

CONFORMED COPY

CREDIT NUMBER 4480 ALB

ENERGY COMMUNITY OF SOUTH EAST EUROPE PROGRAM

Financing Agreement

(Dam Safety Project)

between

ALBANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 2, 2008

CREDIT NUMBER 4480 ALB

FINANCING AGREEMENT

AGREEMENT dated July 2, 2008, entered into between ALBANIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty one million seven hundred thousand Special Drawing Rights (SDR 21,700,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is Euro.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Co-financing Deadline for the effectiveness of the EBRD Co-financing Agreement and for the SECO Co-financing Agreement is December 31, 2009. The Association may suspend the right of the Recipient to make withdrawals from the Financing Account in accordance with the provisions in Article VI of the General Conditions if the EBRD Co-financing Agreement or the SECO Co-financing Agreement has failed to become effective by the Co-financing Deadline, provided, however, that the Recipient has failed to establish to the satisfaction of the Association that adequate funds for the Project are available from other sources on terms and conditions consistent with the Recipient's obligations under this Financing Agreement.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and

the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister of Finance.
- 6.02. The Recipient's Address is:

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

Facsimile:
355 28494

- 6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED at Tirana, Albania, as of the day and year first above written.

ALBANIA

By /s/ Ridvan Bode

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Camille Nuamah

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (i) contribute to safeguarding the hydroelectric dams on the Drin and Mat river cascades on the territory of the Recipient; and (ii) improve the operational efficiency of said hydroelectric dams and enhance the stability of power supply in the regional market.

The Project constitutes the fifth phase of the Program, and consists of the following parts:

Part 1: Dam Safety Infrastructure Investments

1. Provision of goods, works and services for dam remedial measures of very high priority, including: (a) the specification and installation of water alarm systems in the Drin and Mat river basins; and (b) the specification and implementation of dam monitoring systems for the Drin and Mat river basins.
2. Provision of goods, works and services for dam remedial measures of high priority, including: (a) the rehabilitation of a spillway at Fierza dam; (b) the rehabilitation and maintenance of spillways at Vau I Dejes dam; and (c) the modernization and improvement of the PIE's dam safety department.
3. Provision of goods, works and services for dam remedial measures of medium priority and operational improvements, including: (a) the general rehabilitation of two spillways and the modification of the outlet of one spillway at Koman dam; (b) the rehabilitation of electromechanical equipment and a control monitoring system at Koman hydropower plant; and (c) the implementation of a load frequency control system.
4. Provision of goods, works and services for other dam safety infrastructure investments on the Drin and Mat rivers.

Part 2: Technical Assistance and Training for Dam Safety

1. Provision of services to the PIE to implement an integrated water resources management approach for the management of the Drin and Mat river basins, as well as the optimization of power dispatching and water resources management.
2. Provision of consultants' services to assist the PIE with procurement, design and supervision activities under the Project.

3. Provision of consultants' services and training for the preparation of an Emergency Preparedness Plan and for the institutional strengthening of the PIE's dam safety department and the Albanian Committee of Large Dams.
4. Provision of consultants' services for feasibility studies on new hydropower development on the territory of the Recipient.
5. Provision of consultants' services, goods and training for the improvement of the PIE's financial management capacity, including the establishment of a new financial management system, the study of options for the PIE to establish an independent power generation company, and the establishment of such independent power generation company.
6. Provision of consultants' services for the independent Panel of Experts overseeing the design and implementation of Project activities in accordance with the Association's Operational Policy 4.37.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Subsidiary Agreement**

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association (“Subsidiary Agreement”).
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation**A. Completion Report**

For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than June 30, 2013.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause the PIE to maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall cause the PIE to prepare and furnish to the Association not later than forty five days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall cause the PIE to have the Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) Shopping

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-Based Selection
(b) Single Source Selection
(c) Consultants’ Qualifications
(d) Individual Consultants

D. Review by the Association of Procurement Decisions

All contracts shall be subject to Prior Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods and Works	14,550,000	100%
(2) Consultants' services and training other than for Parts 2.1 and 2.4 of the Project	3,650,000	100%
(3) Hydropower Development and Water Management Consultants' Services for Parts 2.1 and 2.4 of the Project	3,500,000	100%
TOTAL AMOUNT	<u>21,700,000</u>	

For the purposes of this Schedule, the term "Hydropower Development and Water Management Consultants' Services" means expenditures for consultants' services for surveys, feasibility studies, design and supervision of construction.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2013.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2018 to and including April 15, 2028	5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

1. “Albanian Committee of Large Dams” means the Recipient’s Committee of Large Dams, established by virtue of Law No. 8681, dated February 11, 2000 “On the Protection, Construction, Utilization and Maintenance of Large Dams, as amended.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “Dam Safety Institutional Plan” means the plan to be adopted by the Project Implementing Entity addressing dam safety issues on the Drin and Mat river cascades and ways to remedy them.
6. “EBRD Co-financing Agreement” means the agreement to be entered into between the Project Implementing Entity and the European Bank for Reconstruction and Development providing for an amount of US\$ 20 million equivalent to be provided by the European Bank for Reconstruction and Development to assist in financing the Project.
7. “Emergency Preparedness Plan” means the plan to be prepared by the Project Implementing Entity, satisfactory to the Association, specifying the roles of responsible parties when dam failure is considered imminent, or when expected operational flow release threatens downstream life, property, or economic operations that depend on river flow levels.
8. “Environmental Management Plan” means the plan adopted by the Recipient on May 15, 2008, satisfactory to the Association, consisting of the set of mitigation, monitoring, and institutional measures to be taken to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement these measures.

9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
10. “Panel of Experts” means the panel of at least 3 experts in the various technical fields relevant to the safety aspects of the Fierza, Koman, Vau I Dejes, Shkopet and Ulza dams, to be established pursuant to terms of reference acceptable to the Association, in order to review and advise the Recipient and the Project Implementing Entity on matters relative to dam safety and other critical aspects of the dams, their appurtenant structures, catchment areas, areas surrounding the reservoir, and downstream areas.
11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 22, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
13. “Program” means the program designed to support the Energy Community for South East Europe as set forth in the Energy Community Treaty dated October 23, 2005, through a series of Adaptable Program Loans to Bank member countries in South East Europe.
14. “Project Implementing Entity” or “PIE” means the Albanian Power Corporation, KESH, an autonomous company established pursuant to the Project Implementing Entity’s Legislation.
15. “Project Implementing Entity’s Legislation” means the Law of the Recipient No. 7926, dated April 20, 1995, as amended.
16. “Project Management Unit” means the unit charged with managing the implementation of the Project, established within the Project Implementing Entity.
17. “SECO Co-financing Agreement” means the agreement to be entered into between the Recipient and the State Secretariat for Economic Affairs of Switzerland, providing for an amount of up to US\$ 10 million equivalent to be provided by the State Secretariat for Economic Affairs of Switzerland to assist in financing the Project.

18. “Subsidiary Agreement” means the agreement referred to in Section I.A of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.