

**OFFICIAL
DOCUMENTS**

EXECUTION VERSION

NUMBER G-2340

INDEMNITY AGREEMENT

(Albania Public Finance Policy Based Guarantee)

between

REPUBLIC OF ALBANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated JUNE 15, 2015

INDEMNITY AGREEMENT

AGREEMENT, dated JUNE 15, 2015 between the **REPUBLIC OF ALBANIA** (the "**Member Country**") and the **INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT** (the "**Bank**") in connection with the guarantee (the "**Guarantee**") provided by the Bank under the term facility agreement (the "**Guaranteed Agreement**") of even date herewith among Deutsche Bank AG, London Branch (the "**Beneficiary**") (as, *inter alia*, as lender), the Member Country (acting as borrower) and the Bank (as guarantor) in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide the Guarantee on the basis, *inter alia*, of (a) the actions which the Member Country has already taken under the Program and which are described in Section I of the Schedule to this Agreement, and (b) the Member Country's maintenance of an adequate macroeconomic policy framework. The Member Country and the Bank therefore hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The provisions of the General Conditions (as defined in the Appendix to this Agreement) set forth in Section II of the Appendix to this Agreement constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in Section I of the Appendix to this Agreement.

ARTICLE II

Indemnity by Member Country to the Bank; Opinion; Guarantee Fee

Section 2.01. In consideration of the Bank providing the Guarantee on the terms and conditions set out in the Guaranteed Agreement, the Member Country hereby irrevocably and unconditionally agrees:

(a) to reimburse the Bank immediately on demand or as the Bank may otherwise direct in writing for any amount paid by the Bank under the Guarantee together with interest thereon at the rate per annum determined by the Bank and notified to the Member Country (which rate shall not exceed the Bank's highest prevailing lending rate for loans with a fixed spread denominated in the Payment Currency, as may be shown from time to time on the Bank's external website) from the date such payment is made by the Bank until such amount is reimbursed in full;

(b) to indemnify the Bank on demand and hold the Bank harmless against all actions, proceedings, liabilities, claims, losses, damages, costs and expenses brought against, suffered or incurred by the Bank directly or indirectly in relation to or arising out of or in connection with the Guarantee (except as otherwise provided in Section 8.04(i) of the General Conditions); and

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(c) that the obligations of the Member Country under this Agreement will not be affected by any act, omission, matter or thing which, but for this Section, would reduce, release or prejudice any of its obligations under this Agreement.

Section 2.02. Any payment required to be made by the Member Country pursuant to the terms of this Agreement shall be applied first, to pay all interest and other charges due to the Bank and second, after such interest and other charges are paid, to pay all other amounts then due to the Bank under this Agreement.

Section 2.03. The Member Country shall furnish to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank or, if the Bank so requests, a certificate satisfactory to the Bank of a competent official of the Member Country, showing the following matters: (a) that this Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Member Country and is legally binding upon the Member Country in accordance with its terms; and (B) any other matter reasonably requested by the Bank in connection with this Agreement. The Member Country acknowledges that the receipt by the Bank of such opinion, opinions or certificate will be a condition to the effectiveness of the Guarantee.

Section 2.04. In consideration of the Bank providing the Guarantee on the terms and conditions set out in the Guaranteed Agreement, the Member Country shall pay directly to the Bank (i) a front-end fee (the "*Front-end Fee*") in an amount equal to 0.25% (25 basis points) of the Guaranteed Amount and (ii) a guarantee fee (the "*Guarantee Fee*") equivalent to 0.60% (60 basis points) per annum applied against the present value exposure for each semiannual period of the Guaranteed Amount. The Front-end Fee and the Guarantee Fee shall be due and payable to the Bank on or before the Effective Date of the Guaranteed Agreement. The Front-end Fee and the Guarantee Fee shall be paid to the Bank by electronic transfer in immediately available freely transferable funds in Euro to the bank account designated by the Bank.

ARTICLE III

Program

Section 3.01. The Member Country declares its commitment to the Program and its implementation. To this end:

- (a) the Member Country and the Bank shall from time to time, at the request of either party, exchange views on the Member Country's macroeconomic policy framework and the progress achieved in carrying out the Program;
- (b) the Member Country 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 Member Country 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.

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Section 3.02. The Member Country shall apply the proceeds of the financing provided under the Guaranteed Agreement in support of the Program in accordance with Section II of the Schedule to this Agreement. Without limitation upon the provisions of Section 3.01 of this Agreement, the Member Country shall undertake the obligations with respect to the Program set forth in the Schedule to this Agreement.

ARTICLE IV

Remedies

Section 4.01. In addition to the other remedies available to the Bank under any loan agreement and/or guarantee agreement between the Bank and the Member Country, in the event that: (i) the Member Country has failed to perform any of its obligations under Article III of this Agreement and such failure has continued and remained uncured in the opinion of the Bank for sixty (60) days or more after notice thereof shall have been given to the Member Country by the Bank; or (ii) any representation made by the Member Country in or pursuant to this Agreement, or any representation or statement furnished by the Member Country and intended to be relied on by the Bank in providing the Guarantee, shall in the opinion of the Bank have been incorrect in any material respect, then the Bank may suspend or cancel in whole or in part the Member Country's right to make withdrawals under any loan agreement between the Bank and the Member Country, or declare the outstanding principal and interest of any such loan due and payable immediately.

ARTICLE V

Effective Date

Section 5.01. This Agreement shall not become effective until the execution and delivery of this Agreement on behalf of the Member Country has been duly authorized or ratified by all necessary governmental actions. The Member Country shall furnish to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank or, if the Bank so requests, a certificate satisfactory to the Bank of a competent official of the Member Country, showing the following matters: (a) that this Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Member Country and is legally binding upon the Member Country in accordance with its terms; and (B) any other matter reasonably requested by the Bank in connection with this Agreement. This Agreement shall enter into force and effect on the date on which the Bank dispatches to the Member Country notice of the Bank's acceptance of such opinion, opinions or certificate as evidence that the execution and delivery of this Agreement on behalf of the Member Country has been duly authorized or ratified by all necessary governmental actions.

ARTICLE VI

Representative; Addresses

Section 6.01. The Member Country's Representative is its Minister of Finance

Section 6.02. The Member Country's Address is:

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

Facsimile:

+355 42228494

Section 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

Attention: Vice President, Europe and Central Asia Region

Facsimile: +1-202 477 6391

With a copy to: International Bank for Reconstruction and Development
1225 Connecticut Avenue, N.W.
Washington, D.C. 20433
United States of America

Attention: Head of Banking Products
Financial Advisory and Banking (FABBK)

Facsimile: +1 202 522 2102

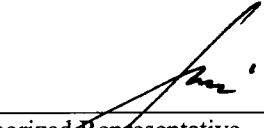
With a copy to: Practice Manager Guarantees (Financial Solutions Unit)

Facsimile: +1-202 522 0761


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

REPUBLIC OF ALBANIA

By: 
Authorized Representative
Name (printed): Shkëlqim Cani
Title: MINISTER

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: 
Authorized Representative
Name (printed): TAHSEEN SAYED
Title: COUNTRY MANAGER

SCHEDULE

Section I. Actions Taken under the Program. The actions taken by the Member Country under the Program include the following:

1. The Member Country has reduced the Central Government arrears (excluding those to the energy sector) accumulated prior to December 2013 by at least LEK 14 billion, following the criteria specified in the Member Country's Arrears Prevention and Clearance Strategy, as evidenced by a letter from its Ministry of Finance to the Bank dated February 4, 2015.
2. The Member Country has established mandatory expenditure ceilings for the years 2015, 2016 and 2017, for each recipient of funding from the Member Country's annual budget for said years, pursuant to the Member Country's Budget Law No. 160 of 2015, which is in full force and effect.
3. The Member Country through MoEDTTE has: (a) issued instructions to all line ministries to submit a monthly project execution report on planned and actual spending for all ongoing public financed projects larger than EUR 5 million pursuant to the Member Country Order No.159 dated May 2014, and (b) published an annual report which provides an overview of projects execution mentioned in (a) herein in 2014, as evidenced by a letter from its MoEDTTE to the Bank dated February 20, 2015.
4. The Member Country has: (a) upgraded the software of the Treasury system for recording all Central Government multi-year contractual commitments, and (b) established a data base for recording all commitments for 2015, 2016 and 2017, as evidenced by a letter from its Ministry of Finance to the Bank, dated February 4, 2015.
5. The Member Country has: (a) established a Compliance Risk Management Model (CRMM) which relies upon Life Data; and (b) commenced the production of risk reports on taxpayers' compliance using the CRMM as evidenced by a letter from its Ministry of Finance to the Bank, dated February 4, 2015.
6. The Member Country's Parliament has enacted the Pension Law which is in full force and effect.
7. The Member Country has increased its energy bills collection rate in 2014 by at least 10 percent, relative to 2013, in accordance with its Energy Sector Arrears Clearance and Prevention Strategy, as evidenced by a letter from its MoEI to the Bank dated February 19, 2015.
8. The Member Country has cleared at least 60 percent of its arrears to the energy sector incurred by the Central Government, water utilities and public schools as of December 31, 2014, pursuant to the Member Country's Council Decision No. 126 dated February 11, 2015.
9. The Member Country's Council of Ministers has submitted to its Parliament, for approval thereof, a Power Bill, dated January 14, 2015 which: (a) limits regulated tariffs to only Low Voltage Customers; and (b) replaces the model of a wholesale public supplier of energy with a new market based mechanism for small independent power plants and eligible consumers, including concessionaires and private medium-sized enterprises; as evidenced by the Member Country's Council Decision No. 5, dated February 1, 2015.

Section II. Availability of Proceeds of the Financing Provided Under the Guaranteed Agreement

A. Deposits of Proceeds. Except as the Bank may otherwise agree:

1. all withdrawals of the proceeds of the financing provided under the Guaranteed Agreement shall be deposited by the Member Country into an account designated by the Member Country and acceptable to the Bank; and
2. the Member Country shall ensure that upon each such deposit, an equivalent amount is accounted for in the Member Country's budget management system, in a manner acceptable to the Bank.

B. Excluded Expenditures. The Member Country undertakes that the proceeds of the financing provided under the Guaranteed Agreement shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of such financing was used to make a payment for an Excluded Expenditure, the Member Country shall, promptly upon notice from the Bank, deposit into the account described in Part A of this Section II (or, if the Member Country cannot or fails to do so, prepay to the Beneficiary in accordance with the terms of the Guaranteed Agreement) an amount equal to the amount of such payment.

C. The Closing Date is April 30, 2016.

APPENDIX

Section I. Definitions

1. "**Arrears Clearance and Prevention Strategy**" means the Member Country's strategy for paying off its public debt, monitoring its future commitments and preventing future arrears accumulation; adopted pursuant to the Member Country's Council of Ministers Decision No. 50 dated February 2, 2014.
2. "**Central Government**" means the Member Country's executive branch including its agencies
3. "**Compliance Risk Management Model**" or "**CMRM**" means a model prepared by the Member Country to identify non-compliant tax payers.
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. "**Energy Sector Arrears Clearance and Prevention Strategy**" means the Member Country's strategy for reducing and preventing arrears in the energy sector adopted pursuant to the Member Country's Council of Ministers Decision No. 141 dated March 12, 2014.
6. "**Excluded Expenditure**" means any expenditure:

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- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
- (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 Recipient:

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	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (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 Member Country or international agreements to which the Member Country is a party, and any other goods designated as environmentally hazardous by agreement between the Recipient and the Bank;
- (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 Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient)

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having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

7. “**Guarantee**” means the guarantee provided by the Bank under the Guaranteed Agreement.
8. “**Guaranteed Amount**” has the meaning set forth in the Guaranteed Agreement.
9. “**LEK**” means the Member Country’s local currency.
10. “**Life Data**” means the Member Country’s data on its tax payers.
11. “**Low Voltage Consumers**” means the customers connected to the 0.4 Kv distribution network within the Member Country’s territory.
12. “**MoEI**” means the Member Country’s Ministry of Energy and Industry.
13. “**MoEDTTE**” means the Member Country’s Ministry of Economic Development, Tourism, Trade and Entrepreneurship.
14. “**Pension Law**” means the Member Country’s law No.104 dated July 31, 2014, for regulating *inter alia* the pension scheme.
15. “**Program**” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated February 20, 2015 from the Member Country to the Bank declaring the Member Country’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.

Section II. General Conditions

The following provisions of the General Conditions, with the modifications set forth below, constitute an integral part of this Agreement:

1. Article I.
2. Sections 3.06, 3.07, 3.09 and 3.10.
3. Paragraph (c) of Section 5.07, modified to read as follows:

... “(c) The Member Country shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures from the proceeds under the financing provided under the Guaranteed Agreement until two years after the Closing Date. The Member Country shall enable the Bank’s representatives to examine such records.”
4. Section 5.08, modified to read as follows:

“(a) The Member Country shall maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the progress of the Program and the achievement of its objectives.

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(b) The Member Country shall prepare or cause to be prepared periodic reports ("Program Report"), in form and substance satisfactory to the Bank, integrating the results of such monitoring and evaluation activities and setting out measures recommended to ensure the continued efficient and effective execution of the Program, and to achieve the Program's objectives. The Member Country shall furnish or cause to be furnished each Program Report to the Bank promptly upon its preparation, afford the Bank a reasonable opportunity to exchange views with the Member Country on such report, and thereafter implement such recommended measures, taking into account the Bank's views on the matter.

(c) The Member Country 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 Member Country and the Bank of their respective obligations under this Agreement and the accomplishment of the purposes of the financing provided under the Guaranteed Agreement."

5. Sections 5.10 and 5.11
6. Section 6.01.
7. Section 6.02(a), modified to read as follows:
 - (a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, special security from the member concerned but to ensure that no other External Debt shall have any priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any Lien is created on any Public Assets as security for any External Debt, which will or might result in a priority for the benefit of the creditor of such External Debt in the allocation, realization or distribution of foreign exchange, such Lien shall, unless the Bank shall otherwise agree, *ipso facto* and at no cost to the Bank, equally and ratably secure the amounts payable by the Member Country under this Agreement, which, for purposes of the Section only, shall be deemed to be equal to Euro Two Hundred Million (€200,000,000), and the Member Country, in creating or permitting the creation of such Lien, shall make express provision to that effect; provided, however, that if for any constitutional or other legal reason such provision cannot be made with respect to any Lien created on assets of any or its political or administrative subdivisions, the Member Country shall promptly and at no cost to the Bank secure all amounts payable by the Member Country under this Agreement by an equivalent Lien on other Public Assets satisfactory to the Bank."
8. Section 6.02(c).
9. Article VIII.
10. Section 10.01, modified by deleting at the beginning of the second sentence the words "Except as otherwise provided in Section 9.03(a)."

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11. Section 10.02, modified by deleting the words “(and the representative designated by the Project Implementing Entity in the Project Agreement)” and “(or the Project Implementing Entity, as the case may be).”
12. Section 10.03, modified by deleting the words “and the Project Implementing Entity.”
13. Sections 10.04 and 10.05.
14. Paragraphs 6, 7, 8, 9 and 10 of the Appendix.
15. Paragraph 11 of the Appendix, modified to read as follows:

“Borrower” means the Member Country that is the party to the Loan Agreement.”
16. Paragraphs 12, 13, 24 and 33 of the Appendix.
17. Paragraph 36 of the Appendix, modified to read as follows:

“Eligible Expenditure” means any use to which the financing provided under the Guaranteed Agreement is put in support of the Program, other than to finance expenditures excluded pursuant to this Agreement.”
18. Paragraphs 38, 39 and 41 of the Appendix.
19. Paragraph 59 of the Appendix, modified to read as follows:

“Legal Agreement” means the indemnity agreement between the Member Country and the Bank pertaining to the Guarantee, as such agreement may be amended from time to time. “Legal Agreement” includes these General Conditions as applied to the Legal Agreement, and all appendices, schedules and agreements supplemental to the Legal Agreement.”
20. Paragraph 61 of the Appendix.
21. Paragraph 64 of the Appendix, modified to read as follows:

“Loan Agreement” means the Legal Agreement.”
22. Paragraph 66 of the Appendix, modified to read as follows:

“Loan Party” means the Borrower.”
23. Paragraph 75 of the Appendix, modified is modified to read as follows:

“Program” means the program referred to in the Legal Agreement in support of which the Guarantee is provided.” All references to “Project” throughout these General Conditions are deemed to be references to “Program.”
24. Paragraphs 81, 89, 90 and 97 of the Appendix.