

CONFORMED COPY

CREDIT NUMBER 2677 ALB

Project Agreement

(Power Loss Reduction Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ALBANIAN ELECTROENERGETIC CORPORATION

Dated March 2, 1995

CREDIT NUMBER 2677 ALB

PROJECT AGREEMENT

AGREEMENT, dated March 2, 1995, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ALBANIAN ELECTROENERGETIC 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 three million four hundred thousand Special Drawing Rights (SDR 3,400,000), 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 relented 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 and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. 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 the Implementation Plan with appropriate administrative, financial, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 2.02. 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 the Schedule to this Agreement.

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) Without limitation upon the provisions of paragraph (a) of this Section, KESH 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 KESH, a plan for the future operation of the Project;
- (ii) afford the Association a reasonable opportunity to exchange views with KESH on said plan; and
- (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

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.

ARTICLE III

Management and Operations of KESH

Section 3.01. KESH shall: (a) carry on its operations and conduct its affairs in accordance with sound administrative, financial and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and (b) by December 1, 1995 reconstitute itself, with the assistance of the Borrower as stated in Section 4.02 of the Development Credit Agreement, as a joint-stock company under the laws of the Borrower and adopt statutes after prior consultation with the Association.

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 public utility 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.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) KESH shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate accounts reflecting the operations, resources and expenditures in respect of the Project.

(b) KESH shall:

- (i) have its records, accounts and financial statements (balance sheets, income statements and funds flow, and other related statements) for each fiscal year audited, in accordance with appropriate auditing principles 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 its financial statements for such year as so audited; and (B) the 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 said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) Except as the Association shall otherwise agree, KESH shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1994, funds from internal sources equivalent to not less than 50% of the annual average of KESH's capital expenditures incurred, or expected to be incurred, for that year, the fiscal year preceding and the fiscal year following that year.

(b) Before October 31 in each of its fiscal years, 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 next following fiscal year and shall furnish to the Association a copy of such review upon its completion.

(c) If any such review shows that KESH would not meet the requirements set forth in paragraph (a) for KESH's fiscal years covered by such review, KESH shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of revenues 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.
- (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
- (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements (excluding repayments of principal due within twelve months on any debt with original maturity of twelve months or more), taxes and payments in lieu of taxes, and dividends.
- (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vii) The term "capital expenditures" means all expenditures on account of fixed assets, including interest charged to construction, related to operations.
- (viii) 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. (a) Except as the Association shall otherwise agree, KESH shall not incur any debt unless a reasonable forecast of the revenues and expenditures of KESH shows that the estimated net revenues of KESH for each fiscal year during the term of the debt to be incurred shall be at least two times the estimated debt service requirements of KESH in such year on all debt of KESH, including the debt to be incurred.

- (b) For the purposes of this Section:
 - (i) the term "debt" means any indebtedness of KESH 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 payments, 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.
- (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 4.04. (a) Except as the Association shall otherwise agree, KESH shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 1.5 to 1.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of KESH 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 "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of KESH not allocated to cover specific liabilities.
- (iv) 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 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 4.05. KESH shall take all actions required on its part to ensure that the outstanding amounts in its accounts receivable will represent, on average, no more than the equivalent of two months' billing.

Section 4.06. KESH shall: (a) review with the Association, by October 31 of each year, KESH's proposed investment expenditures program for the following five years; and (b) take the Association's views into consideration in finalizing said program.

Section 4.07. KESH shall:

- (a) carry out the Implementation Plan with due diligence and efficiency;

(b) prepare and furnish to the Association reports in form and substance satisfactory to the Association, on the progress achieved in the carrying out of the said Plan and the measures recommended to further such progress; and

(c) thereafter implement all such measures as are required to ensure the achievement of the objectives of the said Plan, taking into consideration the Association's views on the matter.

Section 4.08. KESH shall, by July 1, 1995 appoint independent auditors acceptable to the Association for the purposes of carrying out the audit of KESH's financial statements in accordance with the provisions of this Section.

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, telegram, cable, telex or radiogram 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. 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:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

For KESH:

Albanian Electroenergetic Corporation
Blloku "Vasil Shanto"
Tirana, Albania

Telex:

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 the Executive Director or such other person or persons as the Executive Director 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kemal Dervis

Acting Regional Vice President
Europe and Central Asia

ALBANIAN ELECTROENERGETIC CORPORATION

By /s/ Lublin Dilja

Authorized Representative

SCHEDULE

Procurement

Part A: International Competitive Bidding

1. Except as provided in Part B hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines) and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part C.1 (a) of this Section, the Association's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, KESH shall use the relevant standard bidding documents issued by the Association, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Association, KESH shall use bidding documents based on other internationally

recognized standard forms agreed with the Association.

Part B: Other Procurement Procedures

Goods estimated to cost the equivalent of \$110,000 or less per contract, up to an aggregate amount equivalent to \$250,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part C: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods to be procured in accordance with the procedures described in Part A hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

