits were conducted by private sector auditors. The government will explore the possibility of having the project's annual financial statements certified by the HSC according to acceptable auditing standards. Due to the HSC's inexperience

with this kind of audit, there is a risk that the external audit by the HSC will provide only limited assurance regarding project expenditures. It is planned that this risk will be mitigated through a combination of: (i) the audit of the project will be carried out by the HSC with acceptable twinning arrangements (including TORs and twinning partner acceptable to the Bank); and (ii) regular or annual operational review (with TORs and auditors acceptable to the Bank) of the project focusing on key areas of the project's fiduciary risks. The HSC is already supported by EU's CARDS program through twinning arrangements, latest with the British National Audit Office. The possibility of using the forthcoming twinning arrangement for 2007 and 2008 will be explored.

The MoES is responsible for submitting to the Bank, within six months of the closing of each fiscal year, the audited annual financial statements for the project. The annual cost of the twinning arrangement will be financed by the project. In addition, the HSC will perform its normal scheduled audits of the education sector activities.

Financial Risk Assessment

From a financial management perspective, the proposed project is considered to have a substantial risk. A summary of the risks divided in inherent risks and control risks are as follows:

| Financial Management Inherent Risks | Risk Mitigation Measure | Risk Rating w/ Mitigation |
|---|---|----------------------------------|
| Country financial management risk. The overall risk in the public sector in Albania. | Although internal audit and external audit institutions are in place, the capacity is low. A comprehensive framework for internal financial control is lacking. Improvements are needed in the efficient use of resources. The EU is providing support to all these areas and the Bank will support the continuation of the reforms through a number of Development Policy Loans and specific capacity building program in the education sector financed by this operation. | S |
| Project financial management issues. Risks explained in the control risk table below. | Please see below and the action plan. | S |
| Banking sector. Risk that funds will be delayed or diverted. | The Bank of Albania is well regarded and no additional measures are needed. | M |
| Perceived corruption. High level of corruption and state capture according to a number of reports (including BEEPs). | The proposed education reform program will assist the government in instituting a more output based use of public funds focusing on service delivery. The improvements in reporting/transparency and the monitoring system from external partners will assist in fighting corruption. The improvements in procurement capacity will also contribute. | H |
| Overall inherent risk | | S |

| Financial Management Controls Risks | Risk Mitigation Measure | Risk Rating w/ Mitigation |
|--|---|----------------------------------|
| Implementing entity. Implementation capacity is weak and a results based framework will start only in FY 2007. | Support a well defined reform program with appropriate capacity building measures to enhance FM and procurement capacity of MoES and local government. Only earmarked reform activities will be supported. | S |
| Funds flow. Risk of funds being delayed, diverted or subject to cash rationing. | Carry out regular reporting every six months with immediate feed-back from development partners, and close monitoring and annual operational audits to review the internal control framework. | S |
| Staffing. The economics department of MoES may not be able to cope with the new tasks. | Experienced consultant will assist the development of the FM framework. Staff in the economics department of the MoES will be trained, and FM procedures will be refined. Functional review of MoES is being finalized. | S |
| Accounting policies and procedures. Delays may occur in the formulation of acceptable procedures or procedures may not be followed. | Accounting policies and procedures will be finalized with technical assistance financed from the PHRD grant. Internal and external audit will monitor the compliance with the agreed procedures. Annual operational review will be performed to check if the procedures are followed. | S |
| Internal audit. The audit recommendations may be neglected or political interference may narrow the scope of the audits. | A head of internal audit department in the MoES will be appointed. Support to the further development of internal audit is provided by EU. Capacity building measure will be developed, and included in the fiduciary capacity building plan supported by the ARP. | M |
| External audit. The HSC may not deliver the audit on time or the quality may not be adequate. | An agreement will be made regarding a twinning arrangement between the HSC and an experienced external auditor based on the agreed TORs, possibly with another EU SAI working with HSC. | S |
| Reporting and Monitoring. The new treasury system may be delayed or producing unreliable reports. | Treasury system is currently being developed with WB assistance. The reporting part of the system will be assessed in December 2006. Reporting to be closely monitored by development partners. | M |
| Information systems. General education management information system is not fully aligned with plans/budgets/financial reporting. | TA on the development of annual ARP will ensure that results-oriented plans will be consistent with budgets and financial reporting. The financial parts of the Education Management Information System (EMIS) will be improved through an appropriate technical assistance. | S |
| Overall FM Risk Rating | | S |

Risk rating: H (high risk), S (substantial risk), M (modest risk), N (negligible or low risk)

Corruption

Corruption is considered a major issue in the public sector. This is acknowledged by the current and previous governments. Even though the project will be implemented in this environment of

perceived high corruption, the risk that external funds will not be used as intended is assessed as manageable due to the number of risk mitigation measures available and proposed.

The following measures are incorporated in project design to minimize the risk of corruption and the risk that funds will not be used for the intended purposes:

- **Limited scope of activities will be supported by the project covering specific reform targeted activities.** The aim is to gradually expand the scope of the activities to be supported, but to instigate improved accountability and efficiency in spending in the areas supported by the reform, gradually to be implemented throughout the education sector. This includes agreed upon procurement procedures for NCB and full use of Bank's procedures for ICB.
- **Assessment of computerized treasury reporting system will take place before this system is used for reporting of the pooled funding,** as soon as the computerized treasury system can be tested, possibly towards the end of 2006.
- **Ex-ante control by the Treasury.** Payments will be effected by the Treasury that will perform ex-ante checks according to the defined budget for the project.
- **Utilization of internal audit reports.** Internal audit reports will be shared with the development partners financing the project and follow-up actions will be monitored as part of the overall monitoring of the project.
- **Annual financial audits.** These audits will be made in a twinning arrangement between an EU member's SAI and the HSC.
- **Annual operational reviews.** To supplement the audit of the annual financial statements, an annual operational review will be carried out by an acceptable audit firm which will review internal control framework and procedures, including procurement processes.
- **Transparency and public information.** Information about project activities will be continuously posted on the ministry's website to inform the civil society.
- **Forensic audit.** Forensic audit will be required if major allegations of corruption surface during project implementation.
- **Intensive supervision by the development partners, including the World Bank.** Overall supervision, including procurement ex-post reviews and general supervision, will be undertaken on a periodic basis by Bank staff and staff from the other development partners.

Disbursement Arrangements

The withdrawal application for the advance will be supported by the cash forecast report and designated account statement (previously known as special account) including a copy of the bank statements for the designated account. The withdrawal applications will be supported by the IFRs showing the sources and used of funds. Full documentation in respect of project expenditures will be kept by MoES and in other implementing entities and verified by auditors on an annual basis.

Disbursement from the Bank and the other partners will be made against the ARP as advances two times every year (February 15 and August 15) in the form of on-budget pooling, in amounts

agreed between the government and the partners in the semiannual education missions normally held in October and May each year. The level of disbursement will be agreed annually based on sector performance and the completeness of budget execution against agreed targets of the reform. Funds will be deposited into a foreign currency designated deposit account maintained in the Bank of Albania. The funds will be transferred to the Treasury Single Account based on request from MOF. If the Bank notices major deviations in actual implementation of the project, it reserves the right to review, adjust, or stop, in consultation with other development partners, the periodic release amounts during the year.

Withdrawal applications for the transfers to the designated account will be sent to the Bank every six months attaching the interim un-audited financial statement and stating the agreed amount to be disbursed. Eligible expenditures are expenditures paid according to the budget included in the agreed ARP. There is no plan to revert to transaction based disbursement or to consider changing the pooling mechanisms. In the event that major conditions are not fulfilled, disbursement will stop.

Action Plan

Given the substantial financial management risks noted and the need to ensure that the financial management arrangements meet minimum Bank requirements, a time-bound action plan was developed to strengthen existing capacity and to provide additional fiduciary safeguards. Successful implementation of the action plan will especially strengthen mechanisms for third party assurance on the use of project resources.

| Action | Responsibility | Status |
|---|------------------------------------|--|
| Project Operational Manual: Initial draft manual agreed with the Bank covering procedures on budgeting, accounting and internal control, disbursement and flow of funds (including chart), financial reporting, annual reports and audit. | MoES | Draft completed To be finalized by effectiveness |
| Financial reporting: Prepare formats for project based consolidated reports for review by the Bank Finalize reporting formats | MoES MoES/WB | Negotiated and agreed |
| Flow of funds: Confirm agreement of the flow of funds | MoES/WB | Negotiated and agreed |
| Audit arrangements: Confirmation that HSC will perform financial audit TORs for audit and twinning arrangement TORs for Operational Review agreed | MoES/HSC MoES/HSC/WB MoES/WB | Discussed and included in the minutes of negotiations |
| Capacity building: Include sufficient resources in the reform program for financing the fiduciary capacity building measures to be defined by the consultant (financed by PHRD grant) for training of accounting staff throughout the sector as needed and in internal audit. | MoES | Discussed, and agreed as a condition for effectiveness |

| | | |
|---|------------------------------|---|
| <p>Reporting from new computerized treasury system: Assess the reporting for the agreed annual work program using the new computerized treasury system</p> | <p>MoES/treasury/ WB</p> | <p>Assessment of the new system by the end of December Planned to start in 2007</p> |
|---|------------------------------|---|

Financial Covenants

MoES will maintain a financial management system acceptable to the Bank. The project financial statements will be audited by independent auditors acceptable to the Bank and on terms of reference acceptable to the Bank. The annual audited statements and audit report will be provided to the Bank within six months of the end of each fiscal year.

An annual operational review will be carried out by independent auditors acceptable to the Bank and on terms of reference acceptable to the Bank. The review will cover the internal control framework and procedures, including procurement processes.

The audits and reviews will be conducted in accordance with INTOSAI auditing standards or International Standards on Auditing (ISA) as issued by the IFAC and on terms of reference acceptable to the Bank.

The MoES will each year before September 15 submit to the Bank for review an Annual Reform Program for the following calendar year prepared in accordance with an agreed format.

Supervision Plan

During project implementation, the Bank will supervise the project’s financial management arrangements in two main ways: (i) review the project’s half-yearly financial management reports as well as the project’s annual audited financial statements and auditor’s management letter; and (ii) during the Bank’s supervision missions, review the project’s financial management and disbursement arrangements (including a review of IFRs) to ensure compliance with the Bank’s minimum requirements. A Bank-accredited Financial Management Specialist will assist in the supervision process.

Annex 8: Procurement Arrangements

ALBANIA: Education Quality & Equity Project

General

The National Education Strategy covers the period 2004-2015. The strategy is based on the government's vision to develop a continuous education system, starting from early childhood development and continuing through the entire course of people's lives. The government has also prepared a plan to implement this strategy and has sought international and bilateral partners to support it in its efforts to implement its education sector strategy led by the MoES. This holistic approach will help it achieve its objectives of providing quality education for all.

In order to support the government efforts to implement its education strategy, the Bank undertook and completed an assessment of procurement capacity of the education sector. In addition to the public procurement at the country level, an assessment of the procurement capacity, procedures and practices of the institutions that are likely to participate in the education sector development program was made.

Country Issues

The country has a sound public procurement law (PPL). However, the law has some weaknesses which, combined with undesirable procurement practices, result in inefficiencies in public procurement. The Public Procurement Agency (PPA) is, however, in the process of amending the PPL and expects the amended law to be passed in 2006. The amended law is expected to eliminate the weaknesses of the law and to provide for more transparency of the procurement process which would lead to economic and efficient procurement practices. The PPA also plans to update the implementation regulations and the standard bidding documents to reflect the improvements to be introduced in the PPL. The PPA has received substantial EU support for reorganizing and strengthening itself to play more efficiently its main role of providing support and training to procuring entities.

Procurement Issues in Education Sector

The key procurement weaknesses in the education sector are as follows: (i) lack of clarity about responsibilities in a decentralized environment; (ii) inadequate awareness of procurement among high officials; (iii) weak procurement capacity; (iv) inefficient use of budgetary funds by municipalities and communes; (v) lack of stakeholders' awareness of procurement procedures and practices; and (vi) weak contract management procedures. In light of the country-level and education-sector-level weaknesses in public procurement, the overall procurement risk for the project is assessed as **high**. The following time-bound specific actions are proposed to mitigate the risks for the implementation of the government's education reform program through a sector-wide approach:

- To ensure that all those involved in the implementation of the national education strategy, including high officials, clearly understand the requirements of the Bank Guidelines:

- The Bank staff and/or consultants hired by the PHRD grant will suitably design and deliver procurement seminars and workshops before IDA credit becomes effective;
- Before negotiations, the MoES prepared a draft Project Operational Manual (POM) which provides details of the applicable procurement procedures, a format of the detailed procurement plan, standard bidding documents, Request for Proposals (RFPs), evaluation reports, contract forms and procurement reporting formats. The bidding documents will be compatible with the Bank's procurement guidelines and agreed with the Bank prior to the beginning of implementation of the first Annual Reform Program (ARP), and will be used by all those conducting procurement for the Annual Reform Program. The POM will clearly define procurement roles and responsibilities of the MoES, municipalities, Regional Councils, etc., to avoid any confusion that may have been created by the decentralization process. The POM will include a detailed contract management procedure and time bound payments approval procedure.
- The MoES will identify two procurement officials for more detailed training in the management of international procurement before credit effectiveness.
- The MoES will add to its procurement section a procurement specialist with experience in international procurement and with good working knowledge of English.
- The MoES will engage the services, using the PHRD grant, of an international procurement consultant to develop a procurement capacity building plan before credit effectiveness. This plan will be implemented immediately after the credit becomes effective and will include the following:
 - Harmonize procurement procedures and documents between the Bank procurement and consultant guidelines and the PPL once it has been amended; and preparation of the harmonized procedures and documents, including standard bidding documents, evaluation reports, request for proposals, etc..
 - Identify training needs of the entities involved in conducting procurement for the implementation of the Annual Reform Program in the education sector, and design training seminars and workshops to fulfill these needs through courses for beginners, intermediate and more advanced. The contents of the courses will be developed based on the Bank Procurement and Consultant Guidelines for ICB and selection of international consultants and on the amended PPL for NCB, Shopping, etc..
 - Design an awareness building campaign for the stakeholders in the education sector, including providers of goods, works and services, teachers, parents, etc.. Suggest ways and means to make effective use of the MoES website for dissemination of information about procurement procedures and practices as well as for tender notices and contract awards.
 - Design a program for the education sector to enhance transparency of the procurement process; to put in place anti-corruption and corruption reporting mechanisms, such as the establishment of a hotline that will be available free of charge to different stakeholders of the education sector to report any

fraudulent and corrupt practices. For this purpose, collaborate with other agencies, including PPA, dealing with anti-corruption measures.

Procurement Arrangements under the proposed EEE-P

Procurement procedures based on the public procurement law and aligned with the Bank procurement guidelines (of May 2004 edition) will be detailed in the Project Operational Manual (POM) which will be mandatory for use by all procuring entities for the Annual Reform Program. Comments from the co-financiers who will pool their funds, the European Investment Bank and the Council of Europe Development Bank on the procurement guidelines will be incorporated in the POM.

The MoES will be the lead implementing and procuring entity under the EEE-P. Procurement functions both for the needs of the Ministry and its affiliate bodies will be the responsibility of the MoES Procurement Section. Procurement of goods and civil works for educational institutions managed by municipalities will be conducted by the procurement sections of the municipalities and regional councils representing smaller municipalities.

Procurement will be carried out on the basis of a rolling procurement plan updated at least annually and approved by the Bank, co-financing Banks (EIB and CEDB) and the government prior to any procurement is initiated. Annual updates of procurement plan will also reflect the actual implementation of an annual reform program and improvements in institutional capacity.

Advertisement: The General Procurement Notice shall be published in the on-line edition of Development Business in December 2005. Special Procurement Notices for all ICB goods contracts and Requests for Expression of Interest for consulting assignments with firms exceeding the value of US\$200,000 equivalent shall be published in the local newspaper of a wide circulation, on-line edition of the UNDB and posted on the website of the procuring entity.

The MoES will allocate a part of their respective websites for posting information on contract awards, including name of each bidder who submitted the bid, bid prices as read out at public opening, name and evaluated prices of each bid that was evaluated, name of bidders who were rejected and the reasons for rejection, the name of the winning bidder and the price it offered as well as duration and summary of the scope of the contract award. All contracts awarded through direct contracting (irrespective of the amount) shall be listed on the website. Information on the contracts awarded as a result of an ICB and results of selection of consultants firms for contracts exceeding \$200,000 will also need to be posted on the World Bank web-site through submitting the information to the World Bank office in Tirana.

The MoES will follow the World Bank anti-corruption measures and will not engage services of firms and individuals debarred by the Bank. The listing of such debarred firms and individuals is located at: <http://www.worldbank.org/html/opr/procure/debarr.html>

Procurement of Goods: Goods estimated to cost \$500,000 or more equivalent per contract will be procured following International Competitive Bidding (ICB) procedure under the World Bank Guidelines (May 2004). All ICB contracts will be subject to prior review by the Bank. For ICB, Bank's Standard Bidding Documents (SBDs) will be used. Goods below US\$500,000 per

contract will be procured through National Competitive Bidding (NCB). Goods estimated to cost below \$100,000 equivalent per contract can be procured following Shopping procedure. For procurement of textbooks and other specialized items, Bank's prior agreement will be necessary for using higher NCB thresholds.

Procurement of Works: Works estimated to cost US\$2 million or more equivalent per contract will be procured following the ICB procure, works below US\$2 million per contract will be procured through NCB. For contracts estimated to cost less than US\$100,000 equivalent each, Shopping will be used. For ICB, Bank's SBDs will be used.

Harmonized Procedures and Documents: Procurement of goods and works to be conducted through NCB will be carried out in accordance with the Open Tendering Procedure as described in the Public Procurement Law of Albania, subject to the exceptions included in the Financing Agreement. For this purpose, the existing government Standard Bidding Documents for procurement of goods and works through Open Tendering will be modified to reflect the exceptions to the Open Tendering Procedure. The modified Standard Bidding Documents will be submitted to the World Bank for its review and agreement before use.

Prior and Ex-Post Reviews: Procurement Plan will identify contracts subject to prior review by the Bank staff based on standard thresholds set for Albania.

Procurement of non-consulting services: Such type of contracts may be required and will be financed under the Project following procedures outlined in the Project Operations Manual.

Selection of Consultants: Consulting services will be required for all Project areas, including assistance with implementation of education sector fiduciary capacity building plan. Consultants services will be procured in accordance with the World Bank's Guidelines for Selection of Consultants (May 2004) and as described in the Project Operational Manual. Short lists of consultants for services estimated to cost less than US\$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines if there is no interest expressed from eligible international firms. Contracts above US\$200,000 shall be open to international competition. Selection of individual consultants will require comparison of at least three qualified candidates interested and available to undertake the assignment.

Selection of consulting firms can be done under the following methods: Quality and Cost Based Selection (QCBS), Quality Based Selection (QBS), Least Cost Selection (LCS), Fixed Budget (FB), Consultants' Qualifications (CQ), and where justified, Single Source (SS).

Training: Training will include seminars, workshops, conferences, and round tables in connection with the activities included in the Project and reflected in the annual reform program. Consultants required for preparation, facilitation or conducting training activities shall be selected under appropriate procedures for selection of the Consultants as described above. Selection of such consultants shall be included in the Procurement Plan.

Operating and Recurrent Costs: Operating costs will be procured using the provisions of the Public Procurement Law and as detailed in the Project Operations Manual.

Procurement Plan

Procurement Plan for the proposed project will be drafted in September 2006 on the basis of the Annual Reform Program and the project implementation plan and covers the first 12 months of the budget year 2007. It will provide the basis for the procurement methods identifies contracts subject to the prior review by the Bank and will be linked to the government budget for the year 2007 budget and the investment program.

The Procurement Plan for 2006 was finalized and agreed at negotiations, and will be included in the POM. Following credit effectiveness it will be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Bank annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Frequency of Procurement Supervision

Fiduciary supervision will be part of the ongoing partnership arrangement and implementation support rather than traditional periodic supervision missions. It is critical to maintain a dialogue already established with the counterparts in the MoES to provide technical assistance to contribute to the capacity building of the education sector institutions and improvement of the systems rather than limiting supervision to review of transactions. The focus of on-going procurement supervision will be on systems and procedures in place and progress in improving these systems. In addition, an independent procurement audit will carry out post reviews on an annual basis with reports published on the MoES website and available to the government and partner community.

Annex 9: Economic and Financial Analysis
ALBANIA: Education Quality & Equity Project

I. ECONOMIC ANALYSIS

Because this operation will support implementation of the Government's Education Excellence and Equity (EEE) Project rather than pre-identified expenditures within that project, the economic analysis focuses on two questions. The first concerns the key needs in the education sector to make education a more effective instrument to support economic growth and poverty alleviation. The second concerns the process that will be used under the sector-wide approach for reviewing the activities to be carried out under the project to ensure that they are cost-effective and consistent with the objectives and priorities of the project (described in Sections B2 and B3 of the main text). The question of fiscal sustainability is addressed in the second section, on financial analysis.

EDUCATION SECTOR NEEDS

Improved growth and productivity would require a major increase in coverage of secondary and higher education and improved education quality. The recent Country Economic Memorandum identifies low human capital and poor infrastructure as the central structural constraints to growth.¹⁴ Low human capital has two dimensions – low coverage in secondary and higher education, and low education quality:¹⁵

- ***Enrollments in secondary and higher education are much lower than in comparator countries*** (Annex 1 and Table A1.4). Enrollments in preschool and, especially, secondary education have fallen sharply since the start of the transition (Table A9.1). Secondary enrollments declined from 78.5 percent of the age group in 1989 to just 36.6 percent in 1995, and have grown only slightly since then. Most of the decline was in secondary vocational and technical education, where enrollments fell from 54 percent of the age group in 1990 to just 8 percent of the age group by 2001 – a collapse without parallel anywhere in the world.¹⁶ Secondary coverage is especially low among the rural population (24.9 percent) and poor households (19.4 percent).¹⁷ Access to higher education during Albania's self-imposed isolation was more severely controlled than in other transition countries. Enrollments in higher education at the start of the transition covered less than 10 percent of the age group, and grew slowly but steadily after 1990 (Table A9.1). Low education coverage has had a serious effect on the educational profile of the labor force. In 2002, fully 65 percent of the employed labor force had only a

¹⁴ Page 78, *Albania, Sustaining Growth Beyond the Transition*, World Bank Report No. 29257-AL, December 27, 2004.

¹⁵ Albania's needs in terms of improved coverage and quality of education go far beyond the needs in most other transition countries. These are described in The World Bank, *Hidden Challenges to Education Systems in Transition Economies*, 2000, and Michael Mertaugh and Eric Hanushek, "Education and Training", in *Labor Markets and Social Policy in Central and Eastern Europe*, Nicholas Barr, editor, The World Bank, 2005.

¹⁶ *Innocenti Social Monitor, 2004* (UNICEF)

¹⁷ Table 2.1 in *Poverty and Education in Albania: Who Benefits from Public Spending?*, World Bank Report No. 31983-AL, March, 2005.

primary-school education or less, a far higher share than in other countries in the region.¹⁸ Increased productivity would require a major increase in enrollment rates for secondary and higher education.

Table A9.1: Enrollment Rates by Level of Education, 1989 and 2002

| Level of Education | 1989 <u>Gross</u> Enrollment Rates (% of age group) | 2002 <u>Net</u> Enrollment Rates (% of age group) |
|-------------------------------|---|---|
| Preschool (ages 3-5) | 56.7 | 31.5 |
| Basic (grades 1-8) (age 6-13) | 103.2 | 93.3 |
| Secondary (ages 14-17) | 78.5 | 38.7 |
| Tertiary (ages 18-22) | 6.6 | 8.7 |

Sources: MOES data for 1989 and Albania LSMS data for 2002, as reported in Table 36, *Albania, Sustaining Growth Beyond the Transition*, World Bank Report No. 29257-AL, December 27, 2004.

- Learning effectiveness in schools is low, leading to school graduates who enter the labor market without the skills they need to be productive.** Education content and teaching methods became increasingly obsolete during Albania's self-imposed isolation. In addition, teaching and learning conditions in schools suffered severely as a result of the looting and destruction which occurred in 1990 and again with the civil unrest in 1997. Donor assistance has helped with rebuilding and re-equipping schools, but this work is far from complete. A revealing indicator of the legacy of poorly equipped schools and inadequacy of educational inputs of all kinds is Albania's very poor performance on the OECD's PISA international assessment of the learning achievement of 15-year old students in 2000. Albania's mean score was the second lowest of the 41 participating countries – including six ECA transition countries – on the literacy assessment and the third lowest of the 41 countries on the science and math assessment.¹⁹ Only Peru scored lower on both assessments. Improved learning effectiveness would require a spectrum of interventions, including improved conditions for teaching and learning in schools, improvements in education infrastructure (including more adequately equipped classrooms, laboratories, and school libraries), strengthened leadership, management, and governance of the education system, and modernization of higher education programs. These interventions constitute the priority areas for implementation under the Education Excellence and Equity Project (Section B.3).

Improved coverage and quality of education is also necessary in order to reduce poverty.

Education plays a crucial role in poverty alleviation, as shown in the following findings of 2002 LSMS survey:²⁰

- Graduates of secondary education earn somewhat more than graduates of basic education, especially for men in the private sector and women in the public sector. (This premium would increase as education quality is improved and as education content is better aligned with the new skill requirements of the labor market.)

¹⁸ Albania LSMS 2002, as reported in Table 38, *Albania, Sustaining Growth Beyond the Transition*, World Bank Report No. 29257-AL, December 27, 2004.

¹⁹ UNESCO Institute for Statistics and OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000, 2003*.

²⁰ As reported on page 83 of the 2004 CEM.

- University graduates earn about twice as much as graduates of primary education, and about a third more than secondary-school graduates.

Public expenditures on education are relatively pro-poor. The Government has agreed to make them more pro-poor, but budgets have not yet reflected this agreement. Public expenditures on basic education in Albania favor the poor (Table A9.2). The Government has agreed to allocate a larger share of the education budget to basic education by raising cost recovery through student fees in higher education and allocating the budget savings to primary and secondary education. This will have the effect of making education budgets even more pro-poor. As shown in Table A9.3, recent budget decisions have not respected this agreement. The share of higher education in the education sector budget has increased by 1.6 percentage points over the past three years, while the share of basic and secondary education has increased by just 0.7 percent (and the share of basic education declined by 3.6 percentage points).

Table A9.2: Benefit/Incidence of Public Expenditures on Education, 2002 (in %)

| Quintile | Level of Education | | | | Total |
|----------|--------------------|-------------------|----------------------|------------|-------|
| | Basic | Secondary General | Secondary Vocational | University | |
| Poorest | 26.3 | 9.8 | 17.9 | 2.5 | 22.1 |
| Second | 21.3 | 20.0 | 13.1 | 9.8 | 20.6 |
| Middle | 21.5 | 22.1 | 12.9 | 20.8 | 22.0 |
| Fourth | 18.3 | 26.1 | 23.4 | 34.3 | 29.8 |
| Richest | 12.7 | 22.0 | 32.6 | 32.5 | 15.5 |

Source: Table 4.1, *Poverty and Education in Albania: Who Benefits from Public Spending?*, World Bank Report No. 31983-AL, March, 2005.

**Table A9.3: Distribution of Education Budgets by Level of Education
2002 – 2005 (in %)**

| | 2002 | 2003 | 2004 | 2005* | Δ 2002-05 |
|---|--------------|--------------|--------------|--------------|-----------|
| Planning, Management, Administration | 5.5 | 5.6 | 4.0 | 2.9 | -2.6 |
| Basic Education, incl. pre-school education | 61.9 | 58.0 | 60.6 | 58.3 | -3.6 |
| General Secondary Education | 10.2 | 11.1 | 13.0 | 12.1 | +1.9 |
| Vocational Secondary Education | 4.9 | 8.4 | 5.1 | 7.3 | +2.4 |
| Tertiary Education | 17.0 | 16.5 | 16.8 | 18.6 | +1.6 |
| Scientific Research | 0.5 | 0.5 | 0.2 | 0.3 | -0.2 |
| Institutes for teaching, assessment, and curriculum | 0.0 | 0.0 | 0.2 | 0.5 | +0.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | |

Source: MoES, June 2005.

* Planned figure

THE EEE-P REVIEW PROCESS

A results-driven process. The IDA credit of \$15 million will finance a portion of the costs of implementing the priority program of investments in the Government's Annual Reform Program, described in Section B.3. Unlike a specific investment project, the proposed financing will not finance specific, pre-identified investments, but will be pooled with budget financing and other partner financing to support an agreed program of activities. Evidence-based semi-annual reviews, organized by the MoES and carried out in parallel with the annual budget formulation

process, will be the key instrument for ensuring that expenditures under the Project are cost-effective and consistent with the objectives and priorities of the Project. The review process will be results-driven. Monitoring indicators will provide early feedback on how well the Project is achieving its objectives. This information will be used to refine the project as implementation progresses – including expanding interventions that are found to be effective and reshaping or closing down interventions that are found to be ineffective.

The annual review cycle will consist of two stages. During the autumn meeting (starting in October 2006), the MoES will present the proposed Annual Reform Program for the next budget year for review, comment, and endorsement by partners. The program proposal will focus on the four priority areas:

- Strengthening leadership, management, and governance of the education system,
- Improving conditions for teaching and learning,
- Improving and rationalizing education infrastructure, and
- Setting the stage for higher education reform.

Using all available evidence, the proposal will justify each proposed activity in terms of: a) its expected outcomes and impacts in relation to performance monitoring indicators, and b) the cost-effectiveness of the proposed intervention. Project resources are to be used to help develop the evidence basis – analysis, monitoring, and evaluation -- for annual proposals. At the autumn review, the MoES and partners will review the consistency between the proposed activities and the four priority areas, cost effectiveness and sustainability of the activities, recurrent cost implications, the realism of the implementation plan, and the openness and efficiency of the procurement plan. During the spring meeting, the MoES will present the implementation progress for the previous year and the first quarter of the current year, and progress in the monitoring indicators. The compliance with the agreed financial management and procurement processes will also be reviewed at the spring meeting. The spring meeting will also provide an important input to the development of the Ministry's annual budget for the next year. The review process – in which the MoF will also participate -- is expected to help the MoES develop and defend a more effective education sector budget with more explicit performance objectives. In addition, the EEE-P includes conditions relating to the overall size and composition of the budget.

Strengthening capacity in evidence-based project budgeting. The EEE-P will build on the progress achieved under the recently completed Education Reform Project in building the MoES' capacity in results monitoring and evidence-based budgeting. The Implementation Completion Report for the project confirmed that the project had successfully established the Ministry's basic capacity for results monitoring and project budgeting:

The budgeting processes are more rational and persuasive as they are now based on a medium-term expenditure framework, more transparent expenditure mechanism and costed long-term education sector development agenda. As part of the budgeting and financial capabilities, the Ministry is able to monitor the economic and fiscal benefits of interventions, track expenditures, and show improved accountability of its and the sector's performance. There are also some key institutional developments that reflect

*improved budgeting and financial capabilities, including the monitoring capabilities of the cost-efficiency of the improved textbook production system and also the estimates and standards for school rehabilitation. The statistical information databases have also been established with some qualifications. The first statistical report has been published, improving significantly the transparency and accountability of the sector.*²¹

As described in Section C3, the EEE Project will strengthen the Ministry's monitoring and project budgeting capacity. The linking of activities and expenditures to results and the fine-tuning of the Project to improve effectiveness is expected to improve over the duration of EEE-P implementation as the Ministry's -- and partners' -- capacity and experience in project budgeting are deepened.

II. FINANCIAL ANALYSIS

Financing plan. The proposed program will support the implementation of priority activities under the EEE Project (described in Section B3) for four budget years, coinciding with the calendar years 2007, 2008, 2009, and 2010. The total cost of implementing the priority program is estimated at a total of \$75 million (or 7.5 billion *leks*) over the four-year program implementation period (Section B.3). As shown in Table A9.4, this core program represents a about 36 percent of the proposed investment budget for education under the 2006-2008 Medium-Term Budget Framework for the first year of SWAp implementation (CY2007), declining to 30 percent of the projected investment budget in CY2008, and 13 percent in the final year of the program implementation (CY2010). The IDA credit of \$15 million (or 1.5 billion *leks*) will finance about 20 percent of the cost of the Priority Program described in section B.3.

Table A9.4: Proposed MoES Budget and Components
(in millions of current *leks*)

| | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Recurrent budget | 24,157 | 27,226 | 30,781 | 34,800 | 39,344 | 156,308 |
| of which salaries and related | 21,427 | 24,141 | 27,198 | 30,642 | 34,522 | 137,930 |
| Capital budget | 4,785 | 5,485 | 6,893 | 8,662 | 10,885 | 36,710 |
| of which EEE Program core | 25 | 2,000 | 2,075 | 2,000 | 1,400 | 7,500 |
| of which, IDA credit financed | 25 | 300 | 575 | 500 | 100 | 1,500 |
| Total education budget | 28,942 | 32,711 | 37,674 | 43,462 | 50,229 | 193,018 |

Source: Lines 1 through 3, figures for 2006-2008 from Ministry of Finance, *Draft Medium-Term Budget Programme, 2006-2008*, June, 2005. Figures for 2009 are projected applying the same rate of growth as the increase proposed for 2007-2008 in the MTBF.

²¹ Page 8, *Implementation Completion Report (IDA-33430 PPF1-Q2010) on a Credit in the Amount of SDR 9 million (US\$12 million equivalent) to the Republic of Albania for an Education Reform Project*, World Bank Report No. 31861, April 22, 2005.

Table A9.5: Projected population of school-age cohorts²²

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------|------|------|------|------|------|------|------|------|------|------|------|
| 6-13 | 459 | 451 | 443 | 435 | 428 | 422 | 418 | 415 | 413 | 413 | 413 |
| 14-17 | 249 | 245 | 242 | 239 | 235 | 230 | 226 | 222 | 218 | 214 | 211 |
| 18-21 | 240 | 244 | 246 | 247 | 245 | 242 | 240 | 236 | 233 | 228 | 224 |

Source: World Bank demographic unit, based on UN Population Division figures.

Accommodating the proposed increase in secondary enrollments. The Medium-Term Budget Framework proposes an increase in the secondary enrollment ratio from a projected rate of 79 percent in 2006 to 90 percent by 2009. This is an extremely ambitious goal for enrollment increase, with few parallels in any country's experience. At the same time, the recent fertility declines in Albania will ease the task somewhat because the size of the secondary school-age cohort will shrink by about 46,000 during the next decade (Table A9.5). Is this proposed enrollment increase fiscally feasible? If we interpret the MTBF targets to mean an increase in the *transition* rate to secondary education by those amounts with full retention through secondary completion, and if we project the cost of accommodating this increase in secondary enrollments on the basis of current per-student investment costs of budget-financed general secondary schools²³ and per-student recurrent costs of secondary education, we arrive at the costs shown in scenario 1 of Table A9.6, below. Scenario 2 presents the projected investment costs of increasing secondary enrollments more gradually, with the transition rates as shown. It is apparent from the figures in Table 1 that the cost of expanding secondary enrollments would be very significant under either scenario. Even under the more gradual approach, the investment cost would consume more than two-thirds of the entire investment budget for education in the early years of implementation. The cost is sharply reduced in later years because most of the increase in transition rates to secondary education can be met through the student places liberated by smaller cohort sizes. The recurrent-cost projections in Table A9.6 assume that the recurrent costs of expanding secondary enrollments are partially offset during the initial years of the projection period by savings achieved by reducing primary-school teachers in direct proportion to the projected decline in primary enrollments. Because the shrinkage of the primary-school cohort would be considerably greater than the expansion of secondary enrollments under either scenario, the savings from reduced numbers of primary school teachers are projected to offset both the investment and the recurrent budget costs of accommodating increased secondary enrollments, beginning in 2010, and yielding net budget savings thereafter. Further cost savings could be achieved through increased reliance on double-shift operation of schools where that is possible. It is important to note that harvesting the potential savings from shrinking cohort sizes at the primary-school level would require stringer incentives for efficiency – particularly, by moving from input-based financing to output-based (capitation) financing. Capitation financing should also be applied in secondary education – among other reasons, in order to provide the

²² These figures and the associated cost calculations reflect the current 8+4 year structure of primary and secondary education. The Government intends to move from this structure to a 9+3 year structure. But implementation of the new structure would require new curricula, textbooks, teacher training and deployment of school infrastructure, and is therefore likely to be a long-term endeavor.

²³ Currently, the average cost for constructing a budget-financed general secondary school of modest but acceptable standards for 24 classes of 25 students is about \$800,000. Furnishing and equipping such a school adds an additional \$200,000 to this cost. This implies total investment costs per secondary student place of \$1,667.

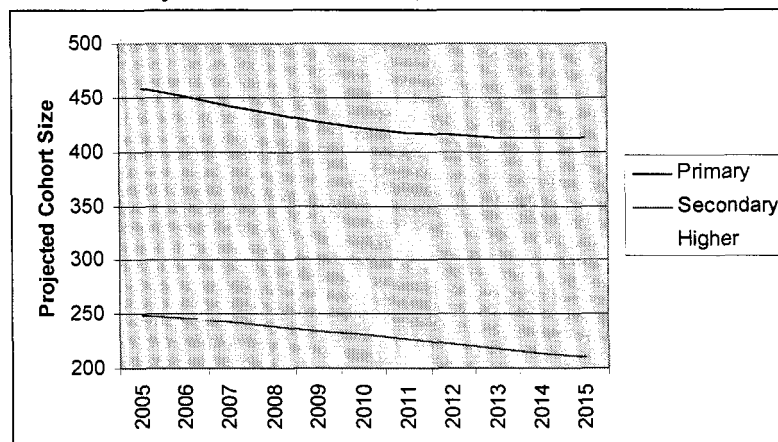
flexibility that would be needed to shrink staff and infrastructure when complete coverage is attained and when secondary enrollments also begin to shrink in absolute terms.

Table A9.6: Cost of Accommodating Secondary Enrollment Increase Under Alternative Scenarios on Speed of Increase

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------------------------------------|-------------|-------------|-------------|-------------|------------|
| Transition rate to secondary | | | | | |
| 1. MTBF Proposal | 75.3 % | 79.0 % | 82.7 % | 86.4 % | 90.1 % |
| 2. More gradual increase | 72.0 % | 75.0 % | 78.0 % | 81.0 % | 84.0 % |
| Cost in US\$ million | | | | | |
| 1. MTBF Proposal | | | | | |
| investment | 33.5 | 26.3 | 21.6 | 9.1 | 7.2 |
| recurrent | 2.8 | 3.1 | 3.3 | 1.3 | -0.7 |
| Total | 36.2 | 29.4 | 24.9 | 10.5 | 6.5 |
| 2. More gradual increase | | | | | |
| investment | 30.0 | 22.2 | 17.1 | 4.0 | 4.9 |
| recurrent | 2.3 | 2.0 | 1.5 | -1.2 | -3.6 |
| Total | 32.3 | 24.2 | 18.6 | 2.8 | 1.3 |

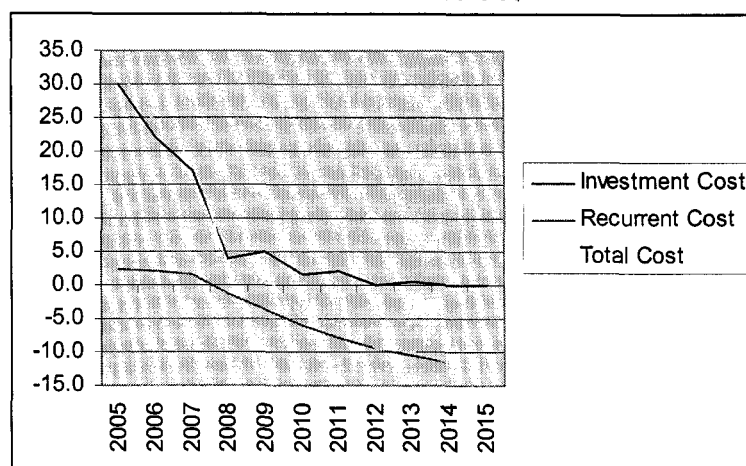
Source: projection model incorporating assumptions described in text

Figure A9.1: Projected Size of School-Age Cohorts By Level of Education, 2005 -2015



Source: World Bank demographic unit, based on UN Population Division figures.

**Figure A9.2: Cost of Gradual Increase of Secondary Enrollments
in millions of 2006 US\$**



Budget finance for education remains inadequate. In spite of the major unmet needs to address the problems of incomplete coverage and poor quality of education, budget financing for education declined through much of the transition (Annex 1, Table A1.1). The share of education expenditures in GDP remains low in relation to international comparators (Annex 1 and Table A1.2). Raising educational coverage and quality would require an increase in public spending on education as a share of GDP and judicious use of those resources to ensure that they are used in the most cost-effective manner possible. The 2006-2008 Medium-Term Budget Framework calls for an increase in public spending on education to 3.4 percent of GDP by 2008.

Annex 10: Safeguard Policy Issues
ALBANIA: Education Quality & Equity Project

Environmental Management Plan

BACKGROUND

Introduction

Education is one of the highest priorities in Albania. The government is committed to improve the quality of education at all level and increase access to secondary education for the poor. The International Development Association (IDA) is one of the largest and longest development partners supporting the education sector in Albania. To date, the IDA has supported two education sector operations. The first project, the School Rehabilitation and Capacity Building Project, was implemented from 1994 and completed in 2000 and aimed to support provision of basic education services through capacity building of key sector institutes and rehabilitation/reconstruction of school facilities. The subsequent project, the Education Reform Project, aimed at assisting the MoES in planning and managing the delivery of educational services and strengthening its accountability to stakeholders for the delivery. This project commenced in 2000 and closed in 2004.

The proposed Education Excellence and Equity Project (EEE-P) will support the implementation of the first phase of the Albania's National Education Strategy (NES) during 2006-2009. *The objective of EEE-P is improved quality of learning conditions for all students, and increased enrollment in general secondary education especially for the poor.* The priority areas of the proposed project and anticipated costs are:

- (i) Strengthening leadership, management and governance of the education system (US\$10 million)
- (ii) Improving conditions for teaching and learning (US\$26 million);
- (iii) Improving and rationalizing education infrastructure (US\$32 million); and
- (iv) Setting the stage for higher education reform (US\$7 million).

Major Investment Components

The main physical investment component of the proposed program falls under the *third priority area – improving and rationalizing education infrastructure*, especially in secondary education. Investments will be based on school mapping database, taking into consideration the demographic development in Albania. Because the IDA support will use a sector-wide approach, the actual scope of physical investments and their location will only be ascertained through the Annual Reform Program. It is, however, envisaged that these will consist mainly of minor works for rehabilitation, renovation of school facilities, and adding new classrooms and/or laboratories to the existing schools. In rare instances, school replacement may be a possibility where the old building may not be worthy of rehabilitation. Science laboratories and ICT facilities will be provided to general secondary schools in line with the new curriculum and teacher training to be supported in priority area two.

Environmental Category

It is anticipated that environmental risks will be relatively modest in the proposed program. Plans on minor reconstruction, rehabilitation, or renovation of school facilities are considered in this EMP and form part of the overall program to mitigate potential adverse environmental impacts. These potential adverse environmental impacts are summarized below and are restricted in scope and severity:

- Dust and noise due to demolition and construction;
- Dumping of demolition and construction wastes and accidental spillage of machine oil, lubricants, etc.
- Encroachment to private property;
- Risk of damage to historical or cultural property or unknown archaeological sites

These risks can be effectively anticipated in advance of project implementation and addressed by direct mitigation activities in the design, planning and construction supervision process as well as during the operation of the facilities. The project is classified under the Environmental Category B in accordance with World Bank operational policies and requires the preparation of an Environmental Management Plan (EMP).

Institutional and Implementation Arrangements

The first and second education sector projects used a traditional project implementation structure with a stand-alone Project Implementation Unit (PIU). The EEE-P will be implemented by the MoES, using its existing staff and structures. A project implementation unit will not be established. The MoES will be responsible for the prioritization and preparation of the annual reform program, the coordination of various activities in the reform program across different departments of the MoES, specialized institutes, regions, municipalities and communes, and ensure independence and reliability of the handling of complaints and fiduciary and safeguards monitoring mechanisms. Policy oversight and program steering will be the responsibility of a Steering Committee consisting of the Minister and Deputy Ministers of Education and Science, Advisor to the Prime Minister, Deputy Minister of Finance, Deputy Minister of Interior and Decentralization, and General Secretary of the MoES. The General Secretary of the MoES will be responsible for the coordination and monitoring of activities at the technical level, including environmental planning and management. The directors of relevant departments of the MoES and heads of institutes will be responsible for the implementation of activities. The General Secretary of Education and Science will call for monthly meetings of the director of departments to coordinate and monitor progress of the EEE-P, and the Minister will provide policy guidance to these technical meetings on a quarterly and on demand basis.

Institutional Structure in Environment Management and Facilities Planning

This section briefly describes existing environmental regulation and standards relevant to the Program and makes reference to institutions at the local and national levels responsible for issuing permits, licenses, and enforcing compliance of environmental standards.

The following Albanian Laws define a legal framework for environmental management (see Attachment 1 for details):

- Law on Environmental Protection, No. 8934 dated September 5, 2002
- Law on Environmental Impact Assessment, No. 8990, dated January 23, 2003

The key legislative legal framework addressing the full range of environmental policy issues is the new Law on Environmental Protection, No. 8934 dated September 5, 2002. The new law has improved and increased the competencies of the environmental protection institutions, as compared with the first environmental law approved in 1993. The Law on Environmental Impact Assessment, No. 8990, dated January 23, 2003 (EIA law) defines the process of assessment of the potential direct or indirect environmental impacts of future projects or activities. In addition, the above-listed Decisions of the Council of Ministers complete the group of laws regulating the processes of environmental impact assessment and the issuance of environmental permits in Albania.

The Ministry of Environment (MOE) has the primary responsibility for the environmental impact assessments (EIA) as well as the strategic environmental assessments (SEA). It defines the rules and procedures on activities and assessments, monitors the environmental issues, creates the national database system, publishes the relevant data, and maintains a registration on pollutions and controls. It collaborates with several other ministries and institutions for specific issues related to EIAs, and coordinates with local authorities. The Regional Environmental Agencies (REA) in every region are charged with the initial review of EIA reports prior to submission to the MOE for final decision. Post-EIA monitoring are carried out by inspectors of REAs in collaboration with inspectors of the MOE.

Other secondary environmental legislation connected with the new environmental laws are:

- Law on Protected Areas, No. 8906, dated June 6, 2002;
- Law on the Protection of the Marine Environment from Damage and Pollution, No. 8905, dated June 6, 2002;
- Law on Air Protection, No. 8897 dated May 16, 2002;
- Law on Environmental Management of Solid Wastes, No. 9010, dated February 13, 2003;
- Law on Waste Water Environmental Management, No. 9115, dated July 24, 2003

ENVIRONMENTAL MANAGEMENT PLAN

Introduction

The Environmental Management Plan (EMP) has been prepared in order to integrate environmental concerns into the design and implementation of the proposed Program. The EMP will support:

- a) inclusion of the EMP follow-up procedures in the Operational Manual;
- b) highlighting of EMP follow-up responsibility in the TOR of the designated MoES staff;
- c) training of designated staff from the MoES involved in the implementation of Program activities;
- d) site-specific environmental screening concerning all Program-supported school rehabilitation activities;
- e) monitoring and evaluation of mitigation measures identified in the site-specific reviews; and
- f) guidelines and requirements on retrofitting buildings that may have historic or Cultural Property value

Establishment of Environmental Expertise within the MoES structures

A Specialist will be identified within the MoES, who will be responsible for coordination and supervision of the environmental plans and risk mitigation measures undertaken in the Program and cooperate with territorial departments for environment protection. The Specialist will work in close coordination with the General Secretary responsible for coordination of program activities as related to EMP implementation and will:

- a) coordinate environmental training for staff, designers and local contractors;
- b) disseminate existing environmental management guidelines and develop guidelines in relation to issues not covered by the existing regulations, for implementation, monitoring and evaluation of mitigation measures;
- c) ensure contracting for construction and supply of equipment includes reference to appropriate guidelines and standards; and
- d) conduct periodic site visits to inspect and approve plans and monitor compliance.

Site Specific Environmental Screening and Review

As a part of the EMP, all Program-supported activities for rehabilitation/renovation of school facilities will be subjected to a site-specific environmental screening and review process. This process will minimize site-specific environmental impacts and will use a standardized appraisal format that includes, but is not limited to, review of:

- a) current environmental problems at the sites (soil erosion, water supply contamination, etc.);

- b) potential environmental impacts, if any, due to the project (disposal waste from construction, construction noise and dust, etc);
- c) potential impacts on archaeological and historical sites; and
- d) potential requirements, in any, for involuntary resettlement or temporary relocation of a limited number of affected persons during the construction activities

Reports will be prepared on each of the environmental reviews, specifying mitigation measures and assigning responsibilities for implementation. The findings and recommendations of the reports will be discussed with representatives of the cooperating municipalities and, as appropriate, organizations and neighbors concerned. Annual reports outlining progress in EMP implementation and highlighting environmental issues arising from Program-supported activities, the status of mitigation measures and next steps will be prepared and submitted to IDA for review.

Supervision

The environmental issues including mitigation measures will be supervised periodically by IDA and the MoES.

No major environmental impacts are anticipated under the proposed program given the relatively small size of most of the investments. These investments are expected to be environmentally beneficial (such as the introduction of energy-conserving technology) and none of the units to be financed is expected to have any large scale, significant and/or irreversible impacts. No new structures or works of significant size are envisaged under the Program. The potential negative environmental impacts are expected to be localized or able to be mitigated during the implantation stage.

Contracts and bill of quantities will include clauses for appropriate disposal of unacceptable construction material and disposal of construction waste. Procurement documents will specify that no environmentally unacceptable materials will be used. Bidding documents will include rehabilitation of adequate sanitary facilities, including appropriate disposal of wastewater and sewerage. The environmental management guidelines included in Attachment 2 should be provided to contractors engaged in civil works under the Program, and should be made an integral part of the civil works contracts.

ENVIRONMENTAL GUIDELINES

Introduction

The Environmental Guidelines section details the specifics to be addressed in the ecological/biologic concept, design and planning of small-scale projects for the upgrading of school infrastructure. The guidelines cover the handling of construction debris generated, selection of construction materials and construction methods with limited impact on the environment, energy saving methods as well as the handling of construction wastes under Program-supported activities. The guidelines are a base for training, programming, research, discussions and workshops. However, in selecting suitable construction methods and materials,

great attention should be paid to locally available traditions, skills and resources in the project sites.

The Site

The site specific screening and review should carefully assess the following issues:

- Dust and noise due to the demolition and construction;
- Encroachment into private property;
- Risk of damage to unknown historical and archaeological sites;
- Dumping of construction wastes and accidental spillage of machine oil, lubricants, etc.;
- Risk from inadequate handling of waste; and
- Potential requirements, if any, for involuntary resettlement or temporary relocation of a limited number of affected persons during construction activities.

Dust from transportation and handling of construction works will be minimized by water and other means such as enclosure of construction sites. To reduce noise, construction will be restricted during certain hours. All debris, construction and wood waste will be stored within the work site. Wood waste will be stored separately and arranged to be recycled instead of disposing it. Open burning and illegal dumping will not be permitted. Proper sites for earth/clay and sand disposal will be determined and prior approval from relevant authority for disposal will be obtained. Stockpiling of construction debris on site will be avoided and waste will be disposed of on a regular basis at the authorized government dumping ground. Debris chutes will be provided to transfer debris from higher floors to the ground.

It is necessary to arrange transport and make agreements with relevant organizations involved in waste and construction debris discharge.

It is also required to create necessary conditions for safe removal of sewage during the rehabilitation and renovation and observe the ecological and sanitary regulations during the rehabilitation of sanitary and technical equipment, sewage pipes and purifying constructions.

Energy Efficiency, Insulation and Ventilation

Insulation should be tailored to the seasonal impacts of climate, internal thermal load, and characteristics of exposure. Vapor barriers should prevent moisture intrusion in the roof insulation and outer wall cavities and using damp course.

Window location should be determined on view, ventilation, light, thermal gain, privacy control and interior space functions.

High-efficiency systems for heating domestic water (including solar systems) and for interior space heating should be selected with maintenance and long term running costs in mind. Plumbing should be coordinated to minimize plumbing and also water service to toilets, kitchen and utility rooms. Water-saving faucets, ring mains and other devices also require consideration.

All plumbing lines should preferably be copper, with waste lines in cast iron to avoid PVC outgassing. Exposed plumbing and pipe insulation should be of nontoxic material.

All materials and equipment (to be used) should have a security certificate.

Electrical Systems

Ground fault wiring near any plumbing fixture is a precaution. Selecting the most energy-efficient light fixtures, lamps, appliances and equipment will reduce energy demand but can introduce undesirable electromagnetic fields. Be aware that close proximity to table, floor and desk halogen, fluorescent and other high-efficiency fixtures and lamps can cause an exposure to harmful electromagnetic fields.

Cabinetry and Wood

Nontoxic finishes are available but expensive. Selecting the least toxic finishes is advised. All materials should have appropriate permissions on quality and safety (appropriateness certificate and sanitary-epidemiologic conclusion).

Finishes

Water-based interior nontoxic, no allergenic paint for drywall or plaster surfaces is preferable to latex or oil-based paints from a respiratory standpoint. Any enamel coating for doors or other surfaces that require a more durable finish is advised to be applied away from interior spaces and be fully aired for over a month before installation. Indoor space should not be occupied until odor and toxins of the paint or finish has been adequately aired.

Demolition work

Existing building elements (walls, foundations, ground cement slabs etc.) should be carefully demolished and the debris should be sorted and removed as directed by the EMP (to be determined during the preparation phase of the project). All valuable materials (doors, windows, sanitary fixtures, etc) should be carefully dismantled and transported to the storage area assigned for the purpose. Valuable materials should be recycled within the project or sold.

Selection of Construction Materials and Construction Methods

Environmentally sound goods and services should be selected. Priority should be given to products meeting standards for recognized international or national symbols. Traditionally well-tried materials and methods should be chosen before new and unknown techniques. Construction sites should be fenced off in order to prevent entry of public, and general safety measures will be imposed. Temporary inconveniences due to construction works should be minimized through planning and coordination with contractors, neighbors and authorities. In densely populated areas, noisy or vibration generating activities should be strictly confined to the daytime.

ENVIRONMENTAL MANAGEMENT PLAN
A. MITIGATION PLAN

| Phase | Issue | Mitigating Measure | Cost | | | Institutional Responsibility | |
|--------------|--|---|-------------|---------|---|------------------------------|--|
| | | | Install | Operate | Install | Operate | |
| Construction | <ul style="list-style-type: none"> Insulation materials – asbestos wool: Some schools had been equipped with heating systems. Asbestos wool may have been used as insulation material in some industrial facilities, but schools were never insulated. Asbestos roofing sheets were not used. | NA | | | NA | NA | |
| | <ul style="list-style-type: none"> Paints – walls and ceilings are painted with white wash. Wooden windows, exposed roofing timber, doors and all other woodwork was most probably painted with lead based paints | <ul style="list-style-type: none"> Because schools have practically never been maintained, little paint is left. Bills of quantities will nevertheless include a clause for appropriate disposal of painted wood. Procurement documents will specify that no lead based paints will be used. | Minor costs | | Architectural-firms/ Supervision-engineers | | |
| | <ul style="list-style-type: none"> Disposal of construction waste: except for paint of wood, all other building materials are non hazards (lime, cement and sand plaster, concrete, glass, ceramics –electrical and sanitary, fabric insulated copper wiring, cast iron sanitary pipes, galvanized water pipes, etc). | <ul style="list-style-type: none"> The building site will be cleaned and all debris and waste materials will be disposed of in accordance with clauses specified in the bills of quantities. The sites for disposal of construction waste will be government approved sites. | Minor costs | | Architectural-firms/ Supervision-engineers | | |

| Phase | Issue | Mitigating Measure | Cost | | Institutional Responsibility | |
|-------|--|--|---------|-------------|------------------------------|--|
| | | | Install | Operate | Install | Operate |
| | <ul style="list-style-type: none"> • Landscape: | <ul style="list-style-type: none"> • The rehabilitation contract will include for site works and the planting of trees. One of the community involvement measure built in the project will be to get commitments from families and local businesses to look after those trees. This commitment will be one of the aspects of the school opening ceremony. | | Minor costs | | Schools Communities/ Families |
| | <ul style="list-style-type: none"> • Sanitation: | <ul style="list-style-type: none"> • The project includes the rehabilitation of adequate sanitary facilities, including appropriate disposal of waste water and sewerage. | | Minor costs | | Architectural firms/ Supervision- engineers |
| | <ul style="list-style-type: none"> • Cultural Property – is it in a historic building, district or in close connection with other physical cultural resources | <ul style="list-style-type: none"> • If so, ensure that reconstruction, design of extensions and materials used are appropriate. In the case of excavation on a historic site, liaise with local authority regarding precautions and institution of 'chance f-finds' procedure. | | | | Architectural Firms/ monitored by Local Authority |
| | <ul style="list-style-type: none"> • Community awareness: | <ul style="list-style-type: none"> • The contracts with the architectural firms (hired to design and supervise these rehabilitation projects), will include for two open forums with the community. Environmental issues will be raised and addressed during those forums with the community. | | Minor costs | | Architectural firms/ Supervision- engineers |

B. MONITORING PLAN

| Phase | What parameter is to be monitored? | Where is the parameter to be monitored? | How is the parameter to be monitored/ type of monitoring equipment? | When is the parameter to be monitored- frequency of measurement or continuous? | Why Is the parameter to be monitored (optional)? | COST | | Responsibility | |
|--------------|--|---|--|---|---|----------------|----------------|-----------------------|---|
| | | | | | | Install | Operate | Install | Operate |
| Construction | Appropriate disposal of paint wood. No lead based painted will be used during rehabilitation. | In the Bills of Quantities in the bidding documents, these clauses will be specified. | MoES will ensure that the site supervisors/ supervision engineers enforce these clauses. | During the rehabilitation process. | | | Minor costs | | Supervision engineers |
| Construction | Appropriate disposal of construction waste other than painted wood | In the Bills of Quantities in the bidding documents, these clauses will be specified | MoES will ensure that the site supervisors/ supervision engineers enforce these clauses. | During the rehabilitation process. | | | Minor Costs | | Supervision engineers |
| Construction | Satisfactory arrangements for sanitation and disposal of waste water and sewage, with suitable where-how-when-why guidance | In the Bills of Quantities in the bidding documents, these clauses will be specified | MoES will ensure that the site supervisors/ supervision engineers enforce these clauses. | During the rehabilitation process. | | | Minor costs | | Architectural firm/ Supervision engineers |

| Phase | What parameter is to be monitored? | Where is the parameter to be monitored? | How is the parameter to be monitored/ type of monitoring equipment? | When is the parameter to be monitored- frequency of measurement or continuous? | Why Is the parameter to be monitored (optional)? | COST | | Responsibility | |
|--------------|--|---|--|---|--|---------|---------|----------------|-----------------|
| | | | | | | Install | Operate | Install | Operate |
| Construction | Appropriate procedures adopted for historic buildings or sites | Local Authority and on site | Check on status of site at Local Authority; check on issues on site | Before work commences and during rehabilitation. | | | | | Local Authority |

C. INSTITUTIONAL STRENGTHENING

1. Training

Training related to environmental management will be arranged as required.

2. Consultant Services

An architectural/firm(s) will be selected to ensure the quality of the rehabilitation of the schools. It will also involve communities in the rehabilitation of each school.

D. SCHEDULE

Present (preferably in Chart Form) Start Dates and Finish Dates for:

- **Mitigation Activities**
- **Monitoring Activities**
- **Training Activities**

Rehabilitation activities could only be decided and start after the proposal is agreed on, and the detailed methodology is developed in selecting schools and allocating funds using the school mapping database. Therefore, activities on mitigation, monitoring and training will be carried out throughout the project.

E. INSTITUTIONAL ARRANGEMENTS

The MoES will be responsible to hire and oversee the required architects, engineers and contractors. In the context of the rehabilitation of schools, the MoES's role is to manage the design, bidding, supervision of projects (including civil works, goods and services). The MoES's responsibility includes the following activities:

- hire the services of private architectural/engineering firms capable of providing comprehensive services, i.e. architectural, all required engineering, preparation of tender documents and site supervision;
- supervise the work performed by the architectural/engineering firms to ensure that they are applying adequate standards and are following agreed procedures, as well as the agreed environmental plan.
- organize tendering procedures, review tender evaluation performed by the architectural/engineering firms, and arrange for the contracts to be signed in accordance with agreed procedures.
- ensure that the architectural/engineering firms are providing adequate site supervision, particularly the supervision of carrying out the environmental plan (monitoring the disposal of paint for woods, disposal of waste water and sewage, and procurement documents specify that no lead based painted will be used).

Annex 11: Project Preparation and Supervision
ALBANIA: Education Quality & Equity Project

| | Planned | Actual |
|---------------------------------|-------------------|-------------------|
| PCN review | October 28, 2005 | October 28, 2005 |
| Initial PID to PIC | November 2, 2005 | November 2, 2005 |
| Initial ISDS to PIC | November 2, 2005 | November 30, 2005 |
| Appraisal | March 6-16, 2006 | March 6-16, 2006 |
| Negotiations | April 24, 2006 | April 19-20, 2006 |
| Board/RVP approval | June 1, 2006 | |
| Planned date of effectiveness | October 1, 2006 | |
| Planned date of mid-term review | October 15, 2008 | |
| Planned closing date | December 31, 2010 | |

Key institutions responsible for preparation of the project:

- The Ministry of Education and Science
- The Ministry of Finance
- Qualification and Training Center for Education
- Institute of Curriculum and Standards
- National Center for Assessment and Examination

Bank staff and consultants who worked on the project included:

| Name | Title | Unit |
|---------------------|---|-------|
| Keiko Miwa | Task Team Leader/Senior Education Economist | ECSHD |
| Pasi Sahlberg | Senior Education Specialist | ECSHD |
| Lorena Kostallari | Operations Officer | ECSHD |
| Olav Christensen | Senior Financial Management Specialist | ECSPS |
| Naushad Khan | Lead Procurement Specialist | ECSPS |
| Michael Mertaugh | Lead Education Economist | ECSHD |
| Toby Linden | Senior Education Specialist | ECSHD |
| Monika Huppi | Lead Economist | ECSHD |
| Gentjana Sula | Operations Officer | ECSHD |
| Imelda Mueller | Operations Analyst | ECSHD |
| Carmen Laurente | Senior Program Assistant | ECSHD |
| Belita Manka | Procurement Analyst | ECSPS |
| Elona Gjika | Financial Management Analyst | ECSPS |
| Kirsten Propst | Counsel | LEGEC |
| Nicholay Chistyakov | Senior Finance Officer | LOAG1 |
| Elda Hafizi | Program Assistant | ECCAL |

Bank funds expended to date on project preparation:

1. Bank resources: US\$279,500
2. PHRD preparation grant executed by the government: (available US\$509,000)

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US\$500
2. Estimated annual supervision cost: US\$150,000

Annex 12: Documents in the Project File
ALBANIA: Education Quality & Equity Project

- Republic of Albania, Ministry of Education and Science. *National Education Strategy*. June 2004
- Republic of Albania, Ministry of Education and Science. *Annual Statistical Education Report 2003-2004*.
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- Republic of Albania. *Living Standards Measurement Survey 2002*.
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- Albania Higher Education Report, March 2006.
- INSTAT. *Albania Census Atlas 2001*.
- Back-to-Office Report, June 2005.
- Mission Aide-Memoires, September 2005, December 2005, February 2006, March 2006.
- Albania Education Excellence & Equity Program Concept Note, October 20, 2005.
- UNESCO and OECD. *Literacy Skills for the World of tomorrow: Further Results from PISA 2000*. 2003.
- World Bank. Quality Enhancement Review Panel Report. February 1, 2006.
- World Bank. *Country Assistance Strategy for Albania, FY06-FY09*. January 10, 2006.
- World Bank. *Albania, Sustaining Growth Beyond Transition, A Country Economic Memorandum*. December 27, 2004.
- World Bank. *Republic of Albania, Final Country Procurement Assessment Report*. June 2001.
- World Bank. *Republic of Albania, Country Financial Accountability Assessment Report*. April 2002.
- World Bank. *Albania Poverty Assessment*. 2003.
- World Bank. *Poverty and Education in Albania: Who Benefits from Public Spending?* March 2005.
- World Bank. *Implementation Completion Report for the Albania Education Reform Project*, April 22, 2005.
- World Bank. *World Bank Indicators 2005*.

Annex 13: Statement of Loans and Credits
ALBANIA: Education Quality & Equity Project

| Project ID | FY | Project Name | Original Amount in US\$ Millions | | | | Difference between expected and actual disbursements | |
|-----------------------|------|--------------------------------|-------------------------------------|---------------|-------------|---------------|---|--------------|
| | | | IBRD | IDA | GRANT | Undisb. | Orig. | Frm Rev'd |
| P082814 | 2006 | HEALTH SYST MOD | 0.00 | 15.40 | 00.00 | 15.33 | 0.00 | 0.00 |
| P090656 | 2005 | ECSEE APL #2 (ALBANIA) | 0.00 | 27.00 | 00.00 | 25.36 | 0.00 | 0.00 |
| P089061 | 2005 | NATURAL RES DEVT (GEF) | 0.00 | 0.00 | 5.00 | 4.50 | 0.00 | 0.00 |
| P086807 | 2005 | COASTAL ZONE MGMT (APL #1) | 0.00 | 17.50 | 00.00 | 15.50 | 0.87 | 0.00 |
| P082375 | 2005 | NATURAL RES DEVT | 0.00 | 7.00 | 00.00 | 5.92 | 0.56 | 0.00 |
| P082128 | 2004 | WATER RES MGMT | 0.00 | 15.00 | 00.00 | 12.69 | 0.19 | 0.00 |
| P077526 | 2004 | POWER SECTOR GENER & RESTRCT'G | 0.00 | 25.00 | 00.00 | 23.60 | 9.46 | 0.00 |
| P075156 | 2004 | INTGD WATER/ECOSYS MGMT (GEF) | 0.00 | 0.00 | 4.87 | 4.72 | 3.74 | 0.00 |
| P077297 | 2003 | COM WRKS 2 | 0.00 | 15.00 | 00.00 | 8.05 | 1.75 | 0.36 |
| P041442 | 2003 | MUN WATER/WW | 0.00 | 15.00 | 00.00 | 11.11 | 3.36 | 0.00 |
| P074905 | 2002 | PWR SECT REHAB/RESTRCT'G | 0.00 | 29.90 | 00.00 | 26.11 | 20.86 | 0.00 |
| P069479 | 2002 | FISHERY DEVT | 0.00 | 5.60 | 00.00 | 2.21 | 0.49 | 0.00 |
| P066260 | 2002 | ROAD MAINT | 0.00 | 30.00 | 00.00 | 6.44 | -11.10 | 0.35 |
| P055383 | 2001 | SOC SERV DEVT | 0.00 | 10.00 | 00.00 | 9.53 | 4.07 | 0.01 |
| P054736 | 2001 | AG SERVICES | 0.00 | 9.90 | 00.00 | 3.44 | 0.74 | 0.00 |
| P069939 | 2000 | PUB ADM REF | 0.00 | 8.50 | 00.00 | 4.59 | 4.04 | 4.04 |
| Overall Result | | | | 230.80 | 9.87 | 179.16 | 38.57 | 4.77 |

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

| FY Approval | Company | Committed | | | | Disbursed | | | |
|------------------|------------------|-----------|--------|-------|---------|-----------|--------|-------|---------|
| | | IFC | | | | IFC | | | |
| | | Loan | Equity | Quasi | Partic. | Loan | Equity | Quasi | Partic. |
| 2005 | Fushe Kruje | 30.00 | 0.00 | 0.00 | 0.00 | 24.00 | 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 |
| 1999 | SEF Eurotech | 0.20 | 0.00 | 0.00 | 0.00 | 0.20 | 0.00 | 0.00 | 0.00 |
| 2003 | Vodafone Albania | 30.38 | 0.00 | 0.00 | 6.51 | 30.38 | 0.00 | 0.00 | 6.51 |
| Total portfolio: | | 60.58 | 2.98 | 6.23 | 6.51 | 54.58 | 2.98 | 6.22 | 6.51 |

| 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 | |

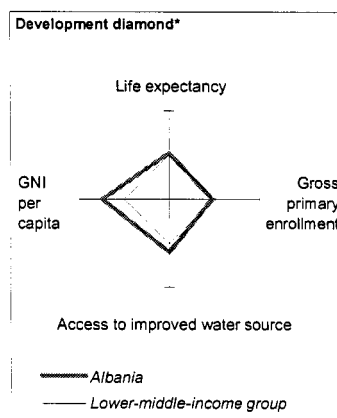
Annex 14: Country at a Glance

ALBANIA: Education Quality & Equity Project

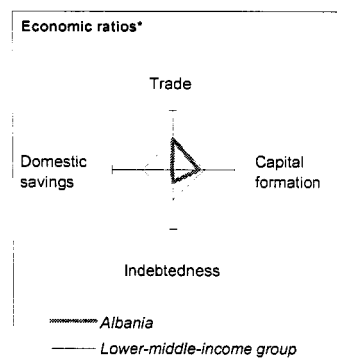
Albania at a glance

4/10/06

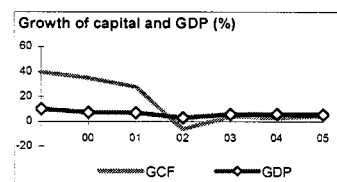
| POVERTY and SOCIAL | Europe & Central Asia | | Lower-middle-income |
|--|-----------------------|-------|---------------------|
| | Albania | | |
| 2005 | | | |
| Population, mid-year (millions) | 3.2 | 473 | 2,442 |
| GNI per capita (Atlas method, US\$) | 2,510 | 3,300 | 1,690 |
| GNI (Atlas method, US\$ billions) | 8.1 | 1,557 | 4,116 |
| Average annual growth, 1999-05 | | | |
| Population (%) | 0.6 | 0.0 | 0.9 |
| Labor force (%) | 1.1 | 0.5 | 1.4 |
| Most recent estimate (latest year available, 1999-05) | | | |
| Poverty (% of population below national poverty line) | 25 | .. | .. |
| Urban population (% of total population) | 45 | 64 | 50 |
| Life expectancy at birth (years) | 74 | 69 | 71 |
| Infant mortality (per 1,000 live births) | 18 | 29 | 32 |
| Child malnutrition (% of children under 5) | 14 | .. | 11 |
| Access to an improved water source (% of population) | 97 | 91 | 81 |
| Literacy (% of population age 15+) | 99 | 97 | 89 |
| Gross primary enrollment (% of school-age population) | 104 | 102 | 112 |
| Male | 105 | 103 | 113 |
| Female | 102 | 101 | 111 |



| KEY ECONOMIC RATIOS and LONG-TERM TRENDS | 1985 | | 1995 | | 2004 | | 2005 | |
|--|---------------------|------|------|------|------|--|------|--|
| | GDP (US\$ billions) | .. | 2.4 | 7.4 | 8.4 | | | |
| Gross capital formation/GDP | 32.8 | 18.0 | 23.8 | 23.6 | | | | |
| Exports of goods and services/GDP | 16.2 | 12.5 | 21.5 | 21.7 | | | | |
| Gross domestic savings/GDP | 30.5 | -4.0 | 2.1 | 1.0 | | | | |
| Gross national savings/GDP | 30.6 | 10.7 | 18.3 | 17.1 | | | | |
| Current account balance/GDP | .. | -0.5 | -5.5 | -6.5 | | | | |
| Interest payments/GDP | .. | 0.4 | 0.3 | 0.3 | | | | |
| Total debt/GDP | .. | 18.8 | 18.5 | 17.2 | | | | |
| Total debt service/exports | .. | 1.2 | 2.4 | 2.4 | | | | |
| Present value of debt/GDP | .. | .. | 16.1 | 14.4 | | | | |
| Present value of debt/exports | .. | .. | 42.5 | 37.6 | | | | |
| (average annual growth) | | | | | | | | |
| GDP | -3.6 | 5.8 | 5.9 | 5.5 | 5.8 | | | |
| GDP per capita | -4.4 | 5.6 | 5.3 | 4.9 | 5.2 | | | |
| Exports of goods and services | .. | 20.9 | 16.9 | 7.2 | 10.2 | | | |



| STRUCTURE of the ECONOMY | 1985 | | 1995 | | 2004 | | 2005 | |
|---|------------|------|------|------|------|--|------|--|
| | (% of GDP) | | | | | | | |
| Agriculture | 34.6 | 55.8 | 23.5 | 22.8 | | | | |
| Industry | 43.3 | 22.5 | 21.2 | 21.5 | | | | |
| Manufacturing | .. | .. | .. | .. | | | | |
| Services | 22.1 | 21.7 | 55.3 | 55.7 | | | | |
| Household final consumption expenditure | 60.2 | 90.4 | 88.5 | 89.5 | | | | |
| General gov't final consumption expenditure | 9.3 | 13.6 | 9.5 | 9.5 | | | | |
| Imports of goods and services | 18.4 | 34.5 | 43.2 | 44.3 | | | | |
| (average annual growth) | | | | | | | | |
| Agriculture | 3.1 | 2.1 | 3.6 | 2.6 | | | | |
| Industry | -11.4 | 8.0 | 8.2 | 6.6 | | | | |
| Manufacturing | .. | 7.0 | .. | .. | | | | |
| Services | -2.9 | 9.2 | 6.3 | 8.0 | | | | |
| Household final consumption expenditure | 2.0 | 5.1 | 7.0 | 6.9 | | | | |
| General gov't final consumption expenditure | -7.8 | 15.6 | 6.2 | 6.2 | | | | |
| Gross capital formation | 13.5 | 12.1 | 3.0 | 4.3 | | | | |
| Imports of goods and services | .. | 17.2 | 10.2 | 10.1 | | | | |

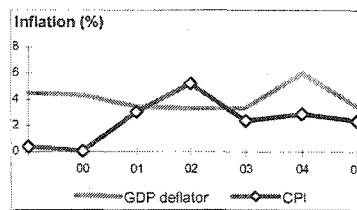


Note: 2005 data are preliminary estimates. Group data are to 2004.

* 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.

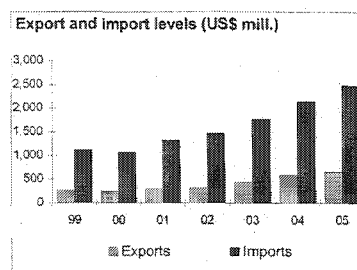
PRICES and GOVERNMENT FINANCE

| | 1985 | 1995 | 2004 | 2005 |
|-------------------------------------|------|-------|------|------|
| Domestic prices | | | | |
| (% change) | | | | |
| Consumer prices | .. | .. | 2.9 | 2.4 |
| Implicit GDP deflator | 0.4 | 5.6 | 6.0 | 3.5 |
| Government finance | | | | |
| (% of GDP, includes current grants) | | | | |
| Current revenue | 50.6 | 22.5 | 24.1 | 23.7 |
| Current budget balance | 24.4 | -2.2 | 0.1 | 0.3 |
| Overall surplus/deficit | .. | -10.7 | -5.1 | -3.3 |



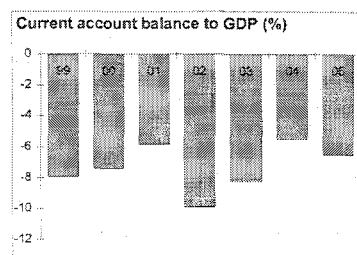
TRADE

| | 1985 | 1995 | 2004 | 2005 |
|----------------------------------|------|------|-------|-------|
| (US\$ millions) | | | | |
| Total exports (fob) | 304 | 205 | 599 | 661 |
| Agriculture and food | .. | 35 | 117 | 116 |
| Energy, minerals and electricity | .. | 24 | 63 | 79 |
| Manufactures | .. | 92 | 116 | 117 |
| Total imports (cif) | 344 | 680 | 2,148 | 2,486 |
| Food | .. | 102 | 176 | 204 |
| Fuel and energy | .. | 80 | 88 | 129 |
| Capital goods | .. | 313 | 399 | 495 |
| Export price index (2000=100) | .. | .. | 121 | 130 |
| Import price index (2000=100) | .. | .. | 127 | 135 |
| Terms of trade (2000=100) | .. | .. | 95 | 96 |



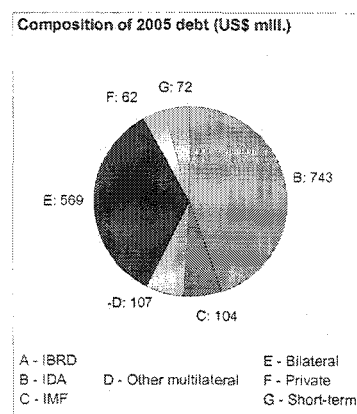
BALANCE of PAYMENTS

| | 1985 | 1995 | 2004 | 2005 |
|---|------|------|--------|--------|
| (US\$ millions) | | | | |
| Exports of goods and services | 319 | 304 | 1,585 | 1,822 |
| Imports of goods and services | 362 | 836 | 3,188 | 3,714 |
| Resource balance | -44 | -532 | -1,603 | -1,892 |
| Net income | 1 | 44 | 174 | 153 |
| Net current transfers | .. | 477 | 1,022 | 1,193 |
| Current account balance | .. | -11 | -407 | -546 |
| Financing items (net) | .. | 32 | 644 | 595 |
| Changes in net reserves | 18 | -21 | -237 | -49 |
| Memo: | | | | |
| Reserves including gold (US\$ millions) | .. | 265 | 1,374 | 1,426 |
| Conversion rate (DEC, local/US\$) | .. | 92.7 | 103.8 | 99.9 |



EXTERNAL DEBT and RESOURCE FLOWS

| | 1985 | 1995 | 2004 | 2005 |
|---|------|------|-------|-------|
| (US\$ millions) | | | | |
| Total debt outstanding and disbursed | .. | 458 | 1,364 | 1,443 |
| IBRD | .. | 0 | 0 | 0 |
| IDA | .. | 109 | 743 | 743 |
| Total debt service | .. | 10 | 66 | 76 |
| IBRD | .. | 0 | 0 | 0 |
| IDA | .. | 1 | 7 | 10 |
| Composition of net resource flows | | | | |
| Official grants | 0 | 77 | 127 | 76 |
| Official creditors | .. | 70 | 157 | 112 |
| Private creditors | .. | 0 | 0 | 0 |
| Foreign direct investment (net inflows) | 0 | 70 | 343 | 243 |
| Portfolio equity (net inflows) | 0 | 0 | 0 | 0 |
| World Bank program | | | | |
| Commitments | .. | 36 | 48 | 33 |
| Disbursements | .. | 43 | 66 | 71 |
| Principal repayments | .. | 0 | 3 | 4 |
| Net flows | .. | 43 | 63 | 67 |
| Interest payments | .. | 1 | 5 | 5 |
| Net transfers | .. | 43 | 59 | 61 |



MAP SECTION

