

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 26 March 2025¹

ALBANIA

KESH BELSHI SOLAR PV PROJECT

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2024), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

Acronym	Definition
ALL	Albanian Lek
ALPEX	Albanian Power Energy Exchange
DSO	Distribution System Operator
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
ESAP	Environmental and Social Action Plan
EUR	Euro
GDP	Gross Domestic Product
GET	Green Energy Transition
GoA	Government of Albania
GWh	Giga Watt Hour
ha	hectare
HPP	Hydropower Plant
HUPX	Hungarian Power Exchange
IFI	International Financing Institutions
KESH	Korporata Elektroenergjitike Shqiptare Sh.A
kWh	Kilo Watt Hour
MoF	Ministry of Finance
MWh	Mega Watt Hour
MWp	Mega Watt Peak
OSHEE	Operatori I Shperndarjes se Energjise Elektrike, the Albanian distribution network operator and retail public supplier
OST	Operatori i Sistemit Te Transmetimit, the Albanian transmission network operator
PIU	Project Implementation Unit
PP&R	Procurement Policies & Rules
PSO	Public Service Obligation
PV	Photovoltaic
RES	Renewable Energy Sources
TSO	Transmission System Operator
TPP	Thermal Power Plant
TWh	Terra Watt Hour
WBIF	Western Balkan Investment Framework

CURRENCY

Country's Currency Unit 1 EUR = 98.36 ALL

WEIGHTS AND MEASURES

1 kilowatt (kW)	=	1,000 watts (10^3 W)
1 Megawatt (MW)	=	1,000 kilowatts (10^3 kW)
1 Gigawatt (GW)	=	1 million kilowatts (10^6 kW)
1 kilowatt-hour (kWh)	=	1,000 watt-hours (10^3 Wh)
1 Megawatt-hour (MWh)	=	1,000 kilowatt-hours (10^3 kWh)
1 Gigawatt-hour (GWh)	=	1 million kilowatt-hours (10^6 kWh)

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Korporata Elektroenergjitike Shqiptare (“KESH”, the “Company” or the “Borrower”), the Albanian state-owned power utility, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign guaranteed loan to the Company in the amount of up to EUR 30 million. The loan will be guaranteed by the Ministry of Finance of the Republic of Albania. The operation will enable the Company to develop, construct and operate a 50MWp solar photovoltaic plant in Albania (the “Project”). The Project is expected to generate over 70GWh of renewable energy production annually, corresponding to approx. 1% of average national consumption. More importantly, it will help diversify the energy mix, which is currently highly dependent on the hydrology seasonality.

The expected transition impact of the Project comes from *Green* transition quality based on its physical impact and delivery of climate mitigation benefits through new green investments in Albania. The Project is therefore 100% compliant with the Bank’s Green Energy Transition (“GET”) approach. The Project is also Gender SMART as an outreach initiative of the Borrower will focus on attracting women towards technical careers in the traditionally male-dominated energy sector.

Technical Cooperation (“TC”) support of EUR 268,700 has been provided by High-Impact Partnership on Climate Action (“HIPCA”) Austria for the Project preparation (including feasibility study, basic design, environmental and social due diligence and procurement support), which then enabled an approval of EUR 8.05 million investment grant from the EU/Western Balkan Investment Framework (“WBIF”) that will also provide a EUR 1.2 million in Project implementation Technical Assistance (“TA”).

I am satisfied that the operation is consistent with the Bank’s Strategy for Albania, the Energy Sector Strategy, the Strategy for the Promotion of Gender Equality, the Green Economy Transition Approach 2021-2025, and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

Albania – KESH Belshi Solar PV - DTM 54350	
Transaction / Board Decision	Board approval ² is sought for a senior sovereign guaranteed loan of up to EUR 30 million in favour of Korporata Elektroenergjitiqe Shqiptare (“KESH”, the “Company”, the “Borrower” or the “Client”) for the purpose of development, construction and operation of a 50MWp ground mounted solar photovoltaic (“PV”) plant in Belshi, central Albania (the “Project”). Technical Cooperation (“TC”) support of EUR 268,700 has been provided by HIPCA Austria, which then enabled an approval of EUR 8.05 million investment grant from the EU/WBIF, who will also provide EUR 1.2 million Technical Assistance (“TA”) for the Project’s implementation.
Client	KESH, the Albanian state-owned energy utility, owns and operates the three largest hydropower plants (“HPP”) in Albania with a combined installed capacity of 1.35GW and producing almost 65% of the generated electricity in the country. KESH also operates a small 5MWp solar PV plant and has a 12.9MWp floating solar PV plant on the Vau Dejes reservoir under construction that is expected to become operational in late 2025. The Company is also the main provider of balancing and ancillary services in the country, but also in neighbouring Kosovo, given the coupling of both markets. In addition, KESH is the Albania’s largest market player with the capacity to provide emergency and peak electricity.
Main Elements of the Proposal	<u>Transition impact:</u> The Project is 100% GET by supporting the addition of 50MWp of new solar capacity in Albania, which is expected to generate on average more than 70GWh of renewable energy annually, corresponding to ca. 1% of average domestic production. <u>Additionality:</u> The Bank (i) offers long-term financing that is not available in the market from commercial sources; (ii) provides risk mitigation in anchoring the financing structure required for implementation of the Project including mobilisation of the WBIF investment grant financing; and (iii) will support the Borrower in achieving better standards in terms of environmental and social practices with a focus on the solar PV supply chain. [REDACTED] <u>Gender SMART Tag:</u> The Borrower will engage in an outreach initiative to promote equal opportunities for young women. <u>Sound banking:</u> (i) bankable contractual structure and appropriate risk allocation achieved through agreed financing structure and sovereign guarantee; (ii) stable revenue streams from a large portfolio of assets; (iii) appropriate returns.
Key Risks	<u>Implementation Risk:</u> The Project will be implemented under a Design, Build and Operation (“DBO”) contract, by an experienced contractor selected under a competitive procurement process. In addition, the Project will benefit from the Project Implementation Unit (“PIU”) external consultant support, and a supervision engineer, who will supervise the DBO works during the entire construction process and ensure smooth implementation. KESH has some experience in PV plant development, albeit on a smaller scale. <u>Supply chain risk:</u> In line with the Management Approach for Solar Supply Chain Risk Management (“Management Approach”), an enhanced supply chain due diligence will be undertaken during the procurement phase and selection of the module suppliers, to ensure full traceability and transparency is achieved. The relevant provisions for this have been included in the Environmental and Social Action Plan (“ESAP”) and will be included the Project financing agreements. The tender documents will include appropriate criteria and conditions for the contractors and sub-suppliers in relation to solar supply chain requirements. <u>Macroeconomic Risk:</u> The macroeconomic environment is stable with steady growth set to continue in the near term. The economy has been resilient in the face of significant shocks in recent years (earthquake, pandemic, energy crisis). Inflation is in a decreasing trend mainly supported by a strong local currency and strong tourism sector and GDP growth is expected to rise slightly to 3.5 per cent in 2024 and to 3.7 per cent in 2025.
Strategic Fit Summary	The Project is consistent with the Strategy for Albania, the Energy Sector Strategy, the Strategy for the Promotion of Gender Equality, the Green Economy Transition Approach 2021-2025, and with the Agreement Establishing the Bank.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	The proposed transaction consists of a senior sovereign guaranteed loan of up to EUR 30m in favour of KESH for the purpose of development, construction and operation of a 50MWp ground mounted solar PV plant in the Belshi area (the “Project”).
Existing Exposure	Exposure to the Company : <ul style="list-style-type: none"> • Komani HPP Dam Safety Upgrade: EUR 12.7m [REDACTED] loan signed in 2012 [REDACTED] • KESH Restructuring Project: EUR 208m (EUR 113m operating assets) sovereign-guaranteed loan signed in 2016 [REDACTED] • KESH floating solar PV Project: EUR 9m [REDACTED] loan signed in 2021 [REDACTED]
Maturity / Exit / Repayment	Maturity of 15 years [REDACTED]
Existing EPF Investment	N/A
Potential AMI eligible financing	N/A
Use of Proceeds - Description	Proceeds of the Bank’s loan will be used to finance costs related to the development, construction and operation of the Project.
Investment Plan	The Project will be implemented under a DBO contract with total Project costs estimated at EUR 41.67m (EUR 833k per MWp).
Financing Plan	[REDACTED]
Key Parties Involved	KESH (Borrower), Republic of Albania (Guarantor).
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign Guarantee [REDACTED]
Other material agreements	N/A
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC) TC1: Environmental and Social Due Diligence. The cost of the assignment is EUR 70,000 and it is financed by HIPCA Austria. TC2: Technical Advisory Services, which includes Feasibility Study, Basic Design, Minimum Functional Specifications and Procurement support. The cost of this assignment is EUR 198,700 and it is financed by HIPCA Austria. TC3: Project Implementation, which includes PIU support Consultant and Supervision Engineer. The cost of this assignment is EUR 1.2m and is financed under TA grant by the WBIF.</p> <p>B. Co-investment grants / Concessional Finance (Non-TC) The Borrower has been awarded a EUR 9.25m the WBIF grant which includes EUR 8.05m investment grant for up to 20% of the total goods, works and related services. Reimbursement: The above assignments are non-reimbursable transactional TCs required to evaluate the investments and assist the Company in Project implementation. Cost sharing: The Company will be asked to make in-kind cost sharing contributions to facilitate the work of the PIU team.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Albania's energy mix has one of the highest shares of renewable energy of the entire EBRD region with hydropower representing around 95% of installed power capacity. This means the country is highly dependent on annual rainfall and has an inherent vulnerability to climatic externalities with frequent fluctuations in domestic energy production. On average, Albania imports 20-25% of its annual domestic consumption; however, imported electricity can be as high as 50% during dry years, and include carbon intensive power imports from neighbouring countries. This reliance on imports has had a profound effect on the Albanian economy in the last couple of years, impacted by consistently high energy market prices that reached unprecedented levels during the energy crisis. The Government of Albania has had to step in on several occasions to support the energy sector, either directly or through offering guarantees against liquidity type financing (including from EBRD).

Accordingly, one of the key priorities of the Albanian Energy Strategy and National Renewable Energy Action Plan ("NREAP") is to **focus on the development of solar and wind capacities**, with a target to increase its non-hydro renewable energy sources ("RES") from ca. 20MW to up to 640MW by 2030, of which 490MW is planned to come from solar PV, developed by both public and private developers. The country benefits from an average solar irradiation of over 1,300 kWh/m²/year, thus offering one of the most favourable conditions for solar energy production in Europe. In addition, Albanian large volume of reservoir-based hydropower complements very well the intermittency of wind and solar generation, where each MWh of this new RES generation leads to less conventional power import and allows for the retention of water (especially during spring and summer seasons) to be used to support demand during periods of low wind and solar. In the longer-term, Albania has the potential to be an important provider of flexibility to the rest of the Balkan region, similar to the role that Scandinavian hydropower plays in complementing wind and solar production in Northern Europe.

The Project therefore (i) provides an opportunity for Albania to diversify its current almost entirely hydro-reliant generation in line with its national strategy for expansion and diversification of its energy mix, (ii) reduce a reliance on energy imports, as well as to (iii) achieve a goal of becoming a net exporter of renewable energy by 2030. The Project is also in line with KESH investment strategy to increase its solar PV capacities by 80MWp, in the aftermath of 2022 energy crisis, which triggered extensive liquidity injections from the Government of Albania. In addition, the selected location in central Albania will serve the purpose of geographical diversification of domestic power generation and de-congest the load of the transmission grid, since the hydro-based generation is located in the northeast of Albania, while the overwhelming majority of private solar PV investments will be situated in the southwest.

The Project builds on the Bank's endeavours in promoting RES in Albania through a combination of policy engagement, technical assistance and investments. The Bank has so far assisted the Albania's Ministry of Infrastructure and Energy through a series of comprehensive TA assignments in launching and completing: (i) three competitive solar auctions with a combined installed capacity of 524MWp and (ii) the first wind auction with

a combined capacity of 222MW. Consequently, the total of 746MW of new RES capacity has been awarded to private sector players and the Bank will continue to support additional 600MW of RES auctions [REDACTED]. At the same time, the Bank has been playing a key role in financing new RES capacity in the country through both public (EUR 9m loan for KESH's innovative floating solar project, signed on 31 March 2021) and private sector investments [REDACTED]. The Bank has also engaged closely with other winners of the auctions, including high-quality foreign investors, on project financings.

The Project is consistent with the Energy Sector Strategy which promotes support for scaling up of renewable energy sources. The Project is also consistent with the Strategy of Albania by promoting the commercialisation of public utilities and strengthening energy diversification, as well as a low-carbon transition. The Project also aligns with the Strategy for the Promotion of Gender Equality through promoting gender equality across the sector.

1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the Project.

Primary Quality: GET (Direct Track)

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 60%.</i>	The Project qualifies as 100% GET as use of proceeds will finance a new RES capacity.
1.2	<i>The project results in new renewable energy generation equivalent to at least 0.3% of annual electricity generation, so significantly contributes to greening the electricity grid.</i>	Annual energy generation from the plant is expected to be circa 74 GWh, which comprises circa 1% of annual national production (7,000 GWh in 2022).

Summary TIMS of existing projects with the Company is presented in **Annex 6**.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction).	While the Project is a consecutive transaction with KESH in Albania, it is the first [REDACTED] large-scale ground mounted solar plant to be financed by the Bank with KESH. [REDACTED]
Additionality sources	Evidence of additionality sources
Financing structure source <ul style="list-style-type: none"> EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the project. EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. 	The Bank is providing a sovereign loan with a tenor of 15 years [REDACTED], which cannot be matched by commercial lenders in the market.

Risk mitigation – EBRD’s long-term relationship with a client provides comfort to the client to be willing to take on more risk and/or finance , enabling outcomes such as innovation or expansion into new markets.	The Bank’s long-standing relationship with KESH and the support provided in the Project preparation (including feasibility study, basic design and minimum functional specifications) enabled KESH to proceed with a decision to construct its first sizeable generation asset and the largest solar PV plant in their portfolio. [REDACTED]
Standard-setting- helping the clients achieve higher standards – Client seeks/makes use of EBRD expertise on best international procurement standards . – Client seeks/makes use of EBRD expertise on higher environmental standards , above ‘business as usual’ (e.g. adoption of emissions standards, climate-related ISO standards etc.).	The Bank managed to mobilise the TC to support the Project’s preparation and also procurement support for the tender documents in accordance with the Bank’s PP&Rs. The TC will improve KESH’s standards in tender preparation and execution. Additional TA support will be provided to KESH to strengthen their Environmental and Social Management System, as part of the PIU support consultant’s scope, which together with the ESAP compliance will improve the environmental standards of the Client. In addition, under the ESAP the Company will commit towards the compliance with the solar supply chain requirements, including development and implementation of an adequate supply chain management system and the application of EBRD solar supply chain provisions will be reflected in the procurement documentation.
Standard-setting- Gender SMART Tag – Client seeks/makes use of EBRD expertise on higher gender standards and/or equal opportunities action plans	KESH will improve awareness of equal opportunities in the green energy field in Albania by introducing a new outreach initiative to draw more young women towards STEM (Science, Technology, Engineering, and Mathematics) careers in this traditionally male-dominated sector. This will involve the organisation of at least two career guidance events per year (e.g. women-focused job-fairs, lectures, mentoring by female role models) to be implemented in collaboration with educational providers, leveraging on an existing partnership the Client has with them and especially the University of Tirana. [REDACTED]

1.4 SOUND BANKING – KEY RISKS

Risks	Probability / Effect	Comments
Credit Risk	Medium/Medium	KESH’s debt service capacity, creditworthiness and operations are highly vulnerable to hydrological conditions, its role as wholesale power supplier of last resort [REDACTED] tariff policy and tariff implementation. Mitigant: Capacity increase of PV sources (including (i) small PVs on the face of its dams, (ii) the floating PV on the Vau Dejes HPP [REDACTED] and (iii) the Project would reduce its reliability to hydro. In addition, the new capacity will reduce dependency on electricity imports and smoothen to a lesser degree the market price volatility risk.
Implementation risk	Low/High	The Project’s implementation might be delayed [REDACTED] Mitigant: The Project will be implemented by an experienced DBO contractor selected under a competitive procurement process. KESH has been awarded a WBIF TA grant to support

		the Project's implementation via PIU Support Consultant and a Supervision Engineer, who will supervise the works during the entire construction process and ensure smooth implementation. Albeit on a smaller scale, KESH has some experience in PV plant development as they have a 5MWp plan already operational. The PV Plant shall be built on state owned land, so no expropriations are envisaged. [REDACTED]
Supply chain risk	Low/High	In line with the Management Approach, an enhanced supply chain due diligence will be undertaken during the procurement phase and selection of the module suppliers to ensure full traceability and transparency. The relevant provisions have been included in the ESAP, including a requirement to develop and implement the Supply Chain Management System, and will be included the Project financing agreements. The tender documents will include appropriate criteria and conditions for the contractors and sub-suppliers in relation to solar supply chain requirements.
Macro-economic risk	Low/High	The macroeconomic environment is stable but faces headwinds, with limited fiscal space. Mitigant: The economy has been resilient in the face of significant shocks in recent years (earthquake, pandemic, energy crisis). Inflation remains in single digits and is in decreasing trend, below regional peers, mainly supported by a strong local currency and strong tourism sector. Public debt decreased to 55.7 per cent of GDP in the first half of 2024, the lowest level since 2008. GDP growth 2024 is expected to rise slightly to 3.5 per cent in 2024 and to 3.7 per cent in 2025.

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

Primary Quality: Green (Direct track)

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Renewable energy capacity installed (MW)	KESH to increase their solar generating asset base by 50MW.	0	50	[REDACTED]
1.2	Renewable energy – electricity produced (MWh/year)	KESH to increase annual generation from solar based renewable energy sources, on average, by more than 70,500MWh (P90) per annum.	0	70,500	[REDACTED]

Additional Indicators: Gender SMART Tag

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Gender SMART: Advisory & Policy Indicators	Practices of the relevant stakeholder improved (equal opportunity practices of the client)	KESH will introduce a new outreach initiative and organise at least two career guidance events each year to attract young women to apply for STEM roles within the energy sector.	No	Yes	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

KESH owns and operates the three largest hydropower plants in Albania (Fierza, Komani and Vau Dejes HPPs) with a combined installed capacity of 1,350MW, producing almost 65% of the generated electricity in the country. KESH also operates a 5MWp solar PV plant build on one of the dams at the Vau Dejes Hydropower plant. The Borrower is also constructing a floating solar PV plant on the Vau Dejes reservoir with an installed capacity of 12.9MWp, which is expected to be operational by end of 2025. In the aftermath of the energy crisis in 2022, KESH has rented two floating thermal power plants (“TPPs”) (power ships/ barges) anchored in Vlora’s Port in order to increase domestic generation, for a total of 100MW additional combined capacity. The TPPs will be operational only on a last-resort basis and for balancing purposes only.

KESH continues to operate under public service obligations (“PSO”) licence, that require it to prioritize supplying to OSHEE, the Albanian distribution system operator (“DSO”) and retail supplier, to: (i) supply all regulated customers at a price agreed between the parties and ultimately approved by the shareholder (Ministry of Infrastructure and Energy) for both KESH and OSHEE, and (ii) provide electricity to cover the losses in the distribution network (both technical and non-technical) at a market price capped by the average HUPX (Hungarian Power Exchange) price. The energy to be provided to OSHEE under the PSO is typically stipulated in a bilateral annual contract, which is approved by Energy Authority Regulator. Any excess energy remaining after supplying OSHEE can be sold on the free market by KESH, which allows KESH to also trade on the merchant market with low quantities. KESH only trades to

take advantage of short-term arbitrage opportunities without impacting its PSO obligation and its net sum of annual purchased and sold electricity quantities on the merchant market is close to zero net value. The Company is also the key player in the balancing market and in providing ancillary services in the country. In addition, KESH is the largest market player with the capacity to provide emergency and on-peak electricity. Given its market coupling with Kosovo, KESH is effectively providing also balancing and ancillary services for the Kosovo market.

The Bank has been working with KESH to improve both its corporate governance and its management, which were the key focus of the Bank's 2016 Restructuring Project . Under this project KESH has implemented a comprehensive Corporate Governance Action Plan (the "CGAP"). Since 2016, KESH has achieved significant improvements in its reporting function and the general transparency and independence of its management. In addition, the adoption of the Climate Risk Management Plan by KESH in 2018 shows its commitment to undertake adaptation measures that will help to address the risks of climate change and climate variability; two of the measures being under implementation: the floating solar PV and the hydro pump storage plant, both supported by EBRD.

[REDACTED]

3.2 GUARANTOR

The Project will benefit from a sovereign guarantee from the Republic of Albania. EBRD's public sector lending terms and conditions would apply. A snapshot of Albania's macro-economic is presented below:

Economic growth is continuing in 2024 at a similar pace to the previous year. Following the slowdown in GDP growth in 2023 to 3.9 per cent, mainly driven by weaker domestic demand, economic activity continued at the same pace in the first half of 2024. Growth was mainly driven by construction and services. In contrast, net exports fell markedly due to a 15 per cent decline in goods exports, hampered by currency appreciation and low external demand. Economic growth is expected to rise slightly to 3.5 per cent in 2024 and to 3.7 per cent in 2025, on the back of continued strong performance of the hospitality sector and an improvement in the global outlook.

Inflation is back within the target band. Having reached an annual rate of 8.3 per cent in October 2022, inflation has declined steadily since then, reaching 2 per cent in August 2024, on the back of the strong appreciation of the local currency and global disinflationary trend. In response to easing inflation, the Bank of Albania cut the policy rate by 0.25 percentage point in July 2024 (to 3 per cent). Credit growth started slowing at around 1 per cent in January 2024 but accelerated sharply to almost 12 per cent in June and July. The exchange rate appreciated 12.5 per cent in the past two years but has remained stable in recent months, partly as a result of central bank interventions in the market. Macro financial stability has been preserved, the banking sector remained well capitalised and liquid with non-performing loans to total loan ratio decreasing to 4.7 per cent. Foreign reserves assets remained high at EUR 5.8 billion in August 2024.

Improved Credit Rating in 2024: In March 2024, S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Albania to 'BB-' from 'B+' on the back of the decline in public debt and strong tourism sector, while retaining its outlook as stable. Moody's followed and in April 2024, revised Albania's outlook to Positive from Stable and affirmed 'B1' rating on the back of an improving trend of public finances. Public debt stood at a level of 55.7 per cent of GDP in the first half of 2024, the lowest level since 2008. The IMF recommends that authorities continue to lengthen debt maturities and reduce the reliance on floating rate debt.

For further details please refer to **Annex 3**.

4. MARKET CONTEXT

The Albanian power market remains largely state owned and consists of following main state participants: 1) state utility KESH; 2) distribution company OSHEE and 3) transmission system operator OST. The electricity system of Albania is interconnected with the neighbouring systems of Greece, Montenegro, Kosovo and North Macedonia (the 400kV transmission line is under construction). Albania's total electricity consumption is met c.70% by domestic hydro generation and the remaining amount is imported with the amount of imports each year depending on the hydro yield that year.

Besides 1,350MW of hydro capacity owned and operated by KESH, there are additional ~1GW of hydro capacities developed through concessions. Furthermore, there are currently approximately 190MW of installed capacity coming from solar PV parks [REDACTED], while an additional aggregate 130MW has been implemented for self-consumption purposes by both households and business. In a normal hydrological year, Albania's existing HPPs will

generate about 5-6TWh (out of which 4.8TWh/year from KESH owned HPPs and the rest from Independent Power Producers), while the total electricity consumption in the country is more than 7TWh/year. As a consequence, Albania is heavily dependent on electric power imports at high costs.

The Government of Albania considers the energy sector at the top of its priorities, as demonstrated through strong executive measures. For example, the National Renewable Energy Action Plan (“NREAP”) includes a RES target to up to 640MW within 2030. To mitigate the reliance on imports, in the short-term the Government has procured two floating TPP (power ships or barges). Longer term plans include (i) increased RES capacities (both solar and wind); (ii) develop a hydro pump storage in KESH’s existing generation assets; (iii) seeking to reinstate the Vlora TPP and (iv) building Skavica HPP. In addition to the capacities auctioned by the Ministry of Infrastructure and Energy with the Bank’s support via three solar auctions and one in wind, for a total of 746MW, there are approximately another 1GW of unsupported private PV projects in the pipeline to further diversify and increase domestic generation to reduce import dependency.

Energy Crises: Albania historically underwent periods of severe lack of rainfall and hydro generation, causing the domestic demand to be met primarily by imports. This periods of significant increase in import demand have lately coincided with the severe global electricity price hikes and required several interventions from the Government of Albania in a form of liquidity injections, most recently in 2022.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The Project has been Categorised B in accordance with EBRD's Environmental and Social Policy (“ESP”) 2019 as the majority of impacts are site-specific and readily addressed through mitigation measures and a targeted action plan. Independent Environmental and Social Due Diligence (“ESDD”) has been carried out including a site visit, and review of the Client’s environmental and social capacity and management system and an Environmental and Social Action Plan (“ESAP”) has been developed and will be agreed with the Client.

The 50MWp solar PV plant and associated sub-station will be located in Belsh Municipality on a greenfield site of approximately 68.5 ha and a new approximately 9 km 110kV overhead line (“OHL”) will connect it to the grid at the existing sub-station at Kajan, which will be expanded as part of the Project. The PV site is located on hilly terrain and habitats at the site and along the OHL are generally modified and not of significant biodiversity value and the Project is not located in or adjacent to any areas protected or recognised for their biodiversity. Areas of higher value within the PV site and along the OHL route (trees, hedges and karstic woods) will be avoided. The hedges are also considered critical habitat as they support terrestrial mollusc species which trigger critical habitat. Bird diverters will be installed on the

OHL to reduce collision risk for birds and adapted fencing will provide continued access to the site for small fauna.

Existing land use in the Project area is limited to provision of low-quality grazing and agricultural lands within the general area of the PV and along the OHL will be avoided. A Resettlement Framework (“RF”) has been developed outlining the principles of land acquisition in compliance with PR5 and a Livelihood Restoration Plan will be developed and implemented during the acquisition process when the detailed design has been completed. Due to the presence of several cut stone tools found on the surface, a systematic pre-construction archaeological survey will be undertaken and a chance finds procedure prepared in accordance with national legislation and PR8.

The EPC contractor will be required to ensure labour and working conditions and develop occupational and community health and safety management plans in accordance with national legislation, PR2 and PR4 requirements. KESH will be required to designate an E&S manager for the Project and continue to develop their corporate E&S management system and include the project operation in the scope of the system.

The PV module supply chain has not been subject to due diligence since the potential supplier is unknown at this stage in the Project as the procurement activities have not yet commenced. [REDACTED] The EBRD's Management Approach for Solar Supply Chain Risk Management will be implemented during the selection of the Project module suppliers, as required by the ESAP. A process will be in put in place to verify the supply chain during Project's implementation and the PIU supervision engineer will control and certify during implementation of the Project that the approved solar equipment is in line with the Bank's requirements. Such provisions have been included in the ESAP. This will ensure that risks of forced labour with the selected module supplier and supply chain are identified and mitigated.

A Non-Technical Summary (NTS), Stakeholder Engagement Plan (SEP) including project grievance mechanism have been developed and in addition to the RF will be disclosed by the Client on their website. The Project will be monitored by the Bank, including review of monitoring reports and site visits as required to ensure compliance with the ESAP and the PRs.

6.2 INTEGRITY

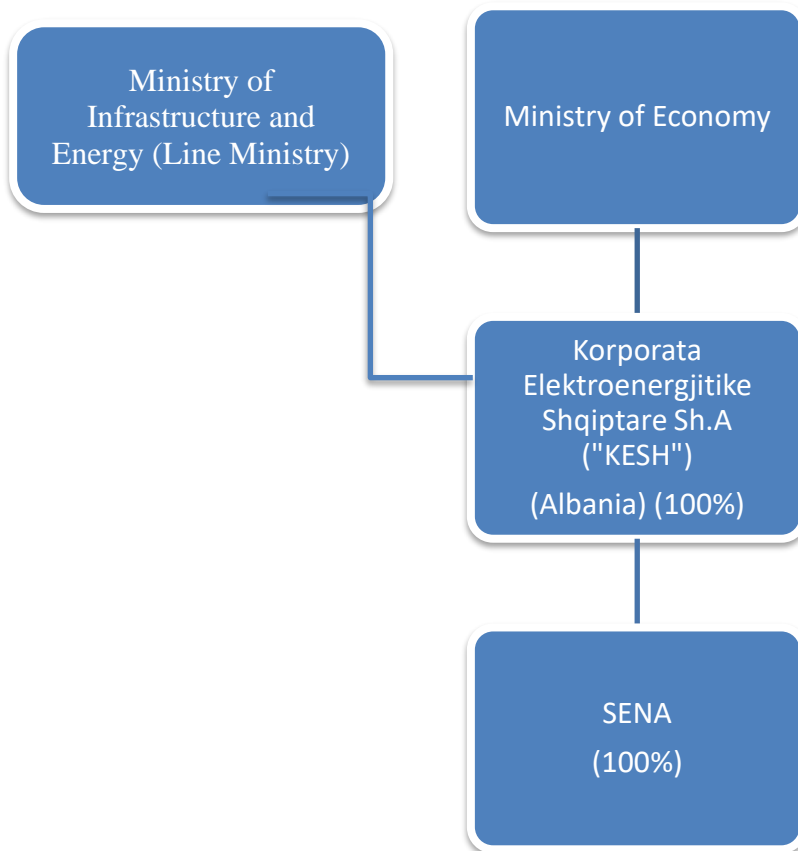
In conjunction with OCCO, integrity due diligence was undertaken on KESH, its shareholder (the Ministry of Infrastructure and Energy), senior management and other relevant parties. KESH is a long-standing client of the Bank and experience to date has been positive. [REDACTED]

[REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	SHAREHOLDING STRUCTURE
ANNEX 2	PROJECT DESCRIPTION
ANNEX 3	ALBANIA'S MACROECONOMIC PERFORMANCE
ANNEX 4	GREEN ASSESMENT
ANNEX 5	PROJECT IMPLEMENTATION
ANNEX 6	TIMS REVIEW OF EXISTING PROJECTS WITH KESH

ANNEX 1 – SHAREHOLDING STRUCTURE

ANNEX 2 – PROJECT DESCRIPTION

[REDACTED]

ANNEX 3 - ALBANIA'S MACROECONOMIC PERFORMANCE

Macroeconomic developments and policy response

Economic growth is continuing in 2024 at a similar pace to the previous year. Following the slowdown in GDP growth in 2023 to 3.9 per cent, mainly driven by weaker domestic demand, economic activity continued at the same pace (3.9 pr cent) in the first half of 2024. Growth was driven by construction and services. This is also reflected on the expenditure side, where the biggest growth was recorded in private consumption and fixed investments. In contrast, net exports fell markedly due to a 15 per cent decline in goods exports, hampered by currency appreciation and low external demand. As a result, the current account deficit increased by 50 per cent compared to H1 2023, reaching close to EUR 600 million despite increasing remittance inflows. FDI inflow increased by 8.6 per cent relative to H1 2023, reaching over EUR 600 million, enough to cover the current account deficit.

Inflation is back within the target band. Having reached an annual rate of 8.3 per cent in October 2022, inflation has declined steadily since then, reaching 2 per cent in August 2024, on the back of the strong appreciation of the local currency, and global disinflationary trend. In response to easing inflation, the Bank of Albania cut the policy rate by 0.25 percentage point in July 2024 (to 3 per cent). Credit growth started slowing at around 1 per cent in January 2024 but accelerated sharply to almost 12 per cent in June and July 2024. The exchange rate appreciated 12.5 per cent in the past two years but has remained stable in recent months, partly as a result of central bank interventions in the market. Macro financial stability has been preserved, the banking sector remained well capitalised and liquid with NPL to total loan ration decreasing to 4.7 per cent. Foreign reserves assets remained high at EUR 5.8 billion in August 2024.

Fiscal policy remains expansionary, including a further public sector wage increase from July 2024 with an estimated budgetary impact of ALL 40 billion (EUR 400 million). The government's budget plan for 2024 forecasts a deficit of 2.5 per cent of GDP, even though a surplus of around 2.5 per cent has been recorded in the first eight months. Public debt stood at a level of 55.7 per cent of GDP in the first half of 2024, the lowest level since 2008. The IMF recommends that authorities continue to lengthen debt maturities and reduce the reliance on floating rate debt. The county is rated B1 by Moody's, with positive outlook (upgraded from stable in April 2024), and BB- with stable outlook by S&P (upgraded from B+ in March 2024).

Steady growth is set to continue in the near term. Economic growth in 2024 is expected to rise slightly to 3.5 per cent in 2024 and to 3.7 per cent in 2025, on the back of continued strong performance of the hospitality sector and an improvement in the global outlook. The main downside risks arise from a possible drought, which would negatively affect agricultural output and electricity supply.

Structural reforms

Reform plans are set to receive substantial external support. Under the EU's Growth Plan for the Western Balkans, Albania would receive around EUR 1 billion in the period of 2024-2027, conditional on fulfilling reforms defined in the reform agenda. Key areas of reforms are: the improvement of the business environment, human capital development, judiciary efficiency, fight against corruption, freedom of expression, renewables deployment and energy market reforms, digital transition, particularly in public services, and enhanced cyber security.

A National Employment and Skills Strategy 2023-2030 has been approved. The new strategy, approved in March 2023, focuses on skills development and better matching of demand with supply in the labour market, and enabling decent employment for women and men through the implementation of comprehensive labour market policies.

Albania launched a Youth Guarantee ("YG"). The guarantee was announced in October 2023 and the government has also approved an Implementation Plan. In the first quarter of 2024, the pilot phase of the YG was launched in three cities, Shkodra, Tirana and Vlora, to test the YG scheme and allow adjustments before the national roll-out. The YG aims to ensure that all young people under 25 receive

either a good quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education.

The Bank of Albania (“BoA”) is expected to officially submit an application for Single Euro Payments Area (“SEPA”) membership in 2024. As a part of the EU growth plan, Albania has received the green light from the European Commission to join the SEPA, a unified payment system encompassing most EU countries and several other European nations. This membership will significantly reduce fees for cross-border transactions between Albanian and EU financial institutions, fostering greater financial interconnectedness and facilitating smoother international commerce. The BoA and other relevant government agencies are actively pursuing the necessary regulatory steps to meet SEPA's stringent requirements.

Resilience in the banking sector is being strengthened. Fast credit growth in recent months prompted the central bank to increase the countercyclical capital buffer (“CCB”) from 0 to 25 basis points, indicating that additional measures to manage systemic risks are being taken into account. The CCB requires banks to increase their capital level (by 0.25 per cent of risk weighted assets), in an environment of strong credit growth, in order to build resilience in the banking sector during periods of stress when losses materialise.

ANNEX 4 – GREEN ASSESSMENTS

SUMMARY

- The Project consists of a senior, sovereign-guaranteed loan of up to EUR 30 million in favour of the state-owned KESH for the purpose of constructing a 50MWp ground-mounted solar PV plant in the Belshi area.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **100% GET.**
- [REDACTED]

PARIS ALIGNMENT ASSESSMENT

For Direct finance projects

Alignment with the mitigation goals of Paris Agreement - General screening

The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The Project's activity is included in the 'MDBs' aligned list' under the category "Generation of renewable energy from solar, wind, wave power, run-of-the-river hydro, or geothermal with negligible lifecycle GHG emissions".
- The Project is consistent with the substantial contribution criteria of the EU Taxonomy, as it generates 73,300 MWh/year from renewable energy sources. The Project is not associated with direct GHG emission savings as the grid emission factor of Albania is 0.00. Nonetheless, the Project is expected to reduce indirect GHG emissions resulting from the electricity imports in Albania and therefore contributes to climate change mitigation.
- There are no activities included in the 'non-aligned list'.

Alignment with the adaptation goals of Paris Agreement

The Project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. No material physical climate risks have been identified.

GET ATTRIBUTION

The Project is attributed 100% GET. The Project is consistent with the GET approach. The Project will generate around 73,300 MWh electricity from solar, which is expected to lead to indirect GHG emissions reductions estimated at 51,872 tCO₂ per year by replacing electricity imported with domestic solar PV generation.

[REDACTED]

ANNEX 5 – PROJECT IMPLEMENTATION

Procurement classification – *Public Sovereign*

Project risk assessment:

[REDACTED]

Country risk assessment

- *Moderate*

[REDACTED]

Contracts risk assessment

- *Moderate*

Country Risk Assessment - Moderate

In accordance with the current EBRD Country Procurement Risk Index 2017³, Albania is allocated “moderate” level of risk to be applied to all public sector projects. The index is based on the level of compliance with the EBRD Core Public Procurement Principles as assessed in the EBRD Public Procurement Assessment 2011 and adjusted to take into account the scores from the Transparency International Corruption Perceptions Index 2017.

The Client’s capacity assessment related risk – Moderate

This is a well-known client to the Bank, thus the risk assessment was determined on the basis of the experience gained during the implementation of the Komani HPP Dam Safety Upgrade project and ongoing implementation of the KESH Floating PV project. The Client has demonstrated relevant experience in procuring goods and works contracts under IFI financing projects using diverse set of rules. They have also scaled up their knowledge on EBRD Procurement Policies and Rules (“PP&R”) for the public sector operations, as well as their capacity to conduct the procurement and supervision tasks required as demonstrated during the implementation of the Floating PV project. However, they have limited knowledge and capacity in dealing with technical issues regarding the procurement process. In order to mitigate these risks, the Project will be supported with a grant funded procurement TC and KESH intends to hire a Supervision Engineer and PIU Support Consultant to aid in the Project’s smooth implementation, which will be fully funded via a WBIF TA grant.

Contracts risk assessment – Moderate

The scope of the Project envisages the design, build and operation for 50MWp photovoltaic plant located in Belshi area.

The contract is the second of this nature and complexity for the Client. [REDACTED] In addition, the lack of Client’s capacity to conduct the required activities during project implementation would be mitigated with the procurement support provided by the Feasibly Study (FS) consultant as well as supervision engineer.

Project implementation arrangements:

KESH will be responsible for the implementation of the Project, including carrying out the procurement process and contracting. KESH is well managed, agile and efficient and employs a team of capable experienced professionals dedicated to previous EBRD financed projects that are retained for this new project. The Project will be implemented by KESH mainly through its Strategic Development Department with the support of other KESH’s complementary departments. Experts from various Organizational Units will support the nominated Project Implementation Unit (“PIU”) within KESH to ensure the required expertise will be involved including project coordinator, environmental, civil, and electrical and mechanical engineers, financial, economic and procurement.

³ [EBRD Country Procurement Risk Index 2017, Edition V.5 January 2017.](#)

The experienced KESH team will be supported by the two donor-funded Implementation Consultants: (i) Technical Assistance Supervision Engineer (FIDIC engineer) and (ii) PIU Support Consultant to mitigate potential procurement and implementation risks. The Consultants will assist the Client in all aspects of procurement and the implementation of the Project in accordance with the Bank's policies and also support KESH in meeting requirements of various financing documents. The works for the Project will be contracted via a design-build-operate contract carried out by one single Engineering, Procurement and Construction ("EPC") contractor.

Procurement arrangements:

Works contract will be financed by the proceeds of the Bank's loan, WBIF investment grant funds, as well as KESH contributions. The contract will be procured following the Bank's PP&R and will be subject to prior review by the Bank.

The works contract will be procured using multi-stage open tendering method using the Bank's latest works standard procurement documents templates. The tender documents will include appropriate criteria and conditions for the contractors and sub-suppliers in relation to solar supply chain requirements. The preliminary designs are prepared by the consultant in charge of the Feasibility Study but the final design will be conducted by the awarded contractor through the envisaged contract. The same FS consultant will also support the Client with the preparation of tender documents and procurement support for the procurement of the works contract. The works contract is expected to be implemented following FIDIC Gold Book conditions of contract. The works contract will also include a two-year operation and maintenance period which would also include capacity development and training to KESH staff on the operation and maintenance of the PV plant.

The consultancy contracts will be procured following the provisions of the Bank's PP&R Section 5 (Procurement of Consultant Services). The consultancy contracts for Procurement Support will be financed by bilateral donors (HIPCA Austria) while the technical supervision support consultancy and the PIU consultancy assignments will be financed by WBIF TA grant funds. The supervision consultancy assignment will be procured following two stages open competitive selection while the PIU consultancy assignment will be procured following single stage selection process.

Additional information:

The contracts will be tendered via the EBRD Client e-Procurement Portal ("ECEPP").

PUBLIC

OFFICIAL USE

Procurement Plan

[REDACTED]

PUBLIC

ANNEX 6 – TIMS REVIEW OF EXISTING PROJECTS WITH KESH

[REDACTED]