Swiss Grant Agreement
(for the cofinancing of the
Rural Poverty Alleviation Pilot Project and
the Rural Development Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of Grant Funds
provided by
SWITZERLAND

Dated March 23, 1995

SWISS GRANT AGREEMENT

AGREEMENT, dated March 23, 1995, between ALBANIA (the Recipient) and
INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) acting as Administrator (the
Administrator) of grant funds provided by SWISS COOPERATION OFFICE FOR EASTERN EUROPE
(SWITZERLAND).

WHEREAS (A) pursuant to a Development Credit Agreement (Rural Poverty
Alleviation Pilot Project), dated March 2, 1993, between the Recipient and the
Association (the IDA Credit Agreement I) and a Project Agreement dated March 2, 1993,
between the Rural Development Fund and the Association (the IDA Project Agreement),
the Association has agreed to extend to the Recipient a credit in an amount in various
currencies equivalent to one million eight hundred thousand Special Drawing Rights
(SDR 1,800,000) to assist in the financing of the Project described in Schedule 2 to
the IDA Credit Agreement I (the Project);

(B) pursuant to a Development Credit Agreement (Rural Development Project) to
be entered between the Recipient and the Association (the IDA Credit Agreement II) and
a Project Agreement to be entered between the Albanian Development Fund and the
Association (the IDA Project Agreement II), the Association intends to extend to the
Recipient a credit in an amount in various currencies equivalent to four million one
hundred thousand Special Drawing Rights (SDR 4,100,000) to assist in the financing of
the Project described in Schedule 2 to the IDA Credit Agreement II (the Project); and

(C) pursuant to Letters of Agreement dated December 29, 1994 and January 4,
1995, between Switzerland and International Bank for Reconstruction and Development
(the Bank) and the Association, Switzerland has agreed in financing the Rural Poverty
Alleviation Pilot Project and the Rural Development Project in the District of Puka
and has requested the Bank and the Association, and the Bank and the Association have
agreed, to administer Swiss grant funds to be made available by Switzerland for the
financing of the Project in accordance with the provisions of such letter agreement;
NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I
General Conditions; Definitions

Section 1.01. (a) The following provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 1, 1985, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

(i) Article I;
(ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (12) and (13), 2.02 and 2.03;
(iii) Section 3.01;
(iv) Sections 4.01 and 4.05;
(v) Article V;
(vi) Sections 6.01, 6.02 (a), (b), (c), (d), (e), (g) and (h), 6.03, 6.04 and 6.06;
(vii) Section 8.01 (b);
(viii) Sections 9.01, 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08;
(ix) Article X; and
(x) Article XI.

(b) The General Conditions shall be modified as follows:

(i) the term "Association", wherever used in the General Conditions, other than in Section 6.02 (e) thereof, means the International Development Association acting as Administrator of the Swiss Grant pursuant to the letter agreement between Switzerland and the Bank and the Association referred to in Recital (C) of this Agreement, except that in Section 6.02, the term "Association" shall also include the International Development Association acting in its own capacity;

(ii) the term "Borrower", wherever used in the General Conditions, means the Recipient;

(iii) the term "Development Credit Agreement", wherever used in the General Conditions, means this Agreement except that in Section 6.02 (a), the term "Development Credit Agreement" means the IDA Credit Agreement;

(iv) the term "Credit", wherever used in the General Conditions, means the Swiss Grant;

(v) the term "Credit Account", wherever used in the General Conditions, means the Grant Account, an account opened by the Administrator on its books in the name of the Recipient to which the amount of the Swiss Grant is credited; and

(vi) the term "Project" wherever used in the General Conditions, means the Project described in Schedule 2 to this Agreement.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions, in the Recitals to this Agreement and in the IDA Credit Agreement have the respective meanings therein set forth.

ARTICLE II

The Swiss Grant
Section 2.01. The Administrator agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount of one million eight hundred sixty two thousand seven hundred seventy-five dollars and fifty four cents ($1,862,775.54).

Section 2.02. (a) The amount of the Swiss Grant may be withdrawn from the Swiss Grant Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and the Administrator, for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the Swiss Grant.

(b) The Recipient shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. Except as the Administrator shall otherwise agree, goods, works and services to be financed out of the Swiss Grant shall be procured in accordance with the provisions of Schedule 1 to the IDA Project Agreements I and II.

Section 2.04. The Closing Date shall be December 31, 1997 or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

ARTICLE III
Execution of the Project

Section 3.01. Except as otherwise expressly provided herein, Articles III, IV and V of the IDA Credit Agreements I and II, including the Schedules referred to therein, are hereby incorporated into this Agreement with the same force and effect as if they were fully set forth herein, it being understood that all references in said Articles to the "Association" shall be deemed to be references to the Association as Administrator of the Swiss Grant under this Agreement, all references to the "Borrower" shall be deemed to be references to the Recipient, and all references to the "Credit" and the "Credit Account" shall be deemed to be references to the Swiss Grant and the Swiss Grant Account, respectively.

Section 3.02. The Recipient shall prepare and furnish to the Association and Switzerland a semi-annual report on the progress of and the execution of the Project activities financed by the Swiss Grant, separately for each Project component.

ARTICLE IV
Effectiveness

Section 4.01. This Agreement shall become effective upon its execution by the parties hereto.

ARTICLE V
Representation

Section 5.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
Bulevardi "Deshmoret e Kombit"
Tirana
Albania

Telex:
4295 Komplan AB
For the Administrator:

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

Cable address: Telex:

INDEVAS 197688 (TRT),
Washington, D.C. 248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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

ALBANIA

By /s/ Dylber Vrioni
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the Swiss Grant

By /s/ Wilfried Thalwitz
Authorized Representative

SCHEDULE 1
Withdrawal of the Swiss Grant

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Swiss Grant Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil works</td>
<td>603,151.00</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Small-scale credits for village credit funds</td>
<td>318,535.00</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Small-scale credits for microenterprises</td>
<td>265,020.00</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Technical assistance, studies, and training</td>
<td>354,665.00</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Equipment</td>
<td>71,523.00</td>
<td>100% of foreign expenditures,</td>
</tr>
</tbody>
</table>
100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally

(6) Incremental operating costs 119,450.00 100%

(7) Administration and audit fees 39,255.51

(8) Unallocated 91,176.03

TOTAL 1,862,775.54

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of the IDA Credit Agreement I.

3. The Administrator may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding $40,000 equivalent, under such terms and conditions as the Administrator shall specify by notice to the Recipient.

**SCHEDULE 2**

Description of the Project

For the purposes of this Swiss Grant Agreement, "Project" means the Project described in Schedule 2 to the IDA Credit Agreements I and II. The expenditures to be financed under this Swiss Grant Agreement will be limited to the reasonable cost of goods, works and services required for Project activities in the District of Puka. In addition to the Project described in Schedule 2 to the IDA Credit Agreements, the Swiss Grant will finance loans not more than an amount equivalent to five thousand dollars ($5,000) to microentrepreneurs or other urban residents for income generating activities in urban microbusiness including, inter alia, small trade, small business, services, artisanal production of all types and basic contribution and rehabilitation.

**SCHEDULE 3**

Special Account

1. For the purposes of this Schedule:

   (a) the term "eligible Categories" means Categories (1) to (5) 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, works and services required for the Project and to be financed out of the amount of the Swiss Grant 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 $400,000 to be withdrawn from the Grant 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 Administrator 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 Recipient shall furnish to the Administrator a request or requests for a deposit or deposits which do not
exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Administrator 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 Administrator shall, on behalf of the Recipient, withdraw from the Swiss Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Administrator from the Swiss Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Special Account:

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Administrator 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 Grant Account of the remaining unwithdrawn amount of the Swiss Grant allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator 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; (ii) was not justified by the evidence furnished to the Administrator, the recipient shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

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

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

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