

Public Disclosure Authorized

OFFICIAL DOCUMENTS

LOAN NUMBER 8689-AL

Loan Agreement

(Competitiveness Development Policy Loan)

between

REPUBLIC OF ALBANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated *February 10*, 2017

LOAN NUMBER 8689-AL

LOAN AGREEMENT

Agreement dated *February 10*, 2017, entered into between REPUBLIC OF ALBANIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (i) the actions which the Borrower has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (ii) the Borrower’s maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of sixty-five million eight hundred thousand Euro (EUR 65,800,000) (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, however, that the interest payable shall in no event be less than zero percent (0%) per annum. Notwithstanding the foregoing, if any amount of the Withdrawn Loan

Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.06. The Payment Dates are March 1 and September 1 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 5 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
 - (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment, a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, the Bank is satisfied with the progress achieved by the Borrower in carrying out the

Program and with the adequacy of the Borrower's macroeconomic policy framework.

- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.

- 6.02. The Borrower's Address is:

Ministry of Finance
Bulevardi "Deshmoret e Kombit" No. 3
Tirana, Albania

Facsimile:

355 42228494

- 6.03. The Bank's Address is:

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

Telex:

Facsimile:

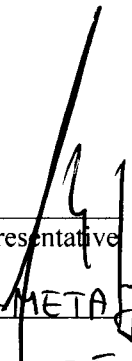
248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at Tirana, Republic of Albania, as of the day and year first above written.

REPUBLIC OF ALBANIA

By



Authorized Representative

Name: ARBEN AHMETAJ

Title: MINISTER OF FINANCE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By


Authorized Representative

Name: ELLEN GOLDSTEIN

Title: COUNTRY DIRECTOR, ECCWB

SCHEDULE 1
Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

A. **Actions Taken Under the Program**

The actions taken by the Borrower under the Program include the following:

1. Approval of an investment policy statement outlining the Borrower's commitment and action plan to develop a comprehensive investment law compatible with international best practice, as evidenced by the Decision of the Council of Ministers No. 579 "On the approval of the Guidance on Investment Policy of the Government" adopted on August 3, 2016, published in the Official Gazette No. 153 dated August 12, 2016.
2. Adoption of measures to establish the secretariat for addressing grievances of investors, as evidenced by the Order of the Minister of Economic Development, Tourism, Trade and Entrepreneurship No. 6299 "On necessary actions to create the mechanism for addressing investors' grievances in AIDA" issued on August 3, 2016.
3. Adoption of a Territorial Planning and Development Decision outlining the guidelines for the new constructions permits process and introducing the new online platform for issuing construction permits, as evidenced by the letter dated February 10, 2016 (Protocol No. 780/1) issued by the Minister of Urban Development to all municipalities in the Borrower's territory and other stakeholders in the construction sector.
4. Adoption of new connections to the electricity distribution system, as evidenced by Decision No. 166 "On the Regulation of New Connections on the Distribution Network" issued by ERE dated October 10, 2016, published through ERE website http://ere.gov.al/doc/VENDIM_No.166_2016.pdf.
5. Enactment of the law merging the Borrower's National Registration Center and the National Licensing Center, as evidenced by Law 131/2015 dated November 26, 2015, published in the Official Gazette No. 215 dated December 14, 2015.
6. (i) establishment of the Market Surveillance Inspectorate as evidenced by the Decision of the Council of Ministers No. 36, dated January 20, 2016 "On the Creation, Organization and Functioning of the Market Surveillance State Inspectorate," published in the Official Gazette No.10 dated February 1, 2016; and (ii) approval of the organization structure of the Market Surveillance Inspectorate, as evidenced by Prime Minister's Order No. 86 dated May 16, 2016 "Order of the

Prime Minister on the Approval of the organizational structure of the State Market Surveillance Inspectorate”.

7. Adoption of a risk management policy and restructuring of the Risk Management Unit within the NFA, as evidenced by the Risk Management Policy adopted by NFA in May 2016.
8. Adoption of the Local Clearance Instruction incorporating best practices clarifying: (a) criteria relating to grant of a local customs clearance authorization; (b) procedural actions to be taken from the moment the goods arrive at the border until they are released; and (c) duties of the economic operator, as evidenced by Instruction No. 10564 issued by the Directorate General of Customs dated 22 April 2016 “Concerning simplified procedures, customs clearance in the premises of the economic operator”.
9. Reduction of number of free freight storage days at the port of Durres by amending port regulations as evidenced by Storage Regulation No. 1568 dated July 14, 2015 issued jointly by the Minister of Transport and Infrastructure and the Minister of Finance on September 16, 2015 published in the Official Gazette No. 162 of 2015.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Euro)
(1) Single Withdrawal Tranche	65,635,500
(2) Front-end Fee	164,500
TOTAL AMOUNT	<u>65,800,000</u>

C. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.

D. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is January 31, 2018.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each March 1 and September 1 Beginning March 1, 2022 through March 1, 2037	3.13%
On September 1, 2037	2.97%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the

principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

APPENDIX

Section I. Definitions

1. "AIDA" means Albanian Investment Development Agency established further to Law No. 10303 published in the Official Gazette No.105 dated August 11, 2010.
2. "ERE" means Albanian Energy Regulator Authority established further to Law No. 43/2015 dated April 30, 2015 "For Power Sector" published in the Official Gazette No. 87 dated May 28, 2015 and Law No. 9946 dated June 30, 2008 "For Natural Gas Sector" published in the Official Gazette No. 114 dated July 22, 2008.
3. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of 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) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.4	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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
4. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
 5. "NFA" means National Food Agency, the Borrower's agency for the oversight of food established further to Law No. 10433 dated June 16, 2011 as amended through January 28, 2008.
 6. "Program" means: (a) the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty set forth or referred to in the letter dated December 6, 2016 from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution; as well as, or including, (b) the actions set forth in Section I of Schedule I to this Agreement.
 7. "Single Withdrawal Tranche" means the amount of the Loan allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule I to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.

2. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
3. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
4. Section 3.01. (*Front-end Fee*) is modified to read as follows:

“Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “Front-end Fee”).

(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the “Commitment Charge”). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date.”

5. Sections 5.01 (*Project Execution Generally*) and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the subsequent Sections in Article V are renumbered accordingly.
6. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 5 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
7. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 5 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

8. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 5 above) is modified to read as follows:

“Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

9. In the Appendix, **Definitions**, all references to Section numbers and paragraphs are modified, as necessary, to reflect the modifications set forth above.
10. The Appendix is modified by inserting a new paragraph 19 with the following definition of “Commitment Charge”, and renumbering the remaining paragraphs accordingly:
 - “19. “Commitment Charge” means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b).”
11. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Eligible Expenditure”) is modified to read as follows:
 - “37. “Eligible Expenditure” means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”
12. Renumbered paragraph 44 (originally paragraph 43) of the Appendix (“Financial Statements”) is deleted in its entirety.
13. In paragraph 48 of the Appendix, the definition of “Front-end Fee” is modified by replacing the reference to Section 3.01 with Section 3.01 (a).
14. In paragraph 67 of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:
 - “67. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

15. In paragraph 72 of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.
16. The defined term “Project” in paragraph 75 of the Appendix is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):
 - “75. “Program” means the program referred to in the Loan Agreement in support of which the Loan is made.”