ENERGY COMMUNITY OF SOUTH EAST EUROPE PROGRAM

Project Agreement

(Albania Component – KESH Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ALBANIAN POWER CORPORATION

Dated July 25, 2005
PROJECT AGREEMENT

AGREEMENT dated July 25, 2005, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ALBANIAN POWER CORPORATION (KESH).

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 seventeen million seven hundred thousand Special Drawing Rights (SDR 17,700,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that KESH 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 KESH, the proceeds of the credit provided for under the Development Credit Agreement will be made available to KESH on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS KESH, 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, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) KESH 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 the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, or
cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and KESH shall otherwise agree, KESH shall carry out the Project in accordance with the PIM.

Section 2.02. (a) 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 1 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) KESH shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association’s approval.

Section 2.03. (a) KESH 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.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, KESH shall:

(i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Association and KESH, a plan for the future operation of the Project; and

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

Section 2.04. KESH shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, KESH 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. (a) KESH shall, at the request of the Association, exchange views with the Association with regard to the progress 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) KESH shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of
the purposes of the Credit, or the performance by KESH of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. KESH shall:

(a) 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;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) 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

(c) review with the Association, by July 15, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) 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.

ARTICLE III

Management and Operations of KESH

Section 3.01. KESH shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. KESH shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

Section 3.03. KESH shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. KESH shall:

(a) Take all measures necessary to ensure that it meets the quarterly targets of the Power Sector Action Plan with respect to reduction in power transmission and distribution losses and improvement in bill collection;
(b) strengthen the TSO by establishing, by July 1, 2006, a detailed business plan for the TSO; and

(c) take all measures necessary for the carrying out of the EMP in a timely manner, and shall include adequate information on the carrying out of such measures in the FMRs for the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) KESH shall maintain a financial management system, including records and accounts, and prepare financial statements (balance sheets, statements of income and expenses and related statements), in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) KESH shall:

(i) have its financial statements for each Fiscal Year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association and appointed by March of each year;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each Fiscal Year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for the Fiscal Year (or such other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon KESH’s reporting obligations set out in Section 2.06 of this Agreement, KESH shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:
(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

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

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR until the end of such calendar quarter.

Section 4.03. (a) Except as the Association shall otherwise agree, KESH shall not incur any new debt, unless a reasonable forecast of the revenues and expenditures of KESH, shows that its estimated net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.5 times its estimated debt service requirements in such year on all of its debt, including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term “debt” means any indebtedness maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term “net revenues” means the difference between:

(A) the sum of revenues from all sources related to operations and net non-operating income; and
(B) the sum of all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term “net non-operating income” means the difference between:
(A) revenues from all sources other than those related to operations; and
(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payment if any) of, and interest and other charges on, debt.

(vi) The term “reasonable forecast” means a forecast prepared by KESH not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and KESH accept as reasonable and as to which the Association has notified KESH of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of KESH.

(c) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

Section 4.04. (a) Except as the Association shall otherwise agree, KESH shall produce, for each Fiscal Year starting in Fiscal Year 2006, funds from internal sources equivalent to not less than thirty-five percent (35%) of the annual average of its capital expenditures incurred or expected to be incurred, for the current, the previous, and subsequent Fiscal Year.

(b) For the purpose of this Section, the term “capital expenditures” means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.
(c) By October 15 of each Fiscal Year, commencing in the calendar year 2005, KESH shall, on the basis of forecasts prepared by KESH and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the following Fiscal Year and shall furnish to the Association the results of each such review upon its completion.

(d) If any such review shows that KESH would not meet the requirements set forth in paragraph (a) for the Fiscal Year covered by such review, KESH shall promptly take all necessary measures in order to meet such requirements.

(e) For the purpose of this Section:

(i) The term “funds from internal sources” means the difference between:

(A) the sum of revenue from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) The term “net non-operating income” means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

Section 4.05. KESH shall review, with the Association, by October 15 of each year commencing in year 2005, its program of proposed capital expenditures for the following five years, and, thereafter, finalize said program, acceptable to the Association.
ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of KESH 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 KESH of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. 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, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. 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: Telex: Facsimile:
INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)

For KESH:

Albanian Power Corporation
Blloku Vasil Shanto
Tirana, Albania

Facsimile:
355 42 62055

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of KESH, or by KESH on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by KESH or such other person or persons as KESH shall designate in writing, and KESH shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. 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 Tirana, Albania, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nadir Mohammed

Authorized Representative

ALBANIA POWER CORPORATION (KESH)

By /s/ Fatmir Hoxha

Authorized Representative
SCHEDULE 1

Procurement and Consultants’ Services

Section I. General

A. All goods shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods

International Competitive Bidding. Contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

Section III. Particular Methods of Procurement of Consultants’ Services

Quality- and Cost-based Selection. Consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, all contracts for goods and consultants’ services provided by a firm shall be subject to Prior Review by the Association.