

CONFORMED COPY

CREDIT NUMBER 3253 ALB

Development Credit Agreement

(Microcredit Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 19, 1999

CREDIT NUMBER 3253 ALB

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 19, 1999, between ALBANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) Parts C and D of the Project will be carried out by the Borrower and Parts A and B of the Project will be carried out respectively by the Rural Finance Fund (RFF) and Besa Foundation (BF), both with Borrower's assistance, and as part of such assistance, the Borrower will make available to RFF and BF parts of the proceeds of the Credit as provided in this Agreement;

(C) The Borrower intends to contract from the Swiss Agency for Development and Cooperation a grant in a principal amount of two million (2,000,000) Swiss francs to assist in financing of Part A (1) of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Swiss Agency for Development and Cooperation (the SDC Grant Agreement); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

Resolution June such "12. "Participating Country" means any country that the Association determines meets the requirements set forth in Section 10 of No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and "Participating Countries" means, collectively, all countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BF" means Besa Foundation, established as a foundation under the Borrower's Civil Code and registered with the District Court of Tirana under Registration No. 1554 on May 18, 1999.

(b) "BF Finance and Administration Manual" means the finance and administrative manual adopted by BF pursuant to Section 6.01 (e) of this Agreement.

(c) "BF Operations Manual" means the operations manual to be adopted by BF pursuant to Section 6.01 (e) of this Agreement governing the lending policies and practices of BF under Part B of the Project.

(d) "Eligible SCA" means a savings and credit association registered with a respective district court of the Borrower and operating pursuant to the SCA Law (as defined hereinafter), which meets the eligibility criteria set out in paragraph 1 of Section IV of Schedule 4 to this Agreement.

(e) "PIU" means the project implementation unit established within the Borrower's Ministry of Finance for the purpose of overall coordination of the implementation of the Project.

(f) "RFF" means the Rural Finance Fund, established under the Decision of the Council of Ministers of the Borrower No. 207, dated April 28, 1999, as a foundation under the Borrower's Civil Code and registered with the District Court of Tirana under Registration No. 1553 on May 18, 1999.

(g) "RFF Finance and Administration Manual" means the finance and administrative manual adopted by RFF pursuant to Section 6.01 (e) of this Agreement.

(h) "RFF Operations Manual" means the operations manual to be adopted by RFF pursuant to Section 6.01 (e) of this Agreement governing the lending policies and practices of RFF under Part A of the Project.

(i) "RFF Prudential Rules" means the prudential rules for the operations of RFF adopted by its Board of Directors.

(j) "Rural Beneficiary" means an individual private farmer or an individual rural entrepreneur who is a member of an Eligible SCA.

(k) "SCA Law" means the Law on Savings and Credit Associations No. 8089 dated March 21, 1996.

(l) "SCA Prudential Rules" means the prudential rules to be established from time to time by the Borrower or any state regulatory body of SCAs for the financial operations of SCAs, as agreed by the Association.

(m) "Special Account" means the account referred to in Section 2.02(b) of this Agreement.

(n) "Subsidiary Agreement I" means the agreement to be entered into between the Borrower and RFF pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement I.

(o) "Subsidiary Agreement II" means the agreement to be entered into between the Borrower and BF pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement II.

(p) "SCA Loan" means a loan made or to be made to a Rural Beneficiary by an Eligible SCA for a Subproject I out of the equivalent of the proceeds of the Credit relent to such SCA by RFF.

(q) "Subsidiary Loan I" means a loan made by the Borrower to RFF for the purpose of on lending to Eligible SCAs under Subsidiary Agreement I pursuant to Section 3.01 (c) of this Agreement.

(r) "Subsidiary Loan II" means a loan made by the Borrower to BF for the purpose of on lending to Urban Beneficiaries under Subsidiary Agreement II pursuant to Section 3.01 (d) of this Agreement.

(s) "Subloan I" means a loan made or proposed to be made by RFF to an Eligible SCA for the purpose of on lending to Rural Beneficiaries for Subprojects I out of the equivalent of the proceeds of the Credit relent to RFF.

(t) "Subloan II" means a loan made or proposed to be made by BF to an Urban Beneficiary for Subprojects II out of the equivalent of the proceeds of the Credit relent to BF.

(u) "Subproject I" means a specific investment project for a productive activity which meets the criteria specified in the RFF Operations Manual, to be carried out by a Rural Beneficiary utilizing the proceeds of a SCA Loan.

(v) "Subproject II" means a specific investment project for a productive activity which meets the criteria specified in the BF Operations Manual, to be carried out by an Urban Beneficiary utilizing the proceeds of a Subloan II.

(w) "Urban Beneficiary" means an individual urban microentrepreneur or self-employed individual living in an urban area.

(x) "Lek" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eight million nine hundred thousand Special Drawing Rights (SDR 8,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for:

(i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement (except Part A (3) and Part B (2) of the Project) and to be financed out of the proceeds of the Credit;

(ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by RFF or BF on account of withdrawals made respectively by an Eligible SCA under a Subloan I or by an Urban Beneficiary under a Subloan II to meet the reasonable cost of goods, works and

services required for a Subproject I or for a Subproject II in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a bank on terms and conditions satisfactory to the Association, 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 Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2005 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2009, and ending January 15, 2039. Each installment to and including the installment payable on January 15, 2019, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(i) shall carry out Parts C and D of the Project through PIU with due diligence and efficiency and in conformity with appropriate administrative, financial, banking, accounting, agricultural and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts C and D of the Project; and

(ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause RFF and BF to carry out respectively Part A and Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, banking, accounting agricultural and environmental practices, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable RFF and BF to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts C and D of the Project and cause RFF and BF to carry out respectively Part A and Part B of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) For the purposes of Part A of the Project, the Borrower shall make the proceeds of the Credit allocated from time to time to Categories (1) and (3)(a) of the table set forth in paragraph 1 of Schedule 1 to this Agreement available to RFF under a subsidiary agreement to be entered into between the Borrower and RFF under terms and conditions satisfactory to the Association including, but not limited to, terms and conditions set forth in Section II of Schedule 4 to this Agreement.

(d) For the purposes of Part B of the Project, the Borrower shall make the proceeds of the Credit allocated from time to time to Categories (2) and (3)(b) of the table set forth in paragraph 1 of Schedule 1 to this Agreement available to BF under a subsidiary agreement to be entered into between the Borrower and BF under terms and conditions satisfactory to the Association including, but not limited to, terms and conditions set forth in Section III of Schedule 4 to this Agreement.

(e) The Borrower shall exercise its rights under Subsidiary Agreement I and Subsidiary Agreement II in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreements I and II or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's

objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, acting through PIU, shall establish and at all times maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, acting through PIU, shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 2000, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the

Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. (a) The Borrower shall cause each of RFF and BF to 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 respectively to Part A and Part B of the Project.

(b) The Borrower shall cause each of RFF and BF to:

(i) have its records, accounts and financial statements (balance sheets, statements) 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 its financial statements 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 such records, accounts and financial statements and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) RFF Statute, RFF Operations Manual, RFF Prudential Rules or RFF Finance and Administration Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of RFF or its ability to carry out Part A of the Project.

(b) BF Statute, BF Operations Manual or BF Finance and Administration Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of BF or its ability to carry out Part B of the Project.

(c) More than 10 percent (10%) of the total principal amount then outstanding of all Sub-loans made by RFF to Eligible SCAs shall have been overdue for a period of more than sixty (60) days.

(d) More than 10 percent (10%) of the total principal amount then outstanding of all Sub-loans made by BF to Urban Beneficiaries shall have been overdue for a period of more than sixty (60) days.

(e) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of SDC Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the SDC Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraphs (a), (b), (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the Subsidiary Agreement I has been executed on behalf of the Borrower and RFF;
- (b) the Subsidiary Agreement II has been executed on behalf of the Borrower and BF;
- (c) the financial management system referred to in Section 4.01 (a) has been installed and operational in form and substance satisfactory to the Association;
- (d) an external auditor satisfactory to the Association has been selected for the purposes of the Project; and
- (e) Operations Manuals and Finance and Administration Manuals satisfactory to the Association have been adopted by each of RFF and BF.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

- (a) that the Subsidiary Agreement I has been duly authorized or ratified by the Borrower and RFF and is legally binding upon the Borrower and RFF in accordance with its terms; and
- (b) that the Subsidiary Agreement II has been duly authorized or ratified by the Borrower and BF and is legally binding upon the Borrower and BF in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Bulevardi "Deshmoret e Kombit"
Tirana
Albania

Cable address:

Telex:

4295 Komplan AB

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) or
64145 (MCI)

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.

ALBANIA

By /s/ Pandeli Majko

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J. D. Wolfensohn

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Subloans to Eligible SCAs under Part A (3) of the Project	3,440,000	100% of amounts disbursed
(2) Subloans to Urban Beneficiaries under Part B (2) of the Project	3,440,000	100% of amounts disbursed
(3) Capacity Building Grants		
(a) to RFF	150,000	100%
(b) to BF	300,000	100%
(4) Goods under Parts C and D of the Project	20,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% locally

of local expenditures for other items procured

(5)	Consultants' services and training under Parts C and D of the Project	520,000	100%
(6)	Incremental Operating Costs of PIU	90,000	100%
(7)	Unallocated	940,000	
	TOTAL	8,900,000	
		=====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating costs" means operating expenses of PIU which would not have been incurred absent the Project including, but without limitation, costs with respect to: (i) PIU staff salaries, other than civil servants' salaries, hired for the purposes of the Project; (ii) maintenance and operation of equipment procured or used under the Project; and (iii) office supplies.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) Sub-loans to Eligible SCAs; (ii) Sub-loans to Urban Beneficiaries; (iii) Capacity Building Grants; (iv) goods under contracts costing less than \$50,000 equivalent each; (v) services under contracts with consultant firms costing less than \$100,000 equivalent each, and contracts with individual consultants costing less than \$50,000 equivalent each; (vi) incremental operating costs of PIU; and (vii) training.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) provide financial services to individual private farmers and rural entrepreneurs through the development of a sustainable savings and credit associations network in rural areas; and (b) provide financial services to individual microentrepreneurs and self-employed in urban areas through the development of a sustainable microcredit institution.

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

Part A: Rural Savings and Credit Associations Network

- (1) Establishment and development of SCAs in rural areas through the provision of technical assistance and training.
- (2) Strengthening the institutional capacity of RFF through provision of capacity building grants.
- (3) Provision of a credit line to RFF for the purpose of on-lending to Eligible SCAs.

Part B: Urban Microcredit

- (1) Strengthening the institutional capacity of Besa Foundation through provision of capacity building grants.
- (2) Provision of a credit line to Besa Foundation for the purpose of on-lending to Urban Beneficiaries.

Part C: Legal and Regulatory Environment

Improvement of the legal and regulatory environment for microfinance through provision of technical assistance, training, and equipment.

Part D: Project Management

Project implementation support for PIU through provision of technical assistance, training, equipment, and financing of incremental operating costs.

* * *

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods under Parts C and D of the Project 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 subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines) and the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Procurement Procedures

1. National Shopping

Goods under Parts C and D of the Project, for an aggregate amount of \$22,000, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Post Review

With respect to each contract for goods under Parts C and D of the Project the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply. ~
Section II. Employment of Consultants

Part A: General

1. 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, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines) and the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Procedures for the Selection of Consultants

1. Least-cost Selection

Services for annual project audit and beneficiary assessments under Part D of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services for SCA regulation and supervision, financial management and project evaluation under Parts C and D of the Project 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 D: Review by the Association 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 Project shall be furnished to the Association 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 the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for annual project audit and beneficiary assessments estimated to cost the equivalent of \$25,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the 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.

SCHEDULE 4

Implementation Program, Terms and Conditions of
Subsidiary Agreements and Subloan Agreements

Section I: Implementation Program

1. The Borrower shall:

(a) maintain at all times during the execution of the Project the PIU with a Project Manager, whose qualifications and experience shall be satisfactory to the Association, and who shall be assisted by key staff in adequate numbers satisfactory to the Association;

(b) 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 the Project and the achievement of the objectives thereof;

(c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (b) 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

(d) review with the Association, by December 31, 2001, or such later date as the Association shall request, the report referred to in paragraph (c) 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.

Section II: Subsidiary Agreement I

For the purpose of Part A of the Project the Borrower shall enter into Subsidiary Agreement I with RFF which shall include, inter alia, the following terms

and conditions:

1. The Borrower shall make available to RFF the proceeds of the Credit allocated from time to time to Categories (1) and (3)(a) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.
2. RFF shall carry out its operations in accordance with RFF Prudential Rules and under the procedures set out in RFF Operations Manual and in RFF Finance and Administration Manual both of which shall be at all times satisfactory to the Association.
3. RFF shall provide Subloans I to Eligible SCAs on terms and conditions set forth in Section IV of this Schedule.
4. The principal amount of the Subsidiary Loan I shall be repaid by RFF to the Borrower in Lek in equal semi-annual installments over twenty (20) years, including a grace period of five (5) years.
5. The principal amount of the Subsidiary Loan I repayable by RFF shall be the equivalent in Lek (determined as of the date, or respective dates, of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies withdrawn from the Credit Account in respect of Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.
6. Interest shall be charged on the Subsidiary Loan I at the rate of the minimum six-month deposit rate established by the Bank of Albania, minus six (6) percentage points.

Section III: Subsidiary Agreement II

For the purpose of Part B of the Project the Borrower shall enter into Subsidiary Agreement II with BF which shall include, inter alia, the following terms and conditions:

1. The Borrower shall make available to BF the proceeds of the Credit allocated from time to time to Categories (2) and (3)(b) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.
2. BF shall carry out its operations in accordance with the procedures set out in BF Operations Manual and in BF Finance and Administration Manual both of which shall be at all times satisfactory to the Association.
3. BF shall provide Subloans II to Urban Beneficiaries on terms and conditions set forth in Section V of this Schedule.
4. The principal amount of the Subsidiary Loan II shall be repaid by BF to the Borrower in Lek in equal semi-annual installments over fifteen (15) years, including a grace period of five (5) years.
5. The principal amount of the Subsidiary Loan I repayable by BF shall be the equivalent in Lek (determined as of the date, or respective dates, of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies withdrawn from the Credit Account in respect of Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement.
6. Interest shall be charged on the Subsidiary Loan II at the rate of the minimum six-month deposit rate established by the Bank of Albania, minus five (5) percentage points.

Section IV: Terms and Conditions of Subloans I

1. Subloans I under Part A (3) of the Project shall be made by RFF to SCAs which fulfill the following eligibility criteria:
 - (a) are registered in accordance with the SCA Law;
 - (b) maintain their accounting records according to established standards acceptable to the Association;
 - (c) have received training from RFF or another source acceptable to the Association; and

(d) are in compliance with the SCA Prudential Rules.

2. Proceeds of Subloans I shall be used by Eligible SCAs for the purpose of on-lending to Rural Beneficiaries on terms and conditions whereby Eligible SCAs shall:

(a) appraise Subprojects I and supervise, monitor and report to RFF on the carrying out of Subprojects I by Rural Beneficiaries in accordance with procedures satisfactory to RFF and the Association;

(b) on-lend to Rural Beneficiaries an amount which shall not, in any event, unless the Association otherwise agrees, exceed a maximum of \$8,000 equivalent for each Subproject I which are: (i) technically feasible and economically, financially, and commercially viable; and (ii) in compliance with all environmental laws and standards of the Borrower and the guidelines for environmental assessment agreed with the Association; and

(c) require that (i) goods and services to be financed under Subprojects I out of the proceeds of the Credit shall be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery, efficiency and reliability; and (ii) any such goods shall be used exclusively in the carrying out of Subprojects I.

3. RFF and each Eligible SCA shall exercise their rights in relation to Subloans I in such manner as to protect their interests and the interests of the Borrower and the Association and to accomplish the purposes of the Credit.

Section V: Terms and Conditions of Subloans II

Subloans II shall be made on terms and conditions whereby BF shall:

1. make Subloans II to Urban Beneficiaries for Subprojects II which meet the criteria specified in the BF Operations Manual, and which are: (i) technically feasible and economically, financially, and commercially viable; and (ii) in compliance with all environmental laws and standards of the Borrower and the guidelines for environmental assessment agreed with the Association;

2. appraise Subprojects II and supervise, monitor and report on the carrying out by Urban Beneficiaries of Subprojects II in accordance with procedures satisfactory to the Association;

3. make Subloans II to each Urban Beneficiary in accordance with the BF Operations Manual, which shall not, in any event, unless the Association otherwise agrees, exceed a maximum amount of \$10,000 equivalent for each Subloan II;

4. require that (i) goods and services to be financed under Subprojects II out of the proceeds of the Credit shall be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery, efficiency and reliability; and (ii) any such goods shall be used exclusively in the carrying out of Subprojects II; and

5. exercise its rights in relation to each Subloan II in such manner as to protect its interests and the interests of the Borrower and the Association and to accomplish the purposes of the Credit.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association 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) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for 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, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower 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 the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 the Association 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 Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund

to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association 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 Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

