

CONFORMED COPY

CREDIT NUMBER 2795 ALB

PROJECT AGREEMENT

(Agro-Processing Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

RURAL COMMERCIAL BANK

Dated December 19, 1995

CREDIT NUMBER 2795 ALB

PROJECT AGREEMENT

AGREEMENT, dated December 19, 1995 between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and RURAL COMMERCIAL BANK (RCB).

WHEREAS (A) 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 four million one hundred thousand Special Drawing Rights (SDR 4,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that RCB agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and RCB, a portion of the proceeds of the Credit provided for under the Development Credit Agreement will be relented to RCB on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS RCB, 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 in the General Conditions (as so defined) have the respective

meanings therein set forth.

## ARTICLE II

### Execution of Part B of the Project; Management and Operations of RCB

Section 2.01. RCB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Part B of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Charter and the Statement of General Policy.

Section 2.02 (a) RCB undertakes that, unless the Association shall otherwise agree, Sub-loans shall be made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to this Agreement.

(b) RCB shall exercise its rights in relation to each Sub-project in such manner as to: (i) achieve the purposes of the Project; (ii) protect the interests of the Association, the Borrower and of RCB; and (iii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement.

Section 2.03. RCB shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Part B of the Project.

Section 2.04. RCB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, RCB shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. RCB shall take all necessary actions required on its part for:

(a) the preparation of its financial restructuring and privatization plan, satisfactory to the Association, not later than December 31, 1996, and the implementation of the said plan thereafter;

(b) not change its organizational structure except the changes which shall be introduced pursuant to the restructuring plan as mentioned in paragraph (a) above, or amend, suspend, abrogate, repeal or waive its Charter without prior approval of the Association; and

(c) maintain ILU with staffing and functions acceptable to the Association.

Section 2.06. (a) RCB shall, at the request of the Association, exchange views with the Association with regard to the progress of Part B of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) RCB shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part B of the Project, the accomplishment of the purposes of the Credit, or the performance by RCB of its obligations under this Agreement and under the Subsidiary Loan Agreement.

## ARTICLE III

### Financial Covenants

Section 3.01. (a) RCB shall maintain procedures and records adequate to monitor and record the progress of Part B of the Project and of each Sub-project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of RCB.

(b) RCB shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related 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 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 said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 3.02. RCB shall take such steps satisfactory to the Association as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies (including Leks) used in its operations.

#### ARTICLE IV

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

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of RCB thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify RCB of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. 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 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

For RCB:

Rural Commercial Bank  
Zhan d'pArk Street  
Tirana, Albania

Telex:

2108 RCB AB

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of RCB, or by RCB on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by Chief Executive Officer or such other person or persons as Chief Executive Officer shall designate in writing, and RCB shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J. Loos

Acting Regional Vice President  
Europe and Central Asia

RURAL COMMERCIAL BANK

By /s/ L. Dilja

Authorized Representative

SCHEDULE

Procedures for, and Terms and Conditions  
of, Sub-loans

1. Sub-loans shall be made by RCB to: (a) Beneficiaries, other than farmers, who each shall have established, satisfactory to RCB, on the basis of Operational Guidelines, that: (i) it is creditworthy, and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of the Sub-project; (ii) its projected cash generation or equity increases shall be sufficient to enable it to meet the estimated expenditures required for the Sub-project; and (iii) for each Beneficiary other than an individual entrepreneur, it is in a position to maintain a debt to equity ratio of not more than 70:30 and a debt service coverage ratio of not less than 1.5:1; or

(b) farmers who each shall have established, satisfactory to RCB, on the basis of Operational Guidelines, that he/she is creditworthy, and has a satisfactory financial structure and other resources required for the efficient carrying out of the Sub-project.

2. Sub-loans shall be made by RCB for Sub-projects which are determined on the basis of guidelines acceptable to the Association: (a) to be technically feasible and financially viable; (b) have a financial rate of return in real terms of at least 12 percent; and (c) are designed with appropriate environmental standards consistent with the Albanian legislation satisfactory to the Association.

3. Unless otherwise agreed with the Association, the principal amount of each Sub-loan shall be limited to an amount of \$250,000 equivalent and the sum of Sub-loans outstanding at any time to one single Beneficiary shall not exceed \$400,000 equivalent.

4. Except as the Association shall otherwise agree, no new commitments for Sub-loans shall be made above the aggregate amount of SDR 1,700,000, unless RCB shall have furnished to the Association evidence showing that satisfactory collection rate of not less than 90% has been maintained by RCB on all loans made by RCB and financed by the Association including the Sub-loans financed out of the proceeds of the Credit by the Association.

5. The maturity of Sub-loans shall be not less than 2 years and not more than 7 years, inclusive of a grace period of not more than one year. At least 50% of the amount allocated for Sub-loans under Category (1) of the table set forth in paragraph (i) of Schedule 1 to the Development Credit Agreement shall be onlend with maturity of four years or more.

6. Each Sub-loan shall be charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at the rate of interest of RCB applicable for investment loans based on RCB's interest rate policies, provided however, that the rate of interest on Sub-loans shall be, at all times, above the prevailing rate of inflation.

7. All Sub-loans shall be appraised and approved by the ILU.

8. RCB shall maintain evaluation and supervision procedures for Sub-loans, satisfactory to the Association, including review of each Sub-project on the basis of environmental guidelines consistent with the Albanian legislation and satisfactory to the Association.

9. No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Credit unless:

(a) the Sub-loan for such Sub-project shall have been approved by the Association and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the application and information required under paragraph 10(a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan for which the Association has authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the request and information required under paragraph 10(b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of the Development Credit Agreement and this Agreement, a free-limit Sub-loan shall be a Sub-loan for a Sub-project in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum of \$200,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Credit or of any other credit, provided for in any outstanding credit agreement between the Association and the Borrower entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Sub-project.

10. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Association for approval, RCB shall furnish to the Association an application, in form satisfactory to the Association, together with: (i) a description of the Beneficiary and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Association shall reasonably request.

(b) Each request by RCB for authorization to make withdrawals from the Credit Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit, and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Association on or before December 31, 1998.

11. Sub-loans shall be made on terms whereby RCB shall obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect the interests of the Association and RCB, including the right to:

(a) require the Beneficiary to carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that goods, works and services shall be procured in accordance with the procedures provided in Schedule 3 to the Development Credit Agreement and such goods shall be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) obtain all such information as the Association or RCB shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(f) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Credit upon failure by such Beneficiary to perform its obligations under its contract with RCB.

