

CONFORMED COPY

CREDIT NUMBER 2610 ALB

Project Agreement
(Durres Water Supply Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

DURRES DISTRICT WATER WORKS

Dated June 14, 1994

CREDIT NUMBER 2610 ALB

PROJECT AGREEMENT

AGREEMENT, dated June 14, 1994, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and DURRES DISTRICT WATER WORKS (DDWW).

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 eight million four hundred thousand Special Drawing Rights (SDR 8,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that DDWW 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 DDWW, a portion of the proceeds of the credit provided for under the Development Credit Agreement will be relented to DDWW on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS DDWW, 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. DDWW 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 Parts A, B, C and E of the Project with due diligence and efficiency and in conformity with the Project Implementation Manual with appropriate administrative, financial, and engineering practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A, B, C and E of the Project.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, B, C and E of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. DDWW 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 and Parts A, B, C, and E of the Project.

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

Section 2.06. Without limitation of the provisions of Sections 9.01 and 9.06 of the General Conditions, DDWW shall: (i) not later than March 15 and September 15 of each year, prepare and furnish to the Association semi-annual reports on the progress in implementation of Parts A, B, C, and E of the Project including a report on its compliance with the covenants set forth in this Agreement and the implementation of the DDWW Action Plan; and (ii) prepare and furnish to the Association, not later than February 15, May 15, August 15 and November 15 of each year, a report on DDWW's financial performance during the preceding three months.

Section 2.07. Not later than November 15 of each year, DDWW shall prepare and submit to the Association for review and comment its proposed budget and tariffs for the following year with supporting financial projections.

ARTICLE III

Management and Operations of DDWW

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

Section 3.02. DDWW 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 water supply practices.

Section 3.03. During execution of the Project, the DDWW shall maintain PIU,

staffed with two engineers, a financial manager, three field engineers and a staff assistant with experience and qualifications acceptable to the Association.

Section 3.04. DDWW shall take all necessary actions as shall be consistent to implement the DDWW Action Plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) DDWW shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) DDWW shall:

(i) have its records, accounts and financial statements (balance sheets, statement of income and expenses and 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, including internal quarterly audits which shall consist of a financial assessment and a physical inspection of works in the field on a sample basis.

Section 4.02. (a) Except as the Association shall otherwise agree, DDWW shall maintain a ratio of total operating expenses to total operating revenues not higher than 60% in Fiscal Years 1994 and 1995 and 55% thereafter.

(b) Before November 15 in each of its fiscal years, DDWW shall, on the basis of forecasts prepared by DDWW 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 the results of such review upon its completion.

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

(d) For the purposes of this Section:

(i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes.

(ii) The term "total operating revenues" means revenues from all sources related to operations.

Section 4.03. (a) Except as the Association shall otherwise agree and until the Project has been completed, DDWW shall neither commit itself to nor make any expenditures on new investments outside the scope of the Project which would result in aggregate capital expenditures exceeding \$50,000 equivalent during any Fiscal Year unless the Association has been furnished with satisfactory evidence, that the proposed expenditures are economically and technically justified and DDWW has obtained financing under terms and conditions which will not materially and adversely affect its financial condition or operations, including the carrying out of the Project.

(b) For the purposes of this Section the term "capital expenditures" means expenditures for plant, machinery, equipment and buildings.

Section 4.04. Except as the Association shall otherwise agree, DDWW shall index

its tariffs to its cost of salaries and electricity using a formula satisfactory to the Association so that any increases in the cost of these items would result in a compensating increase in its average tariff for the next complete billing period following the effective date of any such increase.

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 DDWW 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 DDWW 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 DDWW:

Ndermarja E Ujesjellesit
RR. Dalip Peza
Durrës
Albania

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 DDWW, or by DDWW on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Director or such other person or persons as DDWW shall designate in writing, and DDWW 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

Regional Vice President
Europe and Central Asia

DURRES DISTRICT WATER WORKS

By /s/ Piro Dishnica

Authorized Representative

