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RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
THE EDUCATION EXCELLENCE AND EQUITY PROJECT
CREDIT NUMBER 4180
(Approved on June 1, 2006)
TO THE
REPUBLIC OF ALBANIA

December 13, 2011

ABBREVIATIONS AND ACRONYMS

ARP	Annual Reform Program
CEB	Council of Europe Development Bank
EEE-P	Education Excellence and Equity Project
EIB	European Investment Bank
FA	Financing Agreement
IDA	International Development Association
MoES	Ministry of Education and Science
MoF	Ministry of Finance
PAD	Project Appraisal Document
SWAp	Sector-wide Approach

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ALBANIA
EDUCATION EXCELLENCE AND EQUITY PROJECT

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EDUCATION EXCELLENCE AND EQUITY PROJECT

RESTRUCTURING PAPER

SUMMARY

This Restructuring Paper seeks your approval to extend the closing date of the above-named Credit from December 31, 2011 to March 31, 2012. This would be the second extension of the credit closing date, resulting in a total extension of 15 months. The purpose of this second extension of the credit closing date is to allow for the processing of a first-order restructuring that would (i) align the Project Development Objective in the Project Appraisal Document (PAD) and Financing Agreement (FA), (ii) possibly introduce an additional outcome indicator to the Project's result framework; and (iii) extend the credit closing date by another 15 months until June 30, 2013 to allow the Project to fully achieve its Objective.

PROJECT BACKGROUND

The Loan for the EEE-P Project was approved by the Board on June 1, 2006 for an amount of USD 15 million equivalent to improve the quality of learning conditions for all students and increase enrollment in general secondary education, specially for the poor¹. The Credit became effective on October 4, 2006.

The operation adopted a Sector-wide Approach (SWAp) to support the implementation of the GoA's National Education Strategy with co-financing from the Government of Albania, the European Investment Bank (EIB), the Council for Europe Development Bank (CEB) and the International Development Association (IDA). Total financing of the Program is US\$75 million of which US\$15 million equivalent is from the International Development Association (IDA) and the remainder from the European Investment Bank (US\$15 million equivalent), the Council of Europe Development Bank (US\$15 million equivalent) and the Government of Albania (US\$30 million equivalent). The World Bank is the lead supervision agency among the donors and World Bank policies and procedures apply to the entire Program including fiduciary, social and environmental safeguards.

¹ It should be noted that the Project's Development Objective is worded differently in its Financing Agreement (FA). The FA reads: "The objectives of the Project are to support the Recipient's Program: (a) to improve quality of learning conditions for students; (b) to increase enrollment of students in general secondary education; and (c) to initiate higher education reform." Whereas the difference is not in substance and the 2010 Restructuring Paper (RP) submitted to the Board's consideration stated that the PDO was the one listed in the FA, the same document failed to note this discrepancy between the PAD and FA. As a result, the Bank's Operations Portal includes the PDO from the PAD, when it should include the one from the FA. Following this extension, the team will realign the PDOs through the first order restructuring.

After a 23-month process, the Board approved the Project's first restructuring on March 19, 2010. The restructuring was necessary due to the fact that during implementation the Project triggered the Involuntary Resettlement Safeguard (OP 4.01). During the restructuring process, the bulk of civil work activities, accounting for about 40 percent of the total project cost, were put on hold pending the completion of the corresponding safeguard due diligence and subsequent approval of the restructuring.

The Project's second restructuring was approved on October 1, 2010, to extend the Credit's closing date by 12 months, until December 31, 2011. That extension was necessary to compensate for the time civil works were put on hold pending the restructuring. Without the extension, most of the civil works would not have been carried out. At the time of the extension, the Bank team informed management that granting a 24 month extension would likely be more realistic to complete implementation but that EIB and CEB asked that the Bank extend the Credit only by 12 months to maintain the agreement between the GoA and the three institutions similar. As such, the Credit's closing date was extended by 12 months.

CURRENT STATUS

The Project's Development Objectives (DO) is rated as *Moderately Satisfactory* as it has already met three of the four outcome indicators -- basic education drop-out rates remain very low, transition rates between basic and secondary education have exceeded 90%, and secondary gross enrollment rates reached 70%. Likewise, most of the intermediate indicators have been met. It should be noted, however, that given the broad sectoral nature of this project, where the external financing contributes to a broad government program, there are clear attribution issues between project-financed activities and outcomes.

The Project's Implementation Progress is also rated as *Moderately Satisfactory*. After more than two years of implementation delays caused mostly by addressing safeguard issues, project performance has substantially improved in the last six months. Notwithstanding, it is not feasible to complete all the on-going activities, particularly civil works, by the current closing date of December 31, 2011.

Currently, about 62% of total project cost (and 67% of Credit funds) has been disbursed. Most recently, delays in disbursements have been exacerbated by foreign financing ceilings imposed by the Ministry of Finance in the second half of 2011 due to the adverse impact of the eurozone crisis on economic growth, budget revenues and public debt level. At the same time, as most of the large contracts for civil works are to

be implemented over the next 11 months, disbursement are expected to increase significantly in the next year, provided the issue of budget ceilings is addressed.

The MoES and the Ministry of Finance have asked Development Partners to extend the Project by 18 to 24 months, to enable successful completion of all activities and disbursement of their funds. This extension would allow the MoES to make up for the initial implementation delays and fully achieve the Project Development Objective. In October 2011 the Development Partners carried out an implementation support visit of the Project and reviewed planned activities for 2012, should the extension be approved. During that visit, on the basis of progress and discussions, Development Partners agreed to endorse the extension request before their corresponding managers.

Notwithstanding a satisfactory implementation plan by MoES, the national budget for 2012 will continue to be very constrained, in order to keep public debt, the highest in South-Eastern Europe, below the 60% threshold. As such, Development Partners, remain concerned about the impact of budget ceilings on project implementation. Given such ceilings, the latest 18-month disbursement estimate from MoES would still leave almost EUR 1 million from IDA funds undisbursed. However, the Ministry of Finance in the letter requesting the extension reassured the Bank that MoF would provide the financing necessary for project implementation and IDA disbursement over an 18 month period. The Ministry of Finance reiterated that an 18 months or longer extension would help them finance the project while containing public debt in the eurozone crisis environment.

Project Financial Management is currently rated as *Moderately Satisfactory*, reflecting an improvement in overall financial management arrangements for implementation compared to prior years; recommendations to further strengthen systems and controls have been adopted, and overall financial management capacity at the central and local levels has improved. There are no outstanding audit reports for the Project and the last one presented an unqualified opinion.

PROPOSED CHANGES

With your approval, the Credit Closing Date would be extended by 3 months, until March 31, 2012. This would be the second extension of the Project resulting in a total extension of 15 months. As stated earlier, the purpose of this second extension of the Credit Closing Date is to allow for the processing of a first-order restructuring that would (i) align the Project Development Objective in the Project Appraisal Document (PAD) and Financing Agreement (FA), (ii) possibly introduce an additional outcome indicator to the Project's result framework; and (iii) extend the credit closing date by another 15 months until June 30, 2013 to allow the Project to fully achieve its Objective.