

Memorandum of Understanding
between
the Government of the Italian Republic
and the Government of the Albanian Republic
for the implementation of a Programme concerning the import of electric power
from Italy to reduce the damages caused by energy shortages in Albania

The Government of the Italian Republic and the Government of the Albanian Republic herein referred as the "Parties"

CONSIDERING the request of the Albanian Party concerning the import of electric power to reduce the damages caused by energy shortages;

TAKING INTO ACCOUNT that on April 4th, 2002 the Steering Committee of Directorate General for Development Co-operation (DGCS) of the Ministry of Foreign Affairs of the Italian Republic has approved the concession of a soft loan of EURO 30 million to be granted to the Government of the Albanian Republic to be used to purchase electric power from Italian producers;

CONSIDERING that the Italian Party has confirmed its availability to grant an extraordinary soft loan of EURO 30 million to face this need, during the joint Italian Albanian Commission hold in Tirana on April 8th and 9th 2002;

have agreed the following:

ARTICLE 1
Loan Timeframe

The credit will be granted in two instalments, credited to a Special Account opened at the Bank of Albania as from the following timeframe.

1. when the financial agreement (to be signed between Mediocredito Centrale and Ministry of Finance of the Albanian Republic) will enter into force, a first instalment of a total amount of EURO 10 million will be disbursed to finance the expenditure starting from April 4th 2002. This instalment will be awarded according to the procedures as specified in articles 2 and 5 of the present Memorandum.
2. a second instalment of a total amount of EURO 20 million will be granted to finance expenditures awarded after the positive completion of the bidding procedures as specified in articles 2 and 5 of the present Memorandum.

ARTICLE 2
Procurement Procedures

The Italian soft loan can be utilised by the Borrower solely to finance the import of electric power from Italian producers to reduce the damages caused by the energy shortages in Albania. The electric power shall be purchased in Italy according to the "Guidelines for Procurement under IBRD Loans and IDA credits" and the Italian Development Co-operation Law n° 49 of 26/02/87.

In particular, an amount up to EURO 2 million of the soft loan can be awarded according to the procedure as specified in par. 3.7 (e), or those in par. 3.5 and 3.6, of the above mentioned Guidelines; an amount equal to EURO 8 million will be awarded according to the procedure specified in par. 3.5 and 3.6 of the Guidelines.
The remaining amount of EURO 20 million will be awarded according to the bidding procedures as specified in par. 3.3 and 3.4 of the Guidelines.

ARTICLE 3

Monitoring

The Italian Party reserves the right to directly monitor and evaluate the implementation of the programme. For this purpose, the Albanian Party will make available, when requested all relevant documentation.

ARTICLE 4

Terms and conditions of the soft loan *

The loan will be denominated in EURO and will be subject to the following terms:

1. Nominal annual interest period: 0,20 % (zero point twenty percent)
2. Repayment period : 38 years
3. Grace period : 17 years

ARTICLE 5

Disbursement and auditing procedures.

All transactions and bidding procedures of the present loan must be audited by a highly qualified international Auditing Company, that shall control the administrative documentation and procurement procedures of the Program.

The contract between the Borrower and the auditing company shall be submitted to MAE - DGCS before the signature.

According to the procedures adopted by the Italian Co-operation for the concession of soft loans, the main steps to carry out before the disbursement of the **first instalment of EURO 10 million** will be the following:

- 1) The signature of the present Memorandum by the two Governments;
- 2) The authorization of the Italian Ministry of Treasury to MedioCredito Centrale (MCC) to sign the Financial Convention;
- 3) The Government of the Albanian Republic designates its Ministry of Finance (MOF) as Borrower and empowers it to sign the Financial Convention;
- 4) The signature of the Financial Convention by MCC and MOF;
- 5) The receipt by MOF of the communication from the Italian Ministry of Foreign Affairs (MAE) of no objection to the selection of the Auditing Company;
- 6) Communication regarding the opening of the Special Account, on which shall be credited the funds.

After the disbursement of this instalment, the Auditing company within one month shall provide MAE and MCC with a report along with by all pertinent documentation (contracts, bills, invoices, bills of delivery, audited procurement reports, bidding documents). This report shall refer to the total amount disbursed.

* figures to be officially confirmed by Italian Ministry of Treasury

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After the control of the above mentioned report, MCC shall communicate to the Borrower the total amount of the transactions considered eligible and any transaction considered ineligible indicating the relevant reasons.

Should any transaction be found ineligible, the Borrower undertakes to credit the Special Account with the fund allocated for that transaction and, in that case, to allocate the respective amount for an eligible supply.

The **second instalment, of EURO 20 million**, shall be credited to the Special Account after the no objection of MCC and MAE based upon the Auditing Company's report on the validity of the respective bidding procedure (audited procurement report).

After the disbursement of this instalment, the Auditing company shall provide MAE and MCC with quarterly reports, accompanied by all pertinent documentation (contracts, bills, invoices, etc.).

After the control of the above mentioned reports, MCC shall communicate to the Borrower the total amount of the transactions considered eligible and any transaction considered ineligible indicating the relevant reasons.

Should any transaction be found ineligible, the Borrower undertakes to credit the Special Account with the fund allocated for that transaction and, in that case, to allocate the respective amount for an eligible supply.

ARTICLE 6

Taxes, tariffs and VAT

Under any circumstance the loan shall not be used to pay for taxes, import duties, tariffs or VAT.

ARTICLE 7

Disputes

Any disputes between Parties that may arise regarding the interpretation or application of this agreement shall be settled through diplomatic channels.

ARTICLE 8

Entry into force

This Memorandum shall enter into force on the receiving date of the last written notification confirming the fulfillment by the Parties of their internal legal procedures.

In witness whereof the undersigned Representatives, duly authorised by their respective Governments, have signed the present Memorandum.

Done in Tirana on the april 19, of 2002 in two originals in the English language, both texts being equally authentic.

For the Government of the Italian Republic

Mario Bova

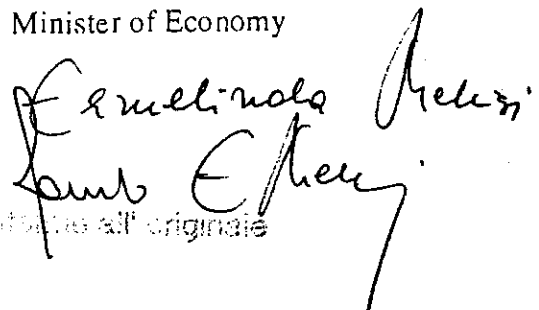
Ambassador of Italy to Tirana



For the Government of the Albanian Republic

Ermelinda Meksi

Minister of Economy



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