

CONFORMED COPY

CREDIT NUMBER 2826 ALB

Development Credit Agreement

(Power Transmission and Distribution Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 25, 1996

CREDIT NUMBER 2826 ALB

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 25, 1996, between ALBANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to contract from Overseas Economic Cooperation Fund (OECF) a loan (the OECF Loan) in an amount equivalent to \$29.5 million to assist in financing Part A of the Project on the terms and conditions set forth in an agreement (the OECF Loan Agreement) to be entered into between the Borrower and OECF;

(C) the Borrower intends to contract from the Swiss Government a grant (the Swiss Grant) in an amount equivalent to \$9.0 million to assist in financing Part A of the Project on the terms and conditions set forth in an agreement (the Swiss Grant Agreement) to be entered into between the Borrower and the Swiss Government; and

(D) Part A of the Project will be carried out by Albanian Electroenergetic Corporation (KESH), Part B of the Project will be carried out by Elbasan Power Corporation (Elbasan), Part C of the Project will be carried out by Shkoder Power Corporation (Shkoder), and Part D of the Project will be carried out by Vlore Power Corporation (Vlore), all with the Borrower's assistance and, as part of such assistance, the Borrower will make available to KESH, Elbasan, Shkoder and Vlore out of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement, in the KESH Project Agreement of even date herewith between the Association

and KESH, in the Elbasan Project Agreement of even date herewith between the Association and Elbasan, in the Shkoder Project Agreement of even date herewith between the Association and Shkoder, and in the Vlore Project Agreement of even date herewith between the Association and Vlore;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(b) "KESH" means Albanian Electroenergetic Corporation, a company established pursuant to the Borrower's Council of Ministers Decision No. 34 - dated August 12, 1992.

(c) "Elbasan" means Elbasan Power Corporation, a company pursuant to the Borrower's Law No. 7667 and its Articles of Incorporation, dated January 28, 1993.

(d) "Shkoder" means Shkoder Power Corporation, a company established pursuant to the Borrower's Law No. 7667 and its Articles of Incorporation dated January 28, 1993.

(e) "Vlore" means Vlore Power Corporation, a company established pursuant to the Borrower's Law No. 7667 and its Articles of Incorporation, dated January 28, 1993.

(f) "KESH Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and KESH pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the KESH Subsidiary Loan Agreement.

(g) "Elbasan Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Elbasan pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Elbasan Subsidiary Loan Agreement.

(h) "Shkoder Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Shkoder pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Shkoder Subsidiary Loan Agreement.

(i) "Vlore Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Vlore pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Vlore Subsidiary Loan Agreement.

(j) "Subsidiary Loan Agreements" means collectively the Agreements referred to in Paragraphs (f), (g), (h) and (i) of this Section, and the term "Subsidiary Loan" means any of the Subsidiary Loans provided under any of the Subsidiary Loan

Agreements.

(k) "KESH Project Agreement" means the agreement between the Association and Albanian Electroenergetic Corporation (KESH), of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the KESH Project Agreement.

(l) "Elbasan Project Agreement" means the agreement between the Association and Elbasan Power Corporation (Elbasan), of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Elbasan Project Agreement.

(m) "Shkoder Project Agreement" means the agreement between the Association and Shkoder Power Corporation (Shkoder), of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Shkoder Project Agreement.

(n) "Vlore Project Agreement" means the agreement between the Association and Vlore Power Corporation (Vlore), of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Vlore Project Agreement.

(o) "Project Agreements" means collectively the Agreements referred to in Paragraphs (k), (l), (m) and (n) of this Section, and the term "Project Agreement" means any of the Project Agreements.

(p) "The Environment Management Plan" means the Environment Management Plan dated, November 13, 1995 setting forth a series of actions for environmental and resettlement monitoring and mitigation as agreed with the Association.

(q) "Implementation Plan" means the implementation plan, dated November 13, 1995, setting forth a series of actions for the implementation of the Project agreed upon between the Association and KESH.

(r) "Lek" means the currency of the Borrower.

(s) "Category" means the Categories for the items to be financed out of the proceeds of the Credit as set forth in Schedule 1 to this Agreement.

(t) "The Electricity Tariff Study" means the study financed under the Drin River Cascade Rehabilitation Project.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to nineteen million seven hundred thousand Special Drawing Rights (SDR19,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Bank of Albania on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 1 and September 1 commencing September 1, 2006 and ending March 1, 2036. Each installment to and including the installment payable on March 1, 2016 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end: (i) shall carry out Part E of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project; and (ii) without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KESH, Elbasan, Shkoder and Vlore to perform their respective obligations under the KESH Project Agreement, the Elbasan Project Agreement, the Shkoder Project Agreement, and the Vlore Project Agreement, respectively, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend out of the proceeds of the credit: (i) the

amount allocated from time to time under Categories (1) and (5) to KESH; (ii) the amount allocated from time to time under Category (2) to Elbasan; (iii) the amount allocated from time to time under Category (3) to Shkoder; and (iv) the amount allocated from time to time, under Category (4) to Vlore, under Subsidiary Loan Agreements to be entered between the Borrower and each of KESH, Elbasan, Shkoder, and Vlore under terms and conditions which shall have been approved by the Association, which shall include the principal terms and conditions specified in paragraph (c) of this section.

(c) The principal terms of the conditions of the Subsidiary Loan Agreements shall be as follows: (i) the term of the Subsidiary Loan shall be fifteen years including a grace period of four years; (ii) interest on the amount of the Subsidiary Loan withdrawn and outstanding from time to time shall be at a rate, adjusted every six months, equal to the average rate of the bi-weekly auctions of the Albanian 12 months Treasury Bills over the preceding six months period plus a premium acceptable to the Association; (iii) the Subsidiary Loan shall be denominated in Lek; and (iv) the principal amount of the Subsidiary Loan repayable to the Borrower shall be the equivalent in Lek of the amount of the Subsidiary Loan withdrawn and outstanding such equivalent to be expressed as of the date or respective dates of withdrawal from the Credit Account on account of expenditures incurred by each of KESH, Elbasan, Shkoder and Vlore in respect of Parts A, B, C and D of the project, respectively.

(d) The Borrower shall exercise its rights under each of the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the Subsidiary Loan Agreements or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the respective parts of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of the respective Schedule 1 to the KESH Project Agreement, Elbasan Project Agreement, Shkoder Project Agreement, and Vlore Project Agreement respectively and Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, and taking into account the provisions of Section 2.03 (b) of the respective Project Agreements, the Borrower shall:

(a) 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 Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.04. The Borrower and the Association hereby agree that 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: (a) Part A of the Project shall be carried out by KESH pursuant to Section 2.03 of the KESH Project Agreement; (b) Part B of the Project shall be carried out by Elbasan pursuant to Section 2.03 of the Elbasan Project Agreement; (c) Part C of the Project shall be carried out by Shkoder pursuant to Section 2.03 of the Shkoder Project Agreement; and (d) Part D of the Project shall be carried out by Vlore pursuant to Section 2.03 of the Vlore Project Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. The Borrower shall:

(a) take all actions required on its part to enable KESH to comply with its obligations under Sections 4.02 and 4.04 of the KESH Project Agreement, including but not limited to raising the electricity prices;

(b) fix the distribution margins of Elbasan, Shkoder and Vlore to an initial level sufficient to allow them to cover the local costs of investment programs agreed with the Association subject to achieving minimum loss and financial arrears reduction targets acceptable to the Association;

(c) adopt a mechanism, satisfactory to the Association, to provide for automatic adjustment of the distribution margins with respect to inflation and real changes in the bulk supply prices and efficiency improvements over a five-year period; and

(d) for the purposes of this Section, the term "distribution margin" means the margin between the sales quantity weighted average electricity retail price and the purchase quantity weighted average bulk supply price.

Section 4.02. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part E of the project of the departments or agencies of the Borrower responsible in carrying out said Part of the Project.

(b) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(c) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) and (b) (i) of this Section and those for the Special Account 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 4.03. The Borrower shall: (a) by April 1, 1996, consult with the Association on the recommendations and proposed timetable for implementation of the tariff adjustments recommended in the Electricity Tariff Study, and promptly implement an action program based on acceptable recommendations from the Electricity Tariff Study in accordance with a timetable acceptable to the Association, taking into account the Association's comments; (b) by June 30, 1996, carry out an energy conservation and efficiency study, under terms of reference satisfactory to the Association, and by January 1, 1997, begin to implement an action program based on acceptable recommendations of said study, which shall have been agreed with the Association, in a manner satisfactory to the Association; (c) take all necessary measures to reduce non-technical electricity losses and carry out publicity campaigns on the necessity to pay for electricity consumption; and (d) ensure that all electricity bills owed by the public sector are settled within six weeks of billing.

Section 4.04. The Borrower shall: (a) by August 31, 1996 prepare an action plan, satisfactory to the Association, for the sale of its shareholding in the power distribution assets; and (b) thereafter implement the said plan, taking into consideration the Association's comments thereon.

Section 4.05. The Borrower shall by June 30, 1996 grant to KESH, the right of way for the Elbasan-Cerrik-Korce transmission line, the Elbasan 1 - Elbasan 2 line and the ring connection between Tirana, Selite and Traktori substations including all necessary environmental clearances.

Section 4.06. The Borrower shall or shall cause: (a) to automatically adjust the sales quantity weighted average tariff on a minimum semi-annual basis from July 1, 1996, according to movements in the Consumer Price Index (CPI); and (b) for the purpose of adjustment to the initial period the most recent increase in the CPI over one year will be used and thereafter the most recent increase in the CPI over six months will be used.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) KESH, Elbasan, Shkoder or Vlore shall have failed to perform any of its obligations under the KESH Project Agreement, the Elbasan Project Agreement, Shkoder Project Agreement or Vlore Project Agreement, respectively.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that KESH, Elbasan, Shkoder or Vlore will be able to perform its obligations under the KESH Project Agreement, the Elbasan Project Agreement, Shkoder Project Agreement or Vlore Project Agreement, respectively.

(c) The law, decree, charter, or other founding documents of KESH, including any legal or regulatory enactments upon which such instruments are based, or any licenses granted to KESH related to Part A of the Project shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of KESH to perform any of its obligations under the KESH Project Agreement.

(d) The law, decree, charter, statutes, or other founding documents of Elbasan, including any legal or regulatory enactments upon which such instruments are based, or any licenses granted to Elbasan related to its ability to operate and carry out Part B of the Project, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Elbasan to perform any of its obligations under the Elbasan Project Agreement.

(e) The law, decree, charter, or other founding documents of Shkoder, including any legal or regulatory enactments upon which such instruments are based, or any licenses granted to Shkoder related to Part C of the Project, have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Shkoder to perform any of its obligations under the Shkoder Project Agreement.

(f) The law, decree, charter, or other founding documents of Vlore, including any legal or regulatory enactments upon which such instruments are based, or any licenses granted to Vlore related to Part D of the Project, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Vlore to perform any of its obligations under the Vlore Project Agreement.

(g) The Borrower or any authority having jurisdiction shall have taken any action for the dissolution and disestablishment of KESH, Elbasan, Shkoder and Vlore or for the suspension of its operations.

(h) The OECF Loan Agreement and the Swiss Grant Agreement shall have failed to become effective by April 30, 1996 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(i) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement

providing thereof, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower;

(b) any event specified in paragraphs (c), (d), (e), (f) and (g) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (i)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (i)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that, the KESH Subsidiary Loan Agreement has been executed on behalf of the Borrower and KESH.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the KESH Project Agreement has been duly authorized or ratified by KESH, and is legally binding upon KESH in accordance with its terms;

(b) that the Elbasan Project Agreement has been duly authorized or ratified by Elbasan, and is legally binding upon Elbasan in accordance with its terms;

(c) that the Shkoder Project Agreement has been duly authorized or ratified by Shkoder, and is legally binding upon Shkoder in accordance with its terms;

(d) that the Vlore Project Agreement has been duly authorized or ratified by Vlore, and is legally binding upon Vlore in accordance with its terms; and

(e) that the KESH Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and KESH and is legally binding upon the Borrower and KESH in accordance with its terms;

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Bulevardi "Deshmoret e Kombit"
Tirana, Albania

Telex:

4295 Komplan AB

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)

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.

ALBANIA

By /s/ Lublin Dilja

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Johannes Linn

Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods under Part A of the Project	3,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for

			other items procured locally
(2)	Goods under Part B of the Project	3,660,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3)	Goods under Part C of the Project	3,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(4)	Goods under Part D of the Project	3,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(5)	Consultants' Services under Part A of the Project	2,600,000	100%
(6)	Technical Assistance under Part E of the Project	270,000	
(7)	Unallocated	2,970,000	
	TOTAL	19,700,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR1,730,000, may be made in respect of Categories (1) and (6) on account of payments made for expenditures before that date but after May 1, 1995;

(b) expenditures under Category 2, unless the Elbasan Subsidiary Loan Agreement has been executed on terms and conditions satisfactory to the Association and the Association has received a legal opinion or certificate, satisfactory to the

Association, of counsel acceptable to the Association, showing that the said agreement has been duly authorized or ratified by, and executed and delivered on behalf of the parties thereto and is legally binding upon the parties in accordance with its terms;

(c) expenditures under Category 3, unless the Shkoder Subsidiary Loan Agreement has been executed on terms and conditions satisfactory to the Association and the Association has received a legal opinion or certificate, satisfactory to the Association, of counsel acceptable to the Association, showing that the said agreement has been duly authorized or ratified by, and executed and delivered on behalf of the parties thereto and is legally binding upon the parties in accordance with its terms; and

(d) expenditures under Category 4, unless the Vlore Subsidiary Loan Agreement has been executed on terms and conditions satisfactory to the Association and the Association has received a legal opinion or certificate, satisfactory to the Association, of counsel acceptable to the Association, showing that the said agreement has been duly authorized or ratified by, and executed and delivered on behalf of the parties thereto and is legally binding upon the parties in accordance with its terms.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and services under contracts not exceeding \$300,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) improve the standard, reliability and efficiency of the electric power supply; (ii) encourage energy conservation and efficiency in electric appliances and buildings; (iii) establish a regulatory framework for the power sector; (iv) begin the process of privatization of the Albanian power system; and (v) ensure the financial viability and institutional strength of KESH, Elbasan, Shkoder and Vlore.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A

1. (a) Construction of a new single-circuit 200 kV line of about 4 km interconnecting Elbasan 1 and Elbasan 2 substations; (b) construction of a new single-circuit 110 kV transmission line of about 105 km between Elbasan, Cerrik, and Korce, and addition of reactive power compensation capacity in the system up to about 30 MVAR; (c) reconstruction and reinforcement of the 110 kV ring connection between Tirana, Selite and Traktori substations; (d) construction of a 220/110 kV substation in Durres; (e) rehabilitation and reinforcement of two 220 kV, and sixteen 110 kV existing primary substations; (f) upgrading of system control facilities (including the National Dispatch Center and Remote Terminal Units); (g) rehabilitation of distribution networks in major cities and load centers, including Tirana, Durres, Fieri, Berati, Diber, Lac and Sarande; and (h) the provision of spares and special tools for transmission and distribution systems.

2. The provision of technical assistance to: (a) manage KESH's financial department; and (b) carry out engineering studies and project implementation management and staff training.

Part B

The rehabilitation and upgrading of distribution networks in Elbasan distribution area.

Part C

The rehabilitation and upgrading of distribution networks in Shkoder distribution area.

Part D

The rehabilitation and upgrading of distribution networks in Vlore distribution area.

Part E

The provision of technical assistance to assist the Borrower in carrying out the privatization plans and the establishment of the regulatory framework for the power sector.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Association, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimate to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignment of critical nature, as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1),(2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,500,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed

the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount

outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

