Financing Agreement

(Transport Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 21, 2007
FINANCING AGREEMENT

AGREEMENT dated March 21, 2007, 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 fifteen million three hundred thousand Euro (15,300,000) (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 three million four hundred thousand Special Drawing Rights (SDR 3,400,000) ("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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 General Road Directorate and the Ministry of Public Works, Transport and Telecommunications, 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 - EFFECTIVENESS; TERMINATION

4.01. The Additional Conditions of Effectiveness consist of the following:

(a) 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.

(b) The Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing and the Loan Agreement) have been fulfilled.

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

ARTICLE V - REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Minister of Finance.

5.02. The Recipient’s Address is:

Ministry of Finance
Bulevardi “Deshmoret e Kombit”
Tirana, Albania

Facsimile:
355 42 28494
5.03. 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 248423 (MCI) or 1-202-477-6391
Washington, D.C. 64145 (MCI)

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 reduce costs for users of the Milot-Rreshen Section of the Durres-Morine Road Corridor; (b) to introduce innovation in the implementation of contract maintenance on a pilot basis; and (c) to improve the institutional framework, planning, management and implementation of road safety activities on the territory of the Recipient.

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 I. Construction of Road between Milot and Rreshen

Construction of a road between the towns of Milot and Rreshen, through the provision of civil works, goods and consultants’ services.

Part II. Road Maintenance

Winter- and routine maintenance of roads in two pilot regions on the territory of the Recipient by way of output- and performance-based contracts, through the provision of civil works and consultants’ services.

Part III. Road Safety

Improvement of road safety in the territory of the Recipient, including: (a) the implementation of the National Action Plan; (b) conduction of a road safety audit; and (c) strengthening road safety enforcement by the MPWTT and the traffic police, through the provision of consultants’ services, training and goods.

Part IV. Strengthening of the GRD and the MPWTT

1. Strengthening of the General Road Directorate, including the PIT, for: (a) the supervision of civil works and road maintenance under the Project; (b) office management; and (c) Project management, through the provision of consultants’ services, training and goods, including traffic counters and road condition survey equipment.

2. Support for the MPWTT to: (a) assess capacity gaps in the road sector safeguards systems; (b) support the reform of the GRD; (c) train the MPWTT Project staff; and (d) support the establishment of a maritime agency and the development of a new port authority law, through the provision of consultants’ services and training.
SCHEDULE 2

Project Execution

Section I. Institutional Arrangements

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

1. The PIT within the GRD shall be responsible for day-to-day management of the Project, including procurement, financial management, Project monitoring and evaluation, and management of environmental and social issues. The Environmental Unit shall assist with environmental management of the Project.

2. The Recipient shall ensure that, during the entire life of the Project, the GRD, the PIT and the Environmental Unit are operational, adequately staffed, funded and maintained, under terms of reference acceptable to the Association.

Section II. Implementation Covenants

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

2. The Recipient shall: (a) not later than June 30, 2007, strengthen the flood protection works on the northern side of the River Matit; and (b) not later than December 31, 2007, strengthen the flood protection works on the southern side of the River Matit, in a manner satisfactory to the Association.

3. Without limitation to the applicable provisions in the General Conditions, the Recipient shall ensure that adequate funds are allocated in the Recipient’s annual budget to cover the Recipient’s contribution to the financing of the Project.

4. The Recipient shall increase its budget allocation for road maintenance by not less than ten (10%) percent each year, in real terms, compared to the previous year, during the life of the Project, unless otherwise agreed with the Association.

5. The Recipient shall, by October 31 in each year during Project implementation, submit to the Association for review and agreement its Public Investment Program for the transport sector.

6. The Recipient shall: (a) not later than June 30, 2007, submit the proposed new structure of the GRD for review and agreement by the Association; and (b) not later than
June 30, 2008, reform the GRD in line with the agreed new structure, 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 May 15, 2009, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Sub-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 June 15, 2009, or such later date as the Association shall determine, the report referred to in paragraph (a) of this Sub-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:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding - with the modifications set forth in paragraph 3 below</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>
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 the Public Procurement Law of Albania shall apply to all contracts;

(ii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process. Government-owned enterprises in Albania shall be permitted to bid only if they are legally and financially autonomous and operate under commercial law of the Recipient;

(iii) procuring entities shall use sample bidding documents approved by the Association;

(iv) in case of higher bid prices compared to the official estimate, all bids shall not be rejected without the prior concurrence of the Association;

(v) a single-envelope procedure shall be used for the submission of bids;

(vi) post-qualification shall be conducted only on the lowest evaluated bidder; no bid shall be rejected at the time of bid opening on qualification grounds;

(vii) bidders who contract as a joint venture shall be held jointly and severally liable;

(viii) contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform in accordance with pre-defined and pre-disclosed evaluation criteria;

(ix) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders; and

(x) contracts of long duration (more than 18 months) shall contain appropriate price adjustment provisions.
C. Particular Methods of Procurement of Consultants’ Services

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

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

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Selection Based on Consultants’ Qualification</td>
</tr>
<tr>
<td>(c) Individual Consultants</td>
</tr>
<tr>
<td>(d) Fixed Budget</td>
</tr>
</tbody>
</table>

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:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>380,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Civil Works for Part I of the Project</td>
<td>664,000</td>
<td>88%</td>
</tr>
<tr>
<td>(3) Civil Works for Part II of the Project</td>
<td>120,000</td>
<td>10%</td>
</tr>
<tr>
<td>(4) Consultants’ Services for Parts I and II of the Project</td>
<td>350,000</td>
<td>20%</td>
</tr>
<tr>
<td>(5) Consultants’ Services for Parts III and IV of the Project and Training</td>
<td>1,720,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Incremental Operating Costs</td>
<td>166,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,400,000</td>
<td></td>
</tr>
</tbody>
</table>

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 Categories (2), (4) and (5) for the implementation of Parts I and IV of the Project up to an aggregate amount not to exceed SDR 680,000 equivalent may be made for payments made prior to this date but on or after October 1, 2006.

2. The Closing Date is June 30, 2011.
## SCHEDULE 3

### Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15:</td>
<td></td>
</tr>
<tr>
<td>commencing May 15, 2017 to and including November 15, 2026</td>
<td>5%</td>
</tr>
</tbody>
</table>

* 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. “Category” means a category set forth in the table in Section V of Schedule 2 to this Agreement.

2. “Co-financier” means the OPEC Fund for International Development.

3. “Co-financing” means the amount of fifteen million Dollars ($15,000,000) to be provided by the Co-financier to assist in financing the Project.

4. “Co-financing Agreement” means the agreement to be entered into between the Recipient and the Co-financier providing for the Co-financing.


6. “Durres-Morine Road Corridor” means the proposed constructed road between the towns of Durres and Morine on the territory of the Recipient.

7. “Environmental Management Plan” means the plan adopted by the Recipient on June 3, 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.

8. “Environmental Unit” means the environmental unit within the GRD (as hereinafter defined).


10. “General Road Directorate” or “GRD” means the General Road Directorate within the MPWTT (as hereinafter defined), and includes any successor thereto.

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 GRD and the MPWTT (as hereinafter defined) 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 civil
service employees of the Recipient, including the GRD and the MPWTT (as hereinafter defined).

12. “Milot-Rreshen Section of the Durres-Morine Road Corridor” means the proposed section of constructed road between the towns of Milot and Rreshen on the territory of the Recipient.

13. “Ministry of Finance” or “MoF” means the Ministry of Finance of the Recipient and includes any successor thereto.


15. “National Action Plan” means the road safety action plan prepared and adopted by the Road Safety Council (as hereinafter defined) on March 15, 2006, pursuant to the Order No. 44 of the Prime Minister of the Recipient.

16. “Project Implementation Plan” means the document referred to in Section II.1 of Schedule 2 to this Agreement, adopted by the Recipient on December 12, 2006, satisfactory to the Association, setting forth the financial management procedures and institutional arrangements for carrying out the Project, as the same may be amended from time to time by agreement between the Association and the Recipient.

17. “Project Implementation Team” or “PIT” means the Project Implementation Team within the General Road Directorate.


19. “Public Investment Program” means the Recipient’s program prepared as part of the Medium Term Budgeting Program of the Government of the Recipient, and forms a realistic assessment of proposed capital expenditures by the Government of the Recipient, and the source of financing, for the defined term of the program.

20. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated December 12, 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.

22. “Resettlement Action Plan” means the Resettlement Action Plan prepared by the Recipient and adopted on June 4, 2006, satisfactory to the Association, setting forth the procedures, actions, and policies for the assessment, mitigation, and monitoring of resettlement resulting from activities performed under the Project, as the same may be modified from time to time by agreement between the Recipient and the Association.

23. “Road Safety Council” means the entity of the Recipient charged with overseeing road safety, established on January 25, 2006, pursuant to Order No. 13 of the Prime Minister of the Recipient.

24. “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.