

CONFORMED COPY

CREDIT NUMBER 3038 ALB

Project Agreement

(Private Industry Recovery Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ALBANIAN GUARANTEE AGENCY

Dated February 25, 1998

CREDIT NUMBER 3038 ALB

PROJECT AGREEMENT

AGREEMENT, dated February 25, 1998, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), and ALBANIAN GUARANTEE AGENCY (AGA).

WHEREAS by the Development Credit Agreement of even date herewith between Albania (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to seven million five hundred thousand Special Drawing Rights (SDR 7,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that AGA agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

WHEREAS AGA, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

## Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and the General Conditions (as so defined) have the respective meanings therein set forth and the following terms have the following meanings:

(a) "Standby Letter of Credit" means the irrevocable standby letter of credit subject to U.C.P., ICC Publication No. 500 (1993 Revision) issued by the Agent Bank in favor of a Guarantee Holder pursuant to which the Agent Bank undertakes to fulfill AGA's payment obligations under the Guarantee.

(b) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986).

(c) "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997.

## ARTICLE II

### Execution of Part A of the Project

Section 2.01. (a) AGA declares its commitment to the objectives of the Project as set forth in Schedule 2 of the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and insurance practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purposes of the carrying out of Part A.1 of the Project, AGA shall:

- (i) enter into an agreement with the Agent Bank (the Agency Agreement), whereunder AGA shall, inter alia, designate the Agent Bank to withdraw funds from the Credit Account and delegate the making of Payments under Guarantee Contracts, such agreement to contain terms and conditions satisfactory to the Association, including (except as the Association shall otherwise agree) those set forth or referred to in Schedule 1 to this Agreement;
- (ii) enter into contracts with Guarantee Holders, providing guarantees against the Covered Risks and containing the terms and conditions substantially similar to those specified in the Standard Form of Guarantee Contract; and
- (iii) duly comply with all its obligations under the Agency Agreement and the Guarantee Contracts.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section and except as the Borrower, the Association and AGA shall otherwise agree, AGA shall carry out Part A.1 of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree: (i) goods required for Part A.3 of the Project shall be procured in accordance with national shopping procedures acceptable to the Association; and (ii) consultants' services required for Part A.3 of the Project shall be procured in accordance with least cost selection basis pursuant to the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines and under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Section 2.03. (a) AGA shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement, the Agency Agreement and the Guarantee Contracts and other matters relating to the purposes of the Credit.

(b) AGA shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by AGA of its obligations under this Agreement, the Agency Agreement and the Guarantee Contracts.

Section 2.04. AGA shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of Part A.1 of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about May 30, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Part A.1 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 Part A.1 of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by July 31, 2000, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Part A.1 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.

Section 2.05. AGA shall:

(a) on the first day following each six-month period after the Effective Date, furnish to the Association a report, in such detail as the Association shall request, on the Guarantee Contracts issued and, if applicable, the Payments made during such period; and

(b) promptly after the expiry of the Guarantee Facility, but in any event not later than six (6) months after the Second GF Closing Date or such later date as may be agreed for this purpose between the Association, the Borrower and AGA, prepare and furnish to the Association a report, of such scope and detail as the Association shall reasonably request, on the execution and initial operation of Part A of the Project, its cost and the benefits derived and to be derived from it, the performance by the Association, the Borrower and AGA of their respective obligations under the Development Credit Agreement and the Project Agreement, respectively, and the accomplishment of the purposes of the Credit.

### ARTICLE III

#### Management and Operations of AGA

Section 3.01. (a) AGA shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, and insurance practices and the provisions of the Operations Manual, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

(b) AGA shall not, without the prior written consent of the Association, amend or otherwise alter the Operations Manual or any provision thereof.

(c) AGA shall take out and maintain with responsible insurers, or make any other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) AGA shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, and to register separately the operations, resources and expenditures related to the Project.

(b) AGA shall:

- (i) have the records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts (Special Account, Escrow Account and Additional Escrow Account) for each fiscal year audited, in accordance with appropriate

auditing principles consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited, and (B) the report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements and the audit thereof, as the Association shall from time to time reasonably request.

#### ARTICLE V

##### Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Association and of AGA hereunder shall terminate on the date on which the Development Credit Agreement shall terminate in accordance with its terms, and the Association shall promptly notify AGA thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI)  
64145 (MCI)

For AGA:

Bulevardi "Desmoret e Kombit"  
Tirana  
Albania

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of AGA, or by AGA on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Managing Director of AGA or such other person or persons as the Managing Director of AGA shall designate in writing, and the Managing Director of AGA shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Tirana, Albania, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Hartmann

Acting Regional Vice President  
Europe and Central Asia

ALBANIAN GUARANTEE AGENCY

By /s/ A. Dabulla

Authorized Representative

SCHEDULE 1

Agency Agreement

1. Except as the Association shall otherwise agree, the Agency Agreement shall provide, in a manner satisfactory to the Association, that the Agent Bank shall have, inter alia, the following duties and responsibilities:

(a) to issue a Standby Letter of Credit upon issuance of a Guarantee Contract by AGA and receipt of the related guarantee fee;

(b) to make Payments to the Guarantee Holders upon presentation of documentary evidence in a form specified in the Operations Manual, that AGA has admitted liability in the amount of the Payment in question or an arbitration award was rendered against AGA in the amount of the Payment in question;

(c) to ensure that the aggregate amount of Guarantee Contracts outstanding at any time shall not exceed the sum of the amount available in the Credit Account, Revolving GF Amounts and the amount in the Additional Escrow Account at that time;

(d) to ensure, prior to issuing a Guarantee Contract to a given Guarantee Holder, that on the relevant date the maximum amount of such Guarantee Contract when added to the contingent liability under all the then other outstanding Guarantee Contracts held by such Guarantee Holder does not exceed the sum of \$1,500,000 equivalent or such other amount as may be agreed upon by the Association from time to time;

(e) to report to AGA on a monthly basis on the Guarantee Contracts and the Standby Letters of Credit issued and their Guarantee Holders; and

(f) to manage the Escrow Account and Additional Escrow Account in the manner prescribed by Schedule 4 to the Development Credit Agreement.

2. (a) The Managing Director of AGA shall, pursuant to Section 2.12(a) of the Development Credit Agreement, irrevocably designate the Agent Bank for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.03(a) and 2.04 (a) of the Development Credit Agreement and Article V of the General Conditions.

(b) Without limitation or restriction to the foregoing, AGA shall, on behalf of the Borrower, entrust the Agent Bank with the responsibility for the preparation of withdrawal applications under the Credit and for the collection of the documents and

other evidence to be furnished to the Association in support of such applications.

## SCHEDULE 2

### Implementation Program

1. For the purpose of carrying out Part A.1 of the Project, AGA shall:

(a) review applications for Guarantee Contracts to verify that each transaction proposed to be covered by the Guarantee Contract meets the following criteria:

- (i) it does not involve the import of goods which are intended for a military or paramilitary purpose or for luxury consumption or are included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower and AGA:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728.43	-	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

- (ii) it does not involve the production or processing of goods which are intended for a military or paramilitary purpose or are included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower and AGA:

Group	Sub-group	Description of Items
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors

- (iii) it complies with the environmental standards satisfactory to the Association, which are set forth in the Operations Manual;
- (iv) it serves a productive purpose by generating production or

processing by enterprises in the territory of the Borrower or enhancing the productive capacity of such enterprises;

(v) its term is consistent with the production cycle or repayment capacity of the enterprise in the territory of the Borrower; and

(vi) its value is not less than \$25,000 equivalent.

(b) ensure, prior to issuing a Guarantee Contract to a given Guarantee Holder, that on the relevant date the Maximum Amount of such Guarantee Contract when added to the contingent liability under all then other outstanding Guarantee Contracts held by such Guarantee Holder does not exceed the sum of \$1,500,000 equivalent or such other amount as may be agreed upon by the Association from time to time;

(c) verify with the Agent Bank prior to issuing a Guarantee Contract that the aggregate amount of Guarantee Contracts outstanding at any time does not exceed the sum of the amount available in the Credit Account, Revolving GF Amounts and the amount in the Additional Escrow Account at that time;

(d) unless the Association directs otherwise by notice to the Borrower and AGA, submit to the Association for prior review and approval each application approved by AGA for a proposed Guarantee Contract together with AGA's evaluation of such application based on criteria set forth in paragraph (a) of this Schedule 2 to the Project Agreement;

(e) issue Guarantee Contracts, upon receipt of no objection from the Association and confirmation from the Agent Bank;

(f) notify the Agent Bank with respect to each Guarantee Contract issued or canceled;

(g) notify the Borrower and the Association of any notice of potential Loss filed by the Guarantee Holder under a Guarantee Contract, investigate whether the events giving rise to the alleged Loss can be remedied, and, if so, use its best efforts to remedy or seek to remedy the same within 45 days of filing of such notice;

(h) within 15 days of filing of a claim by a Guarantee Holder, determine whether Payment is due and notify the Guarantee Holder, the Agent Bank and the Borrower of the determination made; and

(i) maintain copies of and retain for at least one year after the Closing Date, all Guarantee Contracts issued and all records relating to each such Guarantee Contract.

2. AGA shall not enter into any Guarantee Contracts under the Guarantee Facility after the First GF Closing Date.

