

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
Washington, D.C. 20433
U.S.A.**CONFORMED COPY**(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

October 16, 2001

H.E. Anastas Angjeli
Minister of Finance
Ministry of Finance
Bulevardi "Deshmoret e Kombit"
Tirana
Albania

Re: ALBANIA: Italian Grant for Co-financing of Community Works Project
Grant Number TF 027754

Excellency:

I am writing on behalf of International Development Association (IDA) to indicate IDA's agreement, as administrator of grant funds provided by the Government of Italy to make a grant in an amount not exceeding four billion Italian Lira (4,000,000,000 ITL) (the Grant) to the Republic of Albania (the Recipient).

The Grant is made in response to the Recipient's request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by IDA of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Christiaan J. Poortman
Country Director and Regional Coordinator
for South East Europe
Europe and Central Asia Region

AGREED:
REPUBLIC OF ALBANIA

By: /s/ Anasta Angjeli
Title Minister of Finance
Date: January 14, 2002

Purposes, Terms, and Conditions of the Grant

1. Purposes and Activities

1.1. The purpose of the Grant is to co-finance the Community Works Project, which has as its main objectives to alleviate small infrastructure bottlenecks by rehabilitating small, sustainable social and economic infrastructure according to the development priorities of local governments and communities and to build the capacity of local communities and local governments to promote local economic development (the Project). The activities (the Activities) for which the Grant is given are as follows:

- (a) provision of support in sub-project design;
- (b) provision of support in sub-project implementation; and
- (c) provision of support in financing of operating costs.

2. Implementation Generally

2.1. The Recipient shall: (a) carry out the Activities with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Activities and the use of the proceeds of the Grant as IDA shall reasonably request; (d) from time to time exchange views with IDA's representatives on the progress and results of the Activities; and (e) take all necessary measures required to enable IDA to visit the territory of the Recipient for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if IDA shall so request, prepare and furnish to IDA promptly upon completion of the Activities a report, in form and substance satisfactory to IDA, on the results and impact of the Activities.

3. Procurement

3.1. Except as IDA shall otherwise agree, procurement of the consultants' services required for the carrying out of the Activities and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by IDA on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of services required for the Activities and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Activities:

<u>Item</u>	<u>Amount of the Grant Allocated (in Italian Lira)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' services	150,000,000	100%
(2) Civil works	3,650,000,000	90%
(3) Incremental operating costs	<u>200,000,000</u>	100%
 TOTAL	 <u>4,000,000,000</u>	

For the purposes of this paragraph the term "Incremental operating costs" means salaries paid to Albanian Development Fund (ADF) staff, but excluding salaries of civil servants, consumable office supplies, fuel and transportation associated with the implementation of sub-projects.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals shall be made from the Grant Account: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by IDA, except that withdrawals, in an aggregate amount not exceeding US\$187,267, may be made on account of payments made for expenditures before that date but after September 30, 2000; (ii) on account of payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of IDA or for services supplied from such territories; or (iv) for the purpose of any payment to persons or entities, if such payment, to IDA's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(b) No withdrawals shall be made from the Grant Account after November 30, 2002 or such later date that IDA shall establish by notice to the Recipient (the Closing Date). However, withdrawals may be made after the Closing Date for expenditures incurred prior to the Closing Date if the corresponding withdrawal application is received by IDA within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled; and

(c) If, in IDA's opinion, an amount of the Grant allocated to any of the items in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such item, IDA may, by written notice to the Recipient, reallocate to such item an amount of the Grant then allocated to another item which, in IDA's opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to IDA a written application for withdrawal of such amount in the form specified by IDA. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Minister of Finance of the Recipient or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as IDA shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall

be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy IDA that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. IDA shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. IDA may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) services of individual consultants costing less than US\$30,000 equivalent each; (b) works not exceeding US\$150,000 equivalent each; and (c) incremental operating costs, all under such terms and conditions as IDA shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. IDA, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by IDA.

4.7. To facilitate the carrying out of the Activities, the Recipient may open and maintain in U.S. Dollars a special deposit account (the Special Account) in the Bank of Albania of the Recipient on terms and conditions satisfactory to IDA, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II to this Annex.

5. Accounts and Audits

5.1. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to IDA, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Activities.

(b) The Recipient shall: (i) have the records, accounts and financial statements referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to IDA, consistently applied, by independent auditors acceptable to IDA; (ii) furnish to IDA as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as IDA shall have reasonably requested; and (iii) furnish to IDA such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as IDA shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one year after IDA has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable IDA's representatives to examine such records; and (iv) ensure that such records and accounts are

included in the annual audit referred to in subparagraph (b) above and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

6. Suspension and Cancellation

6.1. IDA may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient or any other entity to which the International Bank for Reconstruction and Development (the IBRD) has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the IBRD or any development credit agreement with IDA shall have been suspended.

6.2. IDA may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to IDA, within six months after the effective date hereof, to carry out the Activities.

Procurement

Section I. Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines), and the following provisions of this Section I.

Part B: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for design and supervision under paragraph 1.1 (a) and (b) of the Annex tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines estimated to cost less than US\$10,000 equivalent per contract shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part C: Review by IDA of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Activities shall be furnished to IDA for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by IDA, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US\$30,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to IDA for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section II. Procurement of Works

Part A: General

Works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section II, and provisions of the Supplemental Letter to the Development Credit Agreement Credit Nos. 3164-ALB and 3164-1-ALB (Community Works Project) on Representation and assurances relating to national competitive bidding procedures dated March 28, 2001.

Part B: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than US\$150,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part C: Review by IDA of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to IDA for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of works shall be undertaken in accordance with such procurement plan as shall have been approved by IDA, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract awarded under Part B.1 of this Section estimated to cost the equivalent of US\$150,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Attachment II

Special Account

1. For the purposes of this Attachment:
 - (a) the term "eligible items" means the items set forth in the table in paragraph 4.2 of the Annex to this Letter Agreement;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of services required for the Activities and to be financed out of the proceeds of the Grant; and
 - (c) the term "Authorized Allocation" means an amount equivalent to US\$400,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.
3. After IDA has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) The Recipient shall furnish to IDA a request or requests for a deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Recipient shall furnish to IDA requests for deposits into the Special Account at such intervals as IDA shall specify.
 - (ii) Prior to or at the time of each such request, the Recipient shall furnish to IDA the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, IDA shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by IDA from the Grant Account under the eligible item(s), and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.
4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as IDA shall reasonably request, furnish to IDA such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Attachment, IDA shall not be required to make further deposits into the Special Account:

(a) if, at any time, IDA shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

(b) if the Recipient shall have failed to furnish to IDA, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to IDA pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, IDA shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter Agreement; or

(d) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as IDA shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that IDA shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If IDA shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to IDA, the Recipient shall, promptly upon notice from IDA: (A) provide such additional evidence as IDA may request; or (B) deposit into the Special Account (or, if IDA shall so request, refund to IDA) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless IDA shall otherwise agree, no further deposit by IDA into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If IDA shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from IDA, refund to IDA such outstanding amount.

World Bank User
M:\BACKUP\ALBANIA\Grants\w-1768.doc
10/15/2001 12:22 PM