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CREDIT NUMBER 4239 ALB

# Financing Agreement

(Business Environment Reform and Institutional Strengthening Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 27, 2006

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## **CREDIT NUMBER 4239 ALB**

### **FINANCING AGREEMENT**

AGREEMENT dated November 27, 2006, between ALBANIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

WHEREAS the Recipient has also requested the Bank to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Recipient and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to four million four hundred thousand Euro (€4,400,000) (the Loan).

#### **ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

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

#### **ARTICLE II - FINANCING**

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Euro.

### **ARTICLE III - PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient, through the Ministry of Economy, Trade and Energy, shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

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

- 4.01. The additional event of suspension consists of the following, namely that any Law establishing any of the Project Beneficiary Entities, or any part thereof, is amended, suspended, abrogated, repealed or waived in a manner which, in the opinion of the Association, would materially and adversely affect the ability of the respective Project Beneficiary Entity to effectively implement its obligations under this Agreement.
- 4.02. The Additional Events of Acceleration consist of the following, namely that the event specified in Section 4.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

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

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness have been fulfilled other than those related to the effectiveness of this Agreement.

- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

**ARTICLE VI - REPRESENTATIVE; ADDRESSES**

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

- 6.02. The Recipient's Address is:

Ministry of Finance  
Bulevardi "Deshmoret e Kombit"  
Tirana  
Albania

Facsimile:

+355 42 28494

- 6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

1-202-477-6391

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

ALBANIA

By /s/ Ridvan Bode

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nadir Mohammed

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are: (a) to facilitate business entry and operation; and (b) to strengthen the capacity of the Recipient's business sector to increase exports towards regional and European Union (EU) markets.

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

#### **Part A. Facilitation of Business Entry and Operations**

1. The provision of technical assistance, goods and Training for institutional development and capacity building for improving in a systematic manner the quality of regulations affecting business establishment and activity, through: (a) building regulatory capacities and a regulatory management system at line-ministry and central government levels; (b) developing the capacity to improve the quality of new and existing regulations, through regulatory impact analysis and complementary methods; (c) improving the quality of existing regulations through targeted reviews of regulations in selected areas, and improving the access to regulations; (d) developing and implementing a monitoring and evaluation system for regulatory reforms; and (e) undertaking small business surveys and two ARCS to assess outcomes of Part A of the Project.

2. The provision of technical assistance and Training to strengthen the capacity of the Competition Policy Unit (CPU) to assess the impact of regulations on market competition.

#### **Part B. Development and Strengthening of the MSTQ System**

The provision of civil works, technical assistance, Training, and goods for institutional development and capacity building of the Recipient's MSTQ system in order to provide EU-compatible services through:

1. The preparation and implementation of a comprehensive medium-term strategy to assure compliance of the MSTQ Institutions with EU requirements and practices and the needs of the industry.

2. The organization and conduct of public awareness campaigns to increase awareness within the Recipient's business community and Government institutions of MSTQ services and compliance issues.

3. The upgrading of the General Directorate of Metrology and Calibration (GDMC), including the modernization of the national metrology infrastructure, the

design and construction of a modern metrology facility, and the provision of goods, technical assistance and training.

4. The building of capacity within the General Directorate of Standardization (DPS) to establish and manage EU MSTQ standards and make them available electronically to users.

5. The development of capacity within the Directorate of Accreditation (DA) to perform MSTQ assessments and to the training of experts to perform such assessments.

### **Part C. Support for Project Coordination**

The provision of technical assistance, Training, goods and Incremental Operating Costs for institutional development and capacity building of the Department of Market Policies (DMP), including support for:

1. The implementation of activities under the Project.
2. The design and implementation of the Project monitoring and evaluation system.
3. Public awareness information campaigns and dissemination activities.
4. Financial management, disbursement, and procurement-related activities.

## SCHEDULE 2

### Project Execution

#### Section I. Institutional Arrangements

The Recipient shall carry out the Project in accordance with the following coordination mechanisms:

1. The DMP within the METE shall be responsible for day-to-day Project management and coordination. The DMP shall, *inter alia*: (a) be responsible for Project planning, budgeting, financial management, disbursement, procurement, auditing and monitoring and evaluation of Project progress and results; (b) function as the link between Project Beneficiary Entities and the Association and assist the Project Beneficiary Entities with implementation of the Project activities in accordance with the Project objectives; (c) assist in the organization of integrated public awareness campaigns and periodic business surveys, such as the ARCS; (d) assist in the organization of consultations with the Recipient's business community to achieve increased participation of the business community in private sector reforms; and (e) provide and/or mobilize additional procurement, financial management and monitoring and evaluation support, if necessary; (f) organize dissemination activities on the Recipient's progress in implementing the business environment reform agenda; (g) implement and assist with monitoring the activities under Part A.1 of the Project; and (h) coordinate assistance for the preparation and implementation of the strategy for the integrated development of the MSTQ system, and for the privatization and subsequent accreditation of district and provincial metrology laboratories.

2. The Project Beneficiary Entities shall be responsible for the implementation of specific Project activities and assist the DMP with the monitoring of results relating to those Project activities. As such, (a) the CPU shall be responsible for implementation and assist with monitoring the activities under Part A.2 of the Project; and (b) the GDMC, the DPS and the DA shall be responsible for implementation and assist with monitoring of activities under Part B of the Project. The Project Beneficiary Entities shall also assist the DMP with procurement, through the preparation of technical specifications, terms of reference and other procurement-related activities.

3. The Recipient shall ensure that, during the entire life of the Project, the DMP and the Project Beneficiary Entities are operational, adequately staffed, funded and maintained, under terms of reference acceptable to the Association.

4. The DMP shall be responsible for the monitoring and evaluation of the Recipient's progress in developing and implementing business environment reforms supported by the Project, including an assessment of the outcome of capacity-building activities under the Project. As such, the Recipient, through the DMP, shall submit to the Association for review and comment by March 31, 2007, the annual work plan and



budget for the Project for the remainder of calendar year 2007, and by September 30 of each year, starting September 30, 2007, an annual work plan and budget for the Project for the following calendar year; and submit to the Association a progress report by January 31 and July 31 of each year, starting July 31, 2007.

**Section II. Implementation Covenants**

1. The Recipient shall carry out the obligations in accordance with the Environmental Management Plan and shall not amend, suspend, abrogate, repeal or waive any provision of the Environmental Management Plan without prior approval of the Association.

2. The Recipient, through the METE, shall:

(a) not later than March 31, 2007, prepare and adopt a comprehensive medium-term strategy for the integrated development of the Recipient's MSTQ system, acceptable to the Association, and, thereafter, implement it in a manner satisfactory to the Association;

(b) launch an integrated publicity campaign for the MSTQ component of the Project not later than December 31, 2007; and

(c) launch the first ARCS not later than March 31, 2008, and launch the second ARCS not later than March 31, 2010, through the hiring of an independent, private survey or polling company, acceptable to the Association, and under terms of reference satisfactory to the Association.

3. The Recipient shall cause the GDMC to, not later than March 31, 2007, prepare and adopt a national metrology strategy, including an action plan for the consolidation of provincial and district metrology laboratories, acceptable to the Association, and thereafter implement and maintain it in a manner satisfactory to the Association.

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

**A. Project Reports**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.

2. Without limitation on the provisions in paragraph 1 of this Sub-section, the Recipient shall:

(a) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (1) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(b) review with the Association, by November 30, 2008, or such later date as the Association shall determine, the report referred to in paragraph (a) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

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

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

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

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

## **Section IV. Procurement**

### **A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

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

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

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

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

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

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

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

- (i) "Open Tendering" procedures as defined in Public Procurement Law of Albania shall apply to all contracts;
- (ii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process. Government-owned enterprises in Albania shall be permitted to bid only if they are legally and financially autonomous and operate under commercial law of the Borrower;
- (iii) procuring entities shall use sample bidding documents approved by the Association;
- (iv) in case of higher bid prices compared to the official estimate, all bids shall not be rejected without the prior concurrence of the Association;
- (v) a single-envelope procedure shall be used for the submission of bids;

- (vi) post-qualification shall be conducted only on the lowest evaluated bidder; no bid shall be rejected at the time of bid opening on qualification grounds;
- (vii) bidders who contract as a joint venture shall be held jointly and severally liable;
- (viii) contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform in accordance with pre-defined and pre-disclosed evaluation criteria;
- (ix) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders; and
- (x) contracts of long duration (more than 18 months) shall contain appropriate price adjustment provisions.

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

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

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

| <u>Procurement Method</u>                         |
|---|
| (a) Least Cost Selection                          |
| (b) Selection Based on Consultants' Qualification |
| (c) Individual Consultants                        |
| (d) Single Source Selection                       |
| (e) Fixed Budget                                  |

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

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

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

**A. General**

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

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

| <b>Category</b>                 | <b>Amount of the Credit Allocated (expressed in SDR)</b> | <b>Percentage of Expenditures to be Financed</b> |
|---------------------------------|--|--|
| (1) Consultants’ Services       | 2,143,000  | 95%  |
| (2) Training                    | 310,000  | 95%  |
| (3) Goods and Works             | 10,000   | 95%  |
| (4) Incremental Operating Costs | <u>37,000</u>  | 95%  |
| <b>TOTAL AMOUNT</b>             | <u><b>2,500,000</b></u>                                  |  |

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals in respect of consultants’ services for the implementation of Parts A.1(b) and (c), B.1, B.3 and C.4 of the Project up to an aggregate amount not to exceed four hundred and twenty five thousand Special Drawing Rights (SDR 425,000) may be made for payments made prior to this date but on or after April 18, 2006.

2. The Closing Date is January 15, 2011.

**SCHEDULE 3**

**Repayment Schedule**

| <b>Date Payment Due</b>                                    | <b>Principal Amount of the Credit repayable (expressed as a percentage)*</b> |
|--|--|
| On each May 15 and November 15:                            |  |
| commencing November 15, 2016 to and including May 15, 2026 | 5%   |

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

## APPENDIX

### Definitions

1. "ARCS" means, collectively, an administrative and regulatory cost survey.
2. "Category" means a category set forth in the table in Section V of Schedule 2 to this Agreement.
3. "Competition Policy Unit" or "CPU" means the section within the DMP (as hereinafter defined) of the METE (as hereinafter defined), responsible for assessing the impact of regulations on market competition.
4. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in May 2004.
5. "DA" means the Recipient's Directorate of Accreditation established by Law No. 9024 *On the Accreditation of the Testing and Calibration Laboratories, of the Certification and of the Inspection Bodies in the Republic of Albania* of March 6, 2003.
6. "DMP" means the Department of Market Policies within the Ministry of Economy, Trade and Energy, and includes any successor thereto.
7. "DPS" or "General Directorate of Standardization" means the Recipient's General Directorate of Standardization established by Law No. 8464 *On Standardization* of March 11, 1999.
8. "Environmental Management Plan" means the plan adopted by the Recipient on March 31, 2006, satisfactory to the Association, consisting of the set of mitigation, monitoring, and institutional measures to be taken to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement these measures.
9. "GDMC" means the Recipient's General Directorate for Metrology and Calibration established by Law No. 8996 *On the Units of Measurement and Control of Measuring Instruments* of January 30, 2003.
10. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005.
11. "Incremental Operating Costs" means reasonable and necessary incremental expenditures, approved by the Association on the basis of annual budgets acceptable to the Association, incurred by the DMP on account of Project

implementation, management and monitoring, including communication costs, courier and postage costs, translation and interpretation costs, bank charges, and other miscellaneous costs directly associated with the implementation of Project activities as may be agreed with the Association, but excluding salaries or honoraria of officials and employees of the Recipient, including the DMP, and of the Project Beneficiary Entities.

12. “Ministry of Economy, Trade and Energy” or “METE” means the Recipient’s Ministry of Economy, Trade and Energy of the Recipient and includes any successor thereto.
13. “MSTQ” means metrology, standards, testing and quality, including accreditation and conformity assessments.
14. “MSTQ Institutions” means, collectively, as these terms are defined hereafter, the Recipient’s General Directorate of Metrology and Calibration, the DPS, and the Directorate of Accreditation.
15. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
16. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 6, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
17. “Project Beneficiary Entities” means, collectively, as some of these terms are defined hereafter, the GDMC, the DA, the DPS, and the CPU.
18. “Training” means training activities (other than consultants’ services) to be carried out under the Project, as approved by the Association on the basis of annual training and study tour plans acceptable to the Association, including the reasonable and necessary local and international travel and visa expenses incurred by participants in training workshops and study tours, as well as lodging, subsistence, local and international per diem allowances, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), translation and interpretation costs, facility rental costs, and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Association.