

CONFORMED COPY

CREDIT NUMBER 2826 ALB

Vlore Project Agreement

(Power Transmission and Distribution Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

VLORE POWER CORPORATION

Dated March 25, 1996

CREDIT NUMBER 2826 ALB

VLORE PROJECT AGREEMENT

AGREEMENT, dated March 25, 1996, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and VLORE POWER CORPORATION (Vlore).

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 nineteen million seven hundred thousand Special Drawing Rights (SDR19,700,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Vlore 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 Vlore, a portion of the proceeds of the credit provided for under the Development Credit Agreement will be relented to Vlore on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS Vlore, 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. Vlore 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 Part D of the Project with due diligence and efficiency and in conformity 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 Part D of the Project.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods required for Part D of 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) Vlore 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 Vlore Project Agreement and Part D of the Project.

(b) For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, and taking into account the provisions of Section 3.03 of the Development Credit Agreement, Vlore shall:

(i) prepare 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 Vlore and the Association, a plan, of such scope and in such detail as the Association shall reasonably request, for the future operation of Part D of the Project; and

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

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

Section 2.05. (a) Vlore shall, at the request of the Association, exchange views with the Association with regard to the progress of Part D of the Project, the performance of its obligations under this Agreement and under the Vlore Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) Vlore shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part D of the Project, the accomplishment of the purposes of the Credit, or the performance by Vlore of its obligations under this Agreement and under the Vlore Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of Vlore

Section 3.01. Vlore shall 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.

Section 3.02. Vlore 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. Vlore 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) Vlore shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) Vlore 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 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, Vlore shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1995, funds from internal sources equivalent to not less than an amount equal to the local costs of Vlore's capital expenditures estimated in advance at a level satisfactory to the Association.

(b) Before September 30 in each of its fiscal years, Vlore shall, on the basis of forecasts prepared by Vlore 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 Vlore would not meet the requirements set forth in paragraph (a) for Vlore's fiscal years covered by such review, Vlore shall promptly take all necessary measures (including, without limitation, reduction of power losses, and reduction of account receivables) 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, 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, Vlore shall not incur any debt unless a reasonable forecast of the revenues and expenditures of Vlore shows that the estimated net revenues of Vlore 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 Vlore in such year on all debt of Vlore including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of Vlore 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 Vlore not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and Vlore accept as reasonable and as to which the Association has notified Vlore 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 Vlore.

(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. Vlore shall:

(a) take all actions required on its part to ensure that the outstanding amounts in its accounts receivable will, on average, not exceed the equivalent of two months of sales; and

(b) pay all bills owed by Vlore to the public sector within six weeks of billing.

Section 4.05. Vlore shall take all necessary measures to reduce total distribution losses of electricity entering the distribution system to 42% in the calendar year 1996 and to 34% in the calendar year 1997.

Section 4.06. Vlore shall:

(a) review with the Association, by September 30 of each year commencing in 1996, Vlore's proposed investment expenditures program for the following five years; and

(b) take the Association's views into consideration in finalizing said program.

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 Vlore 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 Vlore 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 Vlore:

Vlore Power Corporation
Vlore, 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 Vlore may be taken or executed by Executive Director or such other person or persons as Executive Director shall designate in writing, and Vlore 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/ Johannes Linn

Regional Vice President
Europe and Central Asia

VLORE POWER CORPORATION

By /s/ Lublin Dilja

Authorized Representative

SCHEDULE

Procurement of Goods

Part A: General

Goods 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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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. 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. International Shopping

Goods estimated to cost \$300,000 equivalent or less per contract and \$1,000,000 equivalent or less in the aggregate, 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.

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 Part D of 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 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

With respect to all contracts awarded under Part B of this Schedule, the procedures set forth in paragraphs 2 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.

