October 10, 2014

H. E. Shkelqim Cani
Minister of Finance
Ministry of Finance
Deshmëret e Kombit
No. 4, Tirana
Republic of Albania

Re: Albania Environmental Services Project
Swedish TF No. TF018238

Excellency:

In response to the request for financial assistance made on behalf of Albania ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as administrator of grant funds provided by the Swedish International Development Cooperation Agency, Sida ("Donor") under the Swedish Trust Fund for the Albania Environmental Services Project Trust Fund No. TF072239 (Sida Contribution No. 53030017), proposes to extend to the Recipient a grant in an amount not to exceed seven million nine hundred sixty thousand United States Dollars ($7,960,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date specified by the World Bank in accordance with Section IV of the Annex to this Agreement.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Evis Sulko
Acting Country Manager

AGREED:
REPUBLIC OF ALBANIA

By

Authorized Representative

Name: SHKELQIM CANI

Title: MINISTER OF FINANCE

Date: 27.1.2015

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

(a) "Albania Forest Information System" means an information technology framework designed to obtain data or information on forests and pastures to facilitate analysis and reporting on integrated forest management.

(b) "ARDA" means the Recipient’s Agency for Rural Development and Agriculture, established and operating pursuant to the Law on Agriculture and Rural Development, No. 9817, dated October 22, 2007 or its legal successor thereto.

(c) "Beneficiaries" means those individuals or organizations selected to receive the Grant in accordance with criteria set forth in the Grants Operational Manual.

(d) "Communal Forest and Pasture Management Plans" or "CFPMPs" means a management tool developed by the communities outlining the communities’ short, medium and long term measures for the management of forests and pasture lands for at least 10 years.

(e) "Communal Forest and Pastures Users Associations" or "CFPUAs" means non-governmental organizations comprising members of communities that use forests and pastures resources within an area of a rural local government unit.

(f) "Communal Micro-Catchment Management Plans" or "CMCMPs" means a management tool developed by communities which outlines the short, medium and long term measures for the management of forests, pastures and agricultural lands for at least 10 years.

(g) "District Forest Office" means the Recipient’s office at the district level responsible for forest and pasture management.

(h) "GEF Grant Agreement" means the agreement to be entered into between the Recipient and the World Bank, acting as an Implementing Agency of the Global Environment Facility (GEF), providing a grant to the Recipient to assist in financing Parts 1 (a), 2(a) and 3 of the Project, as such agreement may be amended from time to time. "GEF Grant Agreement" includes all appendices, schedules and agreements supplemental to the GEF Grant Agreement.

(i) "Gender Action Plan" means a plan developed by the Recipient dated November 7, 2013, to strengthen the participation of women in all project activities and constituting part of the Project monitoring and evaluation system.

(j) "Grants Operational Manual", means the manual to be prepared and adopted by the Recipient pursuant to Section IV.B.1 (b) (i) of Schedule 2 to the IBRD Loan Agreement, as the same may be amended from time to time with the prior written approval of the World Bank.
(k) “IBRD Loan Agreement” means the agreement to be entered into between the Recipient and the World Bank, to assist in financing of Parts 1(a), 2(c) and Part 4 (a) of the Project.

(l) “Local Action Group” or “LAG” means a partnership between the public, private and civil society at a regional level to develop a rural area.

(m) “Local Government Units” or “LGUs” means municipalities or communes.

(n) “MOE” means the Recipient’s Ministry of Environment or its legal successor thereto.

(o) “National Forest Inventory” or “NFI” means a compilation of data on forests, derived from information provided by satellite imagery with the aim of creating a national level assessment on how the forest cover and volume have changed over a certain period.

(p) “Operating Costs” means the reasonable incremental expenses arising under the Project, and consisting of expenditures for equipment for MOE and ARDA staff associated with the implementation of Project activities, including office maintenance, per diems for civil servants, equipment (excluding the salaries of government civil servants), furniture, materials and supplies, communication costs, advertising and fuel costs for field visits.

(q) “Payment for Watershed Services” means a payment offered to individuals or groups in exchange for sustainable use of watersheds.

(r) “Project Operations Manual” means the manual prepared in accordance with Section I.B.I of Schedule 2 to the IBRD Loan Agreement, and confirmed to be satisfactory by the World Bank, and adopted by the Recipient, describing and setting forth procedures for implementation of the Project and institutional arrangements, consistent with the provisions of the IBRD Loan Agreement and with applicable laws and regulations and including the respective roles and responsibilities of the actors involved in the implementation of the Project.

(s) “Regional Forest Directorates” means a government unit within MOE responsible for forest and pasture management and extension services at the regional level, established and operating pursuant to the Law on Forestry and Forestry Service No. 9385, dated May 4, 2005, or its legal successor thereto.

(t) “Sub-Grants” means grants to eligible Beneficiaries to carry out Subprojects.

(u) “Subproject” means a subproject selected and approved by the Recipient to be financed by this Grant in accordance with the criteria and procedures set forth in the Grants Operational Manual.
Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to support sustainable land management practices and increase communities' monetary and non-monetary benefits in targeted Project areas which are mainly in erosion prone rural upland areas. The Project consists of the following parts:

Part 1: Strengthening Institutional Capacity to Improve Environmental Services from Integrated Landscape Management

(a) Strengthening the Recipient’s capacity for governance of forests and pastures including:

(i) preparing a change detection National Forest Inventory to provide information on how forest cover and volume have changed over an agreed intervening period;

(ii) developing a ten year rolling NFI whereby plots sampled for forest cover and volume are examined on an annual basis for a duration of ten years;

(iii) supporting forest management planning in the state managed production forests excluding the protected areas;

(iv) establishing the Albania Forest Information System;

(v) strengthening the capacity of the Regional Forest Directorate to carry out its obligations including the independent monitoring of the forests; and

(vi) registering forests and pastures transferred by the central government to the communes.

(b) Carrying out activities to empower Beneficiaries, including LGUs, CFPUAs and farmers to practice sustainable land and pasture management practices including:

(i) implementing the Gender Action Plan to promote gender equity in natural resource management;

(ii) supporting LAGs to contribute to the rural development strategy;

(iii) training LGUs and CFPUAs on sustainable use of forests, pastures and agricultural lands; and

(iv) promoting rural income generation, through analysis of values chains and preparation of short and medium-term forest products processing and marketing plans.

Part 2. Planning and Provision of Sub-Grants to Improve Land Management

(a) Carrying out activities to prepare and implement CMCMPs to improve land management, including:
(i) developing guidelines for the preparation of CMCPs to promote integrated use of natural resources;

(ii) preparing CMCMPs for new communes; and

(iii) upgrading existing CFPMPs which will expire during the life of the Project into CMCMPs.

(b) Providing Sub-Grants to eligible Beneficiaries to carry out Subprojects.

(c) Strengthening the capacity of staff for the Regional Forest Directorates, District Forest Office, ARDA and bodies involved in the agricultural and forests extension services as well as applicants to carry out their responsibilities under the Project.

Part 3: Introducing Payment for Environmental Services

Establishing financing mechanisms for reducing land degradation and supporting sustainable livelihoods including:

(a) Preparing technical studies for the development of carbon projects and establishing monitoring, reporting and verification systems to quantify carbon sequestered by Project activities;

(b) Developing mechanisms for Payment for Watershed Services to ensure that those who benefit from environmental services pay those who generate these services; and a model for linking land use practices with the generation of ecosystem services; and

(c) Piloting the Payment for Watershed Services mechanism in selected areas.

Part 4: Supporting Project Implementation

(a) Carrying out activities for Project implementation including supplying of office equipment, building staff capacity, and the implementation of the environmental safeguards.

(b) Supplying and installing a Project monitoring information system to promote effective tracking of project activities; and carrying out surveys, conducting environmental audits and monitoring and evaluation.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Institutional and Other Arrangements The Recipient shall carry out the Project in accordance with the Project Operations Manual and shall not amend, suspend, abrogate, repeal or waive any parts of the Project Operations Manual without prior approval by the World Bank.
2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date. In order to assist the Recipient in preparing the Completion Report, the Recipient shall employ consultants whose qualifications, experience and terms of reference are acceptable to the World Bank in accordance with the provisions of Section 2.07 of this Agreement.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement**

(a) **General.** All goods, works, non-consulting services and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods, works and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in
accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods, Works and Non-consulting Services**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding (ICB).

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts which are specified in the Procurement Plan: (A) National Competitive Bidding (NCB), subject to the additional provisions contained in paragraph (iii) of this Section; (B) Shopping; and (C) Direct Contracting.

(iii) **Modifications to the Recipient’s National Competitive Bidding Procedures.** The National Competitive Bidding procedures shall be based on the Open Tendering procedures as defined in the Public Procurement Law ("PPL") of Albania (Law No. 9643 dated November 20, 2006, as amended), provided, however, that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of the Procurement Guidelines and the following additional provisions:

(a) "Open Tendering" procedures as defined in the PPL of Albania shall apply to all contracts financed by the World Bank.

(b) 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. Registration shall not be used to assess bidders' qualifications.

(c) Bids shall be opened in public in one location, immediately after the deadline for submission of bids in the presence of the representatives who choose to attend.

(d) The procuring entities shall use sample bidding documents as approved by the World Bank.

(e) In case of higher bid prices compared to the official estimate, all bids shall not be rejected without the prior concurrence of the World Bank.

(f) A single-envelope procedure shall be used for the submission of bids.
(g) 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.

(h) Bidders in the form of a joint venture shall be held jointly and severally liable.

(i) Before rejecting all bids and soliciting new bids, the prior concurrence of the World Bank shall be obtained.

(j) 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.

(k) Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders.

(l) Contracts of long duration (more than 18 months) shall contain appropriate price adjustment provisions.

(m) Bid and contract guarantees shall be in the format included in the bidding documents. The bid guarantee shall be valid for twenty-eight days (28) beyond the original validity period of the bid, or beyond any period of extension if requested. No advance payments shall be made to without a suitable advance payment guarantee.

(n) The bidding document and contract as deemed acceptable by the World Bank shall include provisions stating the World Bank’s policy to sanction firms or individuals, found to have engaged in fraud and corruption as defined in the Procurement Guidelines.

(o) In accordance with the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Loan shall provide that bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the World Bank to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the World Bank. Acts intended to materially impede the exercise of the World Bank’s inspection and audit rights provided for in the Procurement Guidelines constitute an obstructive practice as defined in the Procurement Guidelines.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection (QCBS).

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed
Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection of consulting firms; (F) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines; and (G) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant 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 Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive/ of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Works, Consultants and Non-consulting services, Training, Operating Costs under Part 1, Part 2 (a) and (c), Part 3 (a) and (c) and Part 4 of the Project</td>
<td>6,142,470</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Subprojects under Part 2(b) of the Project</td>
<td>1,817,530</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>7,960,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this paragraph, the term:

(i) “Training and Workshops” means the reasonable costs, as shall have been approved by the World Bank, for training and workshops conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consultants’ services); and

(ii) “Operating Costs” means the reasonable costs, as shall have been approved by the World Bank, for the incremental expenses incurred on account of Project implementation, consisting of vehicle operation and maintenance, communication and insurance costs, banking charges, rental expenses, office (and office equipment) maintenance, utilities, document duplication/printing, consumables, travel cost and per diem for Project staff for travel linked to the implementation of
the Project, and salaries of contractual staff for the Project (but excluding consultants’ services and salaries of officials of the Recipient’s civil service).

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient; or

(b) under Category 2 of the Project, unless and until the Recipient has (i) prepared and submitted a Grants Operational Manual satisfactory to the World Bank; and (ii) adapted the ARDA grants management software for use in the Project in a manner satisfactory to the World Bank.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2019.

**Article IV**

**Effectiveness**

4.01 This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:

(a) The Recipient has prepared and adopted a Project Operations Manual satisfactory to the World Bank.

(b) The Recipient has hired a procurement specialist and a financial management specialist with experience and under terms of reference satisfactory to the World Bank.

(c) The GEF Co-financing Agreement No. TF017364 has been duly authorized or ratified by all necessary governmental and corporate action.

(d) The IBRD Loan Agreement No. 8401 for the Albania Environmental Services Project and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under the IBRD Loan Agreement (other than the effectiveness of this Agreement) have been fulfilled.

**Article V**

**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Minister of Finance
Ministry of Finance
Deshmoret e Kombit
No. 4, Tirana
Republic of Albania

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5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

<table>
<thead>
<tr>
<th>Cable:</th>
<th>Telex:</th>
<th>Facsimile:</th>
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</thead>
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<tr>
<td>INTBAFRAD</td>
<td>248423 (MCI)</td>
<td>1-202-477-6391</td>
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<tr>
<td>Washington, D.C.</td>
<td>64145 (MCI)</td>
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