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**CREDIT NUMBER 3730-ALB**

# **Lezhe Project Agreement**

**(Municipal Water and Wastewater Project)**

**among**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**THE MUNICIPALITY OF LEZHE**

**and**

**WATER AND WASTEWATER COMPANY OF LEZHE**

**Dated March 20, 2003**



# **CREDIT NUMBER 3730-ALB**

## **PROJECT AGREEMENT**

AGREEMENT, dated March 20, 2003, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and WATER AND WASTEWATER COMPANY OF LEZHE (WWCL) and the MUNICIPALITY OF LEZHE.

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 eleven million four hundred thousand Special Drawing Rights (SDR 11,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that WWCL and the Municipality of Lezhe agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a Lezhe Subsidiary Loan Agreement to be entered into between the Borrower and WWCL, the proceeds of the credit provided for under the Development Credit Agreement will be made available to WWCL on the terms and conditions set forth in said Lezhe Subsidiary Loan Agreement; and

WHEREAS WWCL and the Municipality of Lezhe, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, have 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) WWCL and the Municipality of Lezhe declare their commitment to the objective of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, WWCL shall carry out Parts A(3) and B(3) of the

Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and WWCL and the Municipality of Lezhe 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, WWCL and the Municipality of Lezhe shall otherwise agree, WWCL shall carry out Parts A(3) and B(3) of the Project in accordance with the Management Contract, PIP and the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Parts A(3) and B(3) of 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.

Section 2.03. (a) WWCL 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, WWCL shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and WWCL, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with WWCL on said plan.

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

Section 2.05. (a) WWCL and the Municipality of Lezhe 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 Lezhe Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) WWCL and the Municipality of Lezhe 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 WWCL of its obligations under this Agreement and under the Lezhe Subsidiary Loan Agreement.

### **ARTICLE III**

#### **Management and Operations of WWCL**

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

Section 3.02. WWCL 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 technical practices.

Section 3.03. WWCL 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.

### **ARTICLE IV**

#### **Financial Covenants**

Section 4.01. (a) WWCL shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Parts A(3) and B(3) of the Project.

- (b) WWCL 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 auditing standards acceptable to the Association, 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 the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Except as the Association shall otherwise agree, WWCL shall not incur any debt, unless a reasonable forecast of the revenues and expenditures of WWCL, 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 collected 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) collected 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 WWCL not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and WWCL accept as reasonable and as to which the Association has notified WWCL 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 WWCL.
- (vii) 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 4.03. The Municipality of Lezhe shall review, in accordance with established procedures, the periodic proposals for tariff adjustments submitted by WWCL annually and, thereafter, shall promptly take action to adjust said tariffs so that WWCL can meet its obligations by collecting sufficient revenues to increase coverage of operation and maintenance costs and other expenses.

Section 4.04. The Municipality of Lezhe shall: (a) enable WWCL to collect water fees from its customers, including but not limited to assisting WWCL to disconnect non-paying customers; and (b) assist WWCL in the implementation of said collection of water fees.

## **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 WWCL 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 WWCL and the Municipality of Lezhe 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 Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For WWCL

SHA Ujesjelles Kanalizime  
Lagjia "Beselidhya"  
Lezhe  
Albania

Facsimile:  
355 215 2312

For the Municipality of Lezhe

Kryetarit te Keshillit Bashkiak  
Lezhe  
Albania

Facsimile:  
355 215 2303

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: (a) WWCL may be taken or executed by the Director of WWCL or such other person or persons as its Director shall designate in writing; and (b) the Municipality of Lezhe may be taken or executed by its Mayor or such other person or persons as the Mayor shall designate in writing, and WWCL and the Municipality of Lezhe 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Simon Gray

Authorized Representative

WATER AND WASTEWATER COMPANY OF LEZHE

By: /s/ Fatos Tarifa

Authorized Representative

MUNICIPALITY OF LEZHE

By: /s/ Fatos Tarifa

Authorized Representative

## **SCHEDULE 1**

### **Procurement**

#### Section I. Procurement of Good and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for the Service Contract shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract estimated to cost the equivalent of \$500,000 or more; and (ii) the first two contracts under Part C.1 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts under Parts C.2 and 3 of this Schedule; and (ii) the first three contracts under Part C.4 of this Schedule, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for technical and financial audits estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for public awareness, community relations and similar activities estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) With respect to each contract for employment of consulting firms or individual consultants, irrespective of the value of the contract, the terms of reference shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 2**

### **Implementation Program**

1. WWCL 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 April 30, 2005, 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 31, 2005, 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.
2. WWCL shall take or cause to be taken, all measures necessary for the carrying out of the EMPF in a timely manner.
3. For any activity under Part A of the Project that may result in land acquisition, the Management Contract shall, inter alia, specify that a resettlement plan, satisfactory to the Association, shall be furnished to the Association prior to the financing of such activities.
4. WWCL shall maintain the CMU until completion of the Project, with staff, resources and terms of reference satisfactory to the Association, and assign to it responsibility for overall Project coordination, including:
  - (a) preparation of disbursement applications under the Credit;
  - (b) management of the Special Accounts referred to in Schedule 4 to the Development Credit Agreement;



(c) maintenance of records and accounts related to the Project and arranging for the audit thereof;

(d) participation in administration of bidding procedures and of contracts under the Project; and

(e) preparation of quarterly progress reports and submission thereof to the Borrower and the Association not later than 30 days after the end of each quarter, the first such report to be furnished to the Association not later than July 31, 2005.

5. The Municipality of Lezhe shall cause the Executive Committee to: (a) ensure that technical and financial audits of the Operator's performance will be carried out annually, the first such audit to be completed by June 30, 2004, or such later date as may be agreed upon with the Association, by independent auditors acceptable to the Association, under terms of reference acceptable to the Association; and (b) thereafter, submit the results of said audits to the Association for its review.