UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

1. Country of Performance: 167 Kosovo	Adv. Asst. Services Yes [ ] No [X]
2. Contract (Incorporating FAR and AIDAR Clauses): Contract No: EPP-I-00-03-00008-00	Order No: 04

NEGOTIATED PURSUANT TO THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED, AND EXECUTIVE ORDER 11223

3. CONTRACTOR (Name and Address): PA Government Services, Inc. 4601 North Fairfax Suite 600 Arlington VA 22203 TIN: (b)(3):TIN DUNS: 009585279	4a. ISSUING OFFICE: USAID/RSC/RCO/Budapest Department of State (AID) 5270 Budapest Place Washington DC 20521-5270 4b. ADMINISTRATION OFFICE: Same as Block 4a
5. TECHNICAL OFFICE: Economic Growth Office USAID/Kosovo	6. PAYING OFFICE. SUBMIT INVOICE TO: See Article A.16
7. EFFECTIVE DATE: 12-18-2006	8. ESTIMATED COMPLETION DATE: 12-17-2008
9. ACCOUNTING AND APPROPRIATION DATA: See Article A.17 12/18/06 12/18/06	
10. The United States of America, represented by the Contracting Officer signing this Order, and the Contractor agree that: (a) this Order is issued pursuant to the Contract specified in Block 2 above and (b) the entire Contract between the parties hereto consists of this Order and the Contract specified in Block 2 above.	
11a. NAME OF CONTRACTOR: PA Government Services, Inc. BY: LMiller NAME: Laurie Miller TITLE: Asst Secretary DATE: 12/20/06	11b. UNITED STATES OF AMERICA Agency for International Development BY: NAME: Bruce Gelband TITLE: Regional Contracting Officer DATE: 12/26/2006

AID 1420-61 (Rev'd)

TABLE OF CONTENTS

PAGE

UNITED STATES OF AMERICA....................1
AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) FORM 1420-61....................1

ARTICLES

A.1 TITLE....................3
A.2 TYPE OF TASK ORDER....................3
A.3 PURPOSE....................3
A.4 BACKGROUND....................4
A.5 STATEMENT OF WORK....................14
A.6 REPORTS....................22
A.7 SPECIAL INSTRUCTIONS....................25
A.8 GENDER CONSIDERATION....................26
A.9 ADDRESS FOR CENTER FOR DEVELOPMENT INFORMATION AND EVALUATION COGNIZENT TECHNICAL OFFICER....................26
A.10 COGNIZENT TECHNICAL OFFICER....................26
A.11 TECHNICAL DIRECTIONS/RELATIONSHIP WITH USAID....................27
A.12 KEY PERSONNEL....................27
A.13 APPROVALS OF SALARIES....................28
A.14 CONSENT TO SUB-CONTRACT....................28
A.15 PERIOD OF PERFORMANCE....................29
A.16 PAYING OFFICE....................29
A.17 ACCOUNTING AND APPROPRIATION DATA....................30
A.18 BUDGET....................30
A.19 PERFORMANCE STANDARDS....................31
A.20 DUTY POST....................31
A.21 USE OF GOVERNMENT FACILITIES OR PERSONNEL....................32
A.22 LOGISTICAL SUPPORT....................32
A.23 ACCESS TO CLASSIFIED INFORMATION....................32
A.24 WORK WEEK.................... 32
A.25 LANGUAGE REQUIREMENT....................32
A.26 AUTHORIZED GEOGRAPHIC CODE....................33
A.27 INDEFINITE QUANTITY CONTRACT....................33
A.28 IMPLEMENTATION OF SECTION 579, 2003 APPROPRIATION ACT - REPORTING FOREIGN TAXES....................33
A.29 USAID DISABILITY POLICY - ACQUISITION (DECEMBER 2004)....................35
A.30 MANAGEMENT OF INFORMATION TECHNOLOGY RESOURCES....................35
A.31 BRANDING POLICY....................36
A.32 INFORMATION TECHNOLOGY REQUIREMENTS....................36
A.33 AIDAR 752.7028 DIFFERENTIALS AND ALLOWANCES (JULY 1996)....................37
A.34 AIDAR 752.7005 SUBMISSION REQUIREMENTS FOR DEVELOPMENT EXPERIENCE DOCUMEMENTS (JANUARY 2004)....................41
A.35 AIDAR 752.228-70 MEDICAL EVACUATION (MEDEVAC) SERVICES (APRIL 2006)...43
A.36 AIDAR 752.7007 PERSONNEL COMPENSATION (APRIL 2006)....................44

A.1 TITLE

Korporata Energjetike e Kosoves (KEK) Network and Supply Project

A.2 TYPE OF TASK ORDER

This is a Cost-Plus-Fixed-Fee (CPFF) Completion Type Task Order issued to PA Government Services, Inc. under the Energy Sector Technical Assistance II (Energy II) Indefinite Quantity Contract (IQC) Number: EPP-I-00-03-00008-00.

A.3 PURPOSE

The purpose of this Task Order is to assist Korporata Energjetike e Kosoves's (KEK) Network and Supply Divisions to improve functions, especially to increase collections, with a goal of attracting future private sector participation. In addition, this Project will support senior Kosovar management as they assume greater responsibility and independence in providing strategic guidance and leadership to KEK. This project supports certain critical elements of Kosovo Energy Corporation (Korporata Energjetike e Kosoves or KEK).

This Project will contribute to USAID/Kosovo's Strategic Objective 4.1 *Social Stabilization Achieved through Special Initiatives* and Intermediate Result 4.1.3 *Commercial viability of Kosovo Energy Corporation.*

This Project will be implemented in cooperation with other USAID initiatives, including the *Kosovo Economic Development Initiative, Justice System Reform Activity* and *Local Government Initiative.* Cooperation with these and other assistance-providers should be maximized to assure effective use of resources. (See www.usaid.gov/missions/kosovo for information on USAID programs in Kosovo.)

USAID/Kosovo's projects are closely coordinated with the United Nations Mission in Kosovo (UNMIK) (see http://www.unmikonline.org), the European Union (EU), the European Agency for Reconstruction (EAR), the World Bank (WB), International Monetary Fund (IMF) and other donor agencies working in Kosovo, to ensure commonality of objectives and policy approaches, and to avoid duplication of efforts.

A.4 BACKGROUND

A. The Development Challenge

Kosovo has large reserves of high-quality lignite which, if properly managed, can be used to transform Kosovo into a major energy exporter in Europe. However, 15 years of neglect, under-investment, and poor planning have resulted in a deteriorated energy infrastructure.

Despite almost seven years of efforts by both Kosovars and the international community, there remain serious deficiencies in KEK's ability to deliver electricity. A primary problem is that KEK does not collect approximately two-thirds of the value of electricity delivered (this includes technical and commercial losses and non-payment of bills). While this situation has improved somewhat over the past year, the inability of KEK to collect for the electricity produced means that KEK lacks the financial ability to do required maintenance or make other capital investments. Insufficient revenue generation is widely considered to be the primary cause of KEK's inability to provide 24-hour electricity. Additionally, public perception of KEK is very low, with a June 2006 survey revealing that 62% of Kosovars view KEK as having a high level of corruption. Perceived corruption at KEK is higher than any other institution surveyed.[1]

To this day, Kosovo experiences significant power outages and use of generators is common. Unreliable energy is frequently cited as the primary impediment to business expansion. Thus, increasing KEK collections and attracting private sector participation in the energy sector are among Kosovo's primary objectives to achieve economic growth.

Many studies have been done on Kosovo's energy sector and the Ministry of Energy and Mines (MEM) has produced the *Energy Strategy for Kosovo 2005-2015* (Energy Strategy). The Energy Strategy emphasizes the need to attract private capital in the development of new mines, construction of new generation capacity, and rehabilitation of existing power plants.

The WB is implementing the Lignite Power Technical Assistance Project (LPTAP). It is anticipated that in 2007 a tender will be issued for selection of a developer that will develop new mines and generation in Kosovo. In June 2006, Kosovo's Prime Minister signed the WB's Letter of Development Policy, which sets forth policies for developing Kosovo's energy sector and lays the groundwork for future cooperation between the World Bank and the Kosovo government.

---

[1] Fast Facts on Kosovo Early Warning Report #13, June 2006, produced by UNDP with support from USAID.

B. Governance of Energy Sector

UNMIK and the Kosovo Trust Agency

Since 1999, Kosovo has been a UN protectorate, administered by UNMIK under UN Resolution 1244. Economic sectors are under the supervision of UNMIK Pillar IV, headed by the European Union. Of particular relevance to KEK is the Kosovo Trust Agency (KTA). Established by UNMIK in 2002, KTA has jurisdiction over all of Kosovo's Publicly-Owned Enterprises (POEs) and Socially-Owned Enterprises (SOEs). KTA's mandate is to administer and preserve the value of the POEs and SOEs. KEK is a POE.

The Managing Director of KTA is provided by the EU and, to-date, has always been an individual drawn from the international community. KTA operates through two separate divisions, one for POEs and one for SOEs. The Deputy Managing Director for each division is a Kosovar. While KTA is allowed to privatize SOEs, pursuant to UNMIK regulations, KTA does not currently have that option for POEs.

The Ministry of Energy and Mines

Since 1999, UNMIK has gradually transferred competencies to the Provisional Institutions of Self-Government (PISG). In November 2004 a new Ministry of Energy and Mining was established within the PISG to provide a central ministry for energy policy and planning. A copy of MEM's strategy is available on their website, www.ks-gov.net/mem.

Energy Regulatory Office and Independent Commission for Mines and Minerals

The Energy Regulatory Office (ERO) was established in 2004, with a board appointed in February 2006. There are five members on its board -- three appointed by UNMIK and two appointed by the Kosovo Assembly. The Independent Commission for Mines and Minerals (ICMM) was established in January 2005 as the body for all administrative affairs concerning mining in Kosovo. The ICMM with its Governing Board (seven members appointed by UNMIK) acts as an independent regulator to the mining industry and reports directly to UNMIK.

C. Legal Framework

Three laws guiding the energy sector were promulgated in July 2004: the *Law on Energy*, *Law on Electricity* and *Law on the Energy Regulatory Office*. However, as noted earlier, UNMIK still retains ultimate jurisdiction over Kosovo, notwithstanding that most competencies have been transferred. Thus, for example, any legal changes must be approved by UNMIK's Office of Legal Advisor, and the UN's Special Representative of the Secretary General (SRSG) must sign and promulgate any laws and legislative amendments.

D. Korporata Energjetike e Kosoves (KEK)

1. Management and Structure

KEK is currently managed by an international utility firm from Ireland, Electricity Supply Board International (ESBI), acting under contract from UNMIK KTA. However, ESBI's contract ends December 2006, at which time Kosovar management will re-assume full leadership of KEK. Although ESBI currently manages KEK, a Kosovar co-director was recently appointed.

In 2005, through assistance by EAR, KEK was incorporated and is now governed by a Board of Directors. The board members include: two KTA appointees (one of whom is Chairman of the Board and both are currently international experts), KTA Deputy Managing Director for POEs, KTA Budget Director, Head of Pillar IV, KEK Managing Director, Minister of Energy and Mines, Deputy Minister of Energy and Mines, and an observer from UNMIK Pillar IV.

After incorporation, KEK has four core business divisions: Mining, Generation, Network and Supply. Accounting separation and asset valuation of these divisions is underway, while other functions (Financial Management, Human Resources, and Tariffs) remain with KEK Headquarters. A legally separate Independent Transmission System and Market Operator (ITSMO), one of the requirements of the Energy Community Treaty for South Eastern Europe (ECSEE), has been created.

KEK Network Division owns and maintains distribution system assets, including wires, transformers and substations, and, according to the Law on Energy, in the future will carry out the Distribution Network Operator role. KEK Supply Division is responsible for billings and collections, meter reading, disconnections and re-connections, and customer service.

It is envisioned that further restructuring and unbundling should occur during the time frame of this Project. Key next steps, in accordance with the ECSEE Treaty, include legal separation of remaining divisions into corporations, design of the internal electricity market, and gradual market opening. Full unbundling will require creating functions in Network and Supply that are now carried out in KEK Headquarters (strategic planning, financial management, human resources, and tariff development). As part of this process, contracts for services between the new corporations will also need to be developed.

MEM's *Energy Strategy of Kosovo 2005-2015* further elaborates that KEK should gradually undergo legal separation of certain activities, whereby they could be undertaken by the private sector. The strategy also refers to eventual privatization of lignite mining operations or generation and mining complexes.

2. Transmission and Generation

KEK is a part of the high voltage single-zone interconnection system of Europe and is interconnected with Serbia, Montenegro, and with Macedonia via 400kV lines. There is also a 220kV interconnection with Albania. Furthermore, a new 400kV line to Albania is planned.

KEK supplies Kosovo with electricity from KEK's two lignite-fired power plants, "Kosovo A" and "Kosovo B". Nominal installed generation capacity is 1513MW (five units in "Kosovo A" and two units in "Kosovo B"). In addition, there is a 35MW hydropower plant at the Gazivode artificial lake that sells its power to KEK. Due to age, improper maintenance, and lack of finance, the reliability and net generation capacity of these plants have been seriously compromised. In January 2006, only about 600MW was available from one unit of "Kosovo A" and both units of "Kosovo B", mainly due to the lack of coal. The two "Kosovo B" units, which started work in 1983/84, have undergone major refurbishment (mainly European Commission (EC) funded projects) and presently their net availability is 260 - 280 MW each. "Kosovo A", in its present state of disrepair, has very modest generating capacity. KEK is not always able to meet electricity needs and imports are sometimes needed during peak hours.

With KEK's power generation virtually 100% dependent on coal supply, and lignite mining 98% dependent on KEK electricity production, there is a reciprocal dependence between lignite and power production. Estimated lignite deposits are approximately 14 billion tons. There are currently two open cast lignite mines (Bardh and Mirash) in operation, supplying 6.5 million tons per year to KEK power generation units. The latest estimation indicates that mines currently in operation will be completely depleted by 2012, with a significant decrease of output starting from 2009. This alarming issue highlights the need for investment in a new lignite mine. KEK has received an exploration license for a new mine to be opened, namely "Southwest Sibovc" (SW Sibovc), but there are considerable difficulties in securing the financing of the necessary investments. An EAR-financed study determined that €237.5 million investment is needed. An EAR funded Options Analysis study will develop alternative packages for private investment in SW Sibovc; existing generation stations of Kosovo A; and for private investment in the new generation/mine capacities. A main goal of LPTAP is to secure early private sector investment to meet this need.

3. KEK Financial Situation

From 1989-1999, virtually no capital expenditure has been made in KEK. After the conflict, from 1999-2004, some €375 million was invested in KEK. Most prominently, €175 million was invested by the EC in the rehabilitation of Kosovo B after it was damaged by lightning, and €60 was used to repair parts of the distributions system damaged during the conflict. An additional €300 million was spent on electricity imports. Despite this, load-shedding was a necessity throughout the period, and continues to this day.

In addition to the problems created by deficient infrastructure, a culture of non-payment has left KEK near bankruptcy. Recent data on commercial and technical losses illustrate the crisis in KEK. In April 2006, KEK reported:

- Electricity billed as percentage of electricity delivered to the grid: 66%
- Electricity collections as percentage of electricity billed the previous month: 63%
- Electricity collections as percentage of electricity delivered to the grid: 42%

In financial terms:

- Value of the electricity billed in April 2006, €12.55 million; and
- Amount collected from the previous month billed, €7.88 million.

As noted earlier, between technical, commercial losses and non-payment, two-thirds of the value of the electricity delivered is lost. Performance is better during summer months, but in terms of losses as a percentage of electricity distributed, the situation is little changed since 1999. Further compounding the problems of KEK is energy theft. Illegal connections are rampant and a large number of customers bypass and tamper with meters, especially in winter months when energy consumption rises substantially. Mechanisms for enforcing payment are weak and, although KEK often wins in court against illegal connectors, the courts are clogged with utility cases and have large backlogs. In addition, there are problems within KEK including weak management, lack of proper processes and employee corruption. Inaccurate billing, zero and negative bills, active customers put on the passive customer lists - all fuel public perception of the utility as vulnerable and corrupt (see attached KEK Operational Report for April 2004 prepared by KEK Institutional Strengthening Implementing Partner).

To make up for the shortfall in revenue collection, a significant portion of the Kosovo Consolidated Budget (KCB) is transferred to KEK each year to import electricity and for capital improvements. From 2000 through 2006, the KCB has provided subsidies to KEK of approximately 335 million euros. In 2005 KCB subsidized KEK in the amount of 50 million euro, of which 27.2 million euro was for imports. In 2006, planned KCB subsidies for KEK total 43.7 million euro, of which 11.6 million euro is for imports.

In January 2006, ESBI initiated the "ABC" plan to address capacity shortages and increasing import costs (including 16.7 million euro purchased and an additional 5.65 million euro exchanged import in 2005). The "ABC" plan categorizes consumers, at the 10 kV feeder level, into three groups based on payment history. Best-paying customers (the "A" group) receive electricity for 24 hours, a second tier of payers (the "B" group) receives less reliable service (based on power availability and demand factors). The worst-payers (the "C" group) receive whatever power remains after service is provided to the "A" and "B" groups. This plan has led to an increase in collection of billed energy (in 1st quarter of 2006 collections increased to 68% compared to 52% of the same period of 2005); however this plan did not reduce commercial losses.

Soon after ESBI mobilized, a *Network Failure Policy* was introduced. This policy emphasized the relationship between bill payment and quality of service by requiring that customers causing equipment failure (due to tampering and overload) have service contracts and pay for service before the equipment is repaired. ESBI reported that after one year, more than €0.5 million collected from customers was invested in network repair.

ESBI developed the *Financial Recovery Plan 2010* which aims to achieve several goals by 2010 including: international levels of cash collection and billings; 24-hour service starting in 2006; elimination of imports; and the ability of KEK to raise its own financing for capital expenditures for rehabilitation of power plants, mines and the electrical networks. The plan estimates that capital expenditure needed from 2005-2010 to be nearly €800 million. It is estimated that KEK should spend €55 million per year on electrical networks alone.

The WB has also highlighted the need to increase KEK collections, with a recent mission of fiscal experts citing this as Kosovo's "central fiscal issue". The WB Letter of Development Policy contains yearly goals for improving collections.

E. KEK Task Force

Recognizing the continuing crises with the reliability and financial viability of the electricity sector, in late 2005 a UNMIK-PISG Task Force on Electricity Supply, Billing and Revenue Collection (Task Force) was set up, chaired by the Minister of Energy and Mining. Participants include representatives from MEM, Ministry of Finance and Economy, Ministry of Labor and Social Welfare, Ministry of Public Services, KTA, KEK, ERO, UNMIK Pillar IV, Kosovo Police Service, Radio and TV of Kosovo, the WB, USAID and EAR. The Task Force has the mandate to recommend changes that will support KEK collection efforts.

Recommendations may include changes to the legal framework, administrative and judicial appeals systems, laws and procedures for enforced disconnection and collection, etc. After the first meeting, the Task Force proposed an eight-point action plan which includes improvements or plans for the following areas:

- Plan for collection of bad debt;
- Legal enforcement;
- Public outreach programs;
- Direct payment of bills of budgetary organizations by the Finance Ministry;
- Government guarantees for long term power import contracts;
- A budget line item for socially disadvantaged customers; and
- Proof of utility payment requirements for customers when obtaining licenses and permits, bidding on government procurement contracts, or requesting official documents.

To-date, this Task Force has achieved little in the way of concrete improvements. The United States Energy Association (USEA) assessment report of June 2006 recommended a Secretariat be established for this Task Force.

F. Regional Context

On behalf of Kosovo, UNMIK is a signatory of the ECSEE of 2005 http://www.seerecon.org/infrastructure/sectors/energy/, which will create a single market for electricity throughout Southeast Europe and beyond, and commits Kosovo to reforms in the energy sector. It is expected that through the ECSEE there will be opportunities for Kosovo to develop the power sector utilizing its large lignite deposits, including development of export-oriented new generation capacity. A Southeast Europe regional least-cost generation expansion study completed in 2005 for the EU and the WB indicated that a new lignite and power plant complex in Kosovo is the least-cost option for the region (*Southeast Europe Generation Investment Study (GIS)*). Together with a robust high voltage transmission system which largely already exists, these investments would assure supplies to meet Kosovo's needs as well as make available bulk exports into the regional electricity market. Kosovo envisions that these investments will be made by Independent Power Producers (IPPs).

G. Donor Assistance to Energy Sector

1. Assistance to KEK

USAID's primary assistance to KEK has been in one targeted area - computerization of billing and collections. In November 2000, USAID consultants began working with KEK's Distribution Division to improve billing and collections. Nearly all managers and supervisors (including professional and technical workers) at that time in each KEK Distribution Districts and KEK Distribution Headquarters received training or attended seminars in management, finance and accounting. Next, USAID provided software, hardware and training to help KEK deliver bills, collect payments, track losses and analyze billing and collection issues (the "Customer Care Package" or "CCP"). A pilot CCP billing/collection software/hardware system was installed in KEK in August 2002; the CCP was later installed in all seven districts. The CCP improved the billing/payment process and exposed systemic abuses. In 2004, after the arrival of ESBI, USAID transferred ownership of CCP to KEK. Under ESBI management, KEK has continued use of the CCP.

From 2001 - 2003, KEK had donor-funded advisors, including a USAID - funded advisor acting in the capacity of Power Supervision Manager and Deputy Divisional Manager. However, it became apparent that insufficient progress was being made in changing KEK's management style and operations. Thus, USAID, along with other donors such as EAR and the Swedish International Development Cooperation Agency, were instrumental in helping KTA hire an international management firm to manage KEK. Through a public and transparent open tender, KTA procured the services of ESBI, which assumed the management of KEK on June 15, 2004. The ESBI contract is slated to end Dec 31, 2006.

Because ESBI's performance was widely debated, especially by MEM, USAID funded an independent assessment of ESBI's performance as turn-around management. In April 2006, USEA sent a team of experts who spent two weeks in Kosovo. Their report is attached. This team will make two more one-week visits to Kosovo in 2006 to update their report.

USAID also has an advisor constructing a power sector strategic planning model for KEK. This model is a multi-year, operational and financial planning tool providing planners with the ability to perform comprehensive system analysis, including the following: accurate representation of all significant physical and financial flows in the aggregate power system from lignite mining to retail electricity consumption; a temporal dimension for all model components that is routed in actual historic data and extends forward to provide a ten year forecast; and scenario analysis capabilities reflecting user-defined "what-if" data inputs. This model should be completed by December 2006.

2. Assistance to MEM and ERO

Since October 2005, USAID has provided a policy advisor to the Minister of Energy and Mines through a project implemented by Bearing Point. USAID has also assisted ERO from its creation through intermittent technical assistance. USAID's assistance to ERO focuses on secondary legislation and rules, including those on disconnection, licensing, authorization, and tariff methodology for the electric sector. Advisors have helped prepare a Code of Ethics and a Manual of Operation for ERO, and conducted workshops on public participation on tariff reviews and on how to conduct public meetings. USAID support to ERO is provided through a contract with Pierce Atwood and will end this year. EAR also assists ERO with technical advice on tariffs and operations.

A great deal of support has been provided to the energy sector by other donors. EAR is the primary donor to the sector, having spent more than €400 million in energy projects since 1999. EAR advisors helped draft MEM's Energy Strategy and helped establish the Independent Transmission System and Market Operator. EAR/EC has funded a €3million project for a computerized accounting system (CAS) for KEK, complementary system to CCP. In addition, a €2million EC funded programme for supporting the Revenue Collection Strategy of KEK is in its final stage of implementation. The program included supply of handheld units for meter reading automation, supply of IT equipment to support meter reading automation and for the new cash offices, supply of vehicles for revenue collection and disconnection teams and supply of a Geographic Information System for KEK. A complementary action in this program is a public awareness campaign for improving revenue collection and for energy savings. As part of its technical assistance to the Ministry, EAR has funded a main mining plan for the New Mine (Sibovc), technical studies on the rehabilitation of Kosovo A, a pre-feasibility study and marketing plan for the new export-oriented lignite fired power plant, and, in response to the urgent need to develop new mines, EAR recently funded preparation of an interim Mining Concept for development of the Sibovc South West lignite mine. KfW is re-engaging support to the energy sector with a grant for mining equipment.

The WB is now a major actor in the energy sector, having just signed the Letter of Development Policy with the PISG. It is focusing its technical assistance on LPTAP, the principal objective of which is to attract quality investors into developing new mines and building a new large power plant (Kosovo C). Increasing KEK collections has been repeatedly identified by the WB as crucial for attracting private investment under LPTAP. Thus, this Project will complement the goals of the LPTAP.

A.5 STATEMENT OF WORK

A. Project Objective

This Project has the following principal objectives:

1. Support the Managing Director of KEK to provide overall strategic guidance to the company, with particular emphasis on enhancing KEK's own revenues;
2. Increase collections through support to the Network and Supply Divisions to accelerate potential future private sector participation; and
3. Improve the institutional, policy and legal environment in which KEK operates so that it is supportive of KEK's collection efforts.

Although this Project is divided into three objectives, the tasks share common goals. Thus, the Contractor shall be required to integrate and coordinate all assistance to ensure the tasks are complementary to each other. In addition, while these tasks are organized as technical assistance to relevant functions within KEK, the Contractor should seek to build consensus and encourage ownership among KEK counterparts, relevant stakeholders and the public regarding provided assistance. The Contractor shall seek to maximize progress through integration of activities, including good communication among advisors working in the specific areas in order to coordinate relevant aspects of the tasks. A planned MOU between USAID and KEK will address agreements on relevant roles, responsibilities, etc., of the Contractor and KEK, respectively.

Following the three main objectives listed above, this Project is divided into 3 main objectives as outlined below:

Objective 1: Support to the Managing Director of KEK

The goal of this objective is to ensure a smooth transition from international to local management and, in particular, to strengthen managerial capacity and skills at the highest level of KEK management during the life of the project. To achieve this, the Contractor shall assume an advisory position to the Managing Director (MD) of KEK. The Contractor shall advise on structural, operational, and financial management of the company in order for MD to make more informed decisions. The Contractor shall assist to improve strategic planning, capital and operating budgeting, and accounting and financial systems. The Contractor shall help the MD evaluate the existing functional divisions among KEK Network and KEK Supply, as well as between KEK Networks and the Transmission System and Market Operator. It should be understood that the position of Advisor to MD is not to provide advice on or become enmeshed in daily issues that arise, but rather to ensure that KEK is a well-run organization with a focus on enhancing KEK's own revenues.

USAID will consult with the MD on the Contractor's role in this position and will draft terms of reference delineating the role and responsibilities of this advisor. The terms of reference will be incorporated into the MOU with KEK.

[The indicators listed below are illustrative. The Contractor's proposal must include specific indicators which will clearly demonstrate progress towards order objectives and the result of each project component. The final order will include the specific indicators proposed by the successful Contractor. The Contractor is expected to propose realistic, convincing and specific additional/alternative indicators and timeframes. Proposed indicators will be evaluated as described in the evaluation criteria. During implementation, the Contractor shall be evaluated upon the effectiveness of its performance in achieving the project's overall objectives, not on simply whether certain results and deliverables were completed.]

Illustrative Intermediate Indicators:

By end of year one, KEK operations are significantly smoother due to increased management capacity of MD and deputies (the current environment of daily crisis management is replaced by a more normal management environment); this will entail developing MD's ability to formulate medium and long-term plans and goals, and to and improve all business processes at KEK.

By end of year one, MD has basic skills for managing KEK. The MD will understand what kind decisions belong to the MD and will appropriately make decisions and take actions; will delegate responsibilities appropriately; will understand and implement organizational behavior and change management concepts to improve institutional performance; will be able to think critically; will understand ethical and conflict of interest issues. (Training for this should involve both formal and on-the-job training.)

Task Order Results:

By end of year two, MD is fully trained and capable to independently carry out his or her functions. The MD will be an effective manager, will have re-structured KEK appropriately, will have appropriately delegated responsibilities so that KEK operations run smoothly, will have established best practice in financial management through delegating and appropriately monitoring these responsibilities to a CFO having the skills and experience to manage finances of a large organization. Also by end of year two, KEK management structure will have depth in that deputies to MD will have basic management skills (such as those enumerated for MD after year one).

Objective 2: Increase collections through support to the Network and Supply Divisions to accelerate potential future private sector participation [2]

The goal of this objective is to improve the performance of the Network and Supply Divisions with a primary goal of improving collections. As part of this objective, the Contractor shall be expected to prepare a priority investment plan for Network and Supply and seek to mobilize International Financial Institutions (IFI) financing.

The Contractor shall propose the scope for an external yearly performance audit of the Network and Supply Divisions. The audit shall include, but not be limited to, system operations and management processes to identify inherent risks, assess internal controls and procedures, and propose measures to mitigate such risks. Subsequent yearly audits will be useful in measuring performance of these functions. (The Contractor is not expected to fund the audit, rather this shall be determined by the MOU with KEK.)

[2] There have been discussions about putting Network and Supply under a single manager; Contractor will be expected to make recommendations in this regard.

Managerial and Technical Improvement of KEK Network: KEK Network Division owns and maintains Distribution system wires, transformers and substations, including meter reading of industrial customers. According to the Electricity Law of 2004, this division in the future will carry out the role of a Distribution Network Operator. The Contractor shall make KEK Network an efficiently-functioning division, which will include improved daily operations, implementation of a financial and management system, strengthened planning and maintenance programs, improved procedures for issuing permits for new connections on the grid, and reduced technical and commercial losses.

To achieve these results, the Contractor shall review established policies and propose modifications and improvements; ensure Network develops and implements a maintenance plan; prepare an action plan to rationalize the existing legal, ownership, certification, access and maintenance/calibration meter situation; propose needed reforms in secondary legislation and regulatory rules governing metering; and provide management assistance to KEK Network to implement the action plan.

Managerial and Financial Improvement of KEK Supply: KEK Supply is responsible for billings and collections, meter reading, disconnections and re-connections, and customer services. The Contractor shall turn this into an efficiently-functioning division, including improved daily operations, implementation of financial and management systems, an improved billing and collection system, an increased number of billed customers, improved management of the revenue stream, implementation of internal controls and audits, enforced procedures to identify and remedy irregularities and abuses, implementation of disconnection and re-connection rules, collection of arrears and improved customer service.

The Contractor shall review policies, including established disconnection measures, to assess their adequacy and make recommendations to improve implementation. The Contractor shall provide assistance in the normalization of the billings and collections in Northern municipalities of Kosovo, and other areas where customers are not presently billed and meters not read. Other areas of assistance will include revisions of rules on access to meters, clarification of meter ownership, complexities of the tariff and the customer bill, certification of meters, illegal connections, meter tampering, and management of meter reading procedures.

Illustrative Intermediate Indicators:

During or by the end of year one:

By end of year one, discussions with IFIs for necessary investment support to KEK are in progress (in conjunction with Objective 1);

By end of year one, Network and Supply are being managed effectively such that divisions are working towards common goals (in conjunction with Objective 1);

The trend in commercial losses is downward;

Number of identified irregularities and abuses on the customer database are reduced by 75% compared to previous year;

Number of incorrectly issued bills is reduced by 75% compared to previous year;

Inaccurate passive customers are largely eliminated;

Within 3 months, develop and begin implementation of a maintenance plan for Network;

Within 3 months, effective disconnection measures are being implemented; and

Within 6 months, all payments to KEK are made through commercial banking system; no cash payments are being made.

Task Order Results:

Ratio of billed vs. delivered electricity is 70%;

Ratio of revenues collected vs. billed energy is 88%;

Accurate disconnection orders are being carried out with support from law enforcement when necessary;

Number of customer complaints filed with KEK and ERO has decreased by 50% compared to previous year;

Implementation of the priority investment package for Network has achieved substantial progress;

Identified irregularities and abuses in the customer database are eliminated;

Incorrectly issued bills are eliminated; and

The maintenance plan for Network is implemented.

Objective 3: Improve the institutional, policy and legal environment

The Contractor shall work closely with, and possibly lead, the Task Force in identifying obstacles to KEK collection efforts in order to propose implementable solutions. The Contractor shall take an active role in building consensus among the various stakeholders regarding needed reforms. The Contractor shall propose specific changes to laws, institutional arrangements, etc., and work actively to build support for reforms.

Illustrative Intermediate Indicators:

Supportive laws relating to collection and disconnection are enacted;

Judges are trained in relevant laws and understand the need to enforce them;

PISG ensures that all civil servants and all PISG organizations pay electric bills;

Payment of KEK bills is being enforced through rational and sound legal framework and a properly functioning dispute resolution mechanism; administrative dispute resolution system is being implemented, largely eliminating electricity cases from being filed in court;

Social safety net is in place; and

Public perception of KEK is significantly improved, particularly as to corruption.

Task Order Results:

Legal and institutional frameworks and procedures reflect best practice for collecting utility payments and are being implemented effectively; and

Public perception of KEK has dramatically improved so that most people believe KEK is reputable company, operating efficiently and largely without corruption.

B. Results Reports

The Contractor shall submit the following within 90 days of the effective date of the Task Order.

- Develop a report on KEK's management structure and operations with recommendations for improvement;
- Develop recommendations for improved policies for each division;
- Develop a plan to modernize KEK's financial management;
- Develop a maintenance plan for Network;
- Develop a corrective action plan for Supply to address identified irregularities and abuses on the customer database;
- Develop an action plan for Network aimed at (1) reducing technical losses, and (2) rationalizing existing legal and procedural matters regarding meter ownership, certification, access, maintenance, calibration;
- Prepare a report making recommendations on enhancing customer service and public relations; and
- Prepare a report for the Task Force containing a list of actions to be taken including assigned responsibilities, timelines, budgetary requirements, and monitoring and reporting plans.

The Contractor shall submit the following within 180 days of the effective date of the Task Order.

- Develop a strategy for private sector participation in Network and Supply (in conjunction with Objective 2); and
- Prepare a priority investment package for Network.

C. Cross-Cutting Themes

USAID/Kosovo's Strategic Plan for 2004-2008 identifies five cross-cutting factors as having a profound affect on the development environment in Kosovo. They are, specifically: 1) conflict mitigation (specifically, returns and reintegration); 2) corruption; 3) youth; 4) gender; and 5) human capacity building. Activities in this program will have direct impact on corruption and human capacity building.

Anti-corruption measures should be included in every area of assistance. In particular, in financial transparency of Network and Supply divisions, mechanisms can be included to ensure that opportunities for corruption are minimized. Systems that utilize best international practices that maximize transparency and accountability and minimize opportunities for corruption must be established.

As a technical assistance project aimed at improving collections of the electric utility, there are minimal gender issues to take under consideration. However, the Contractor shall be sensitive to gender issues and every attempt will be made to ensure participation of all groups in project activities. Gender considerations will be factored into training plans and the Contractor shall provide training opportunities with an awareness of gender considerations and, if appropriate seek to increase participation of women in the sectors in which the Project works. Data on gender, age, ethnicity and other factors will be disaggregated under the activity, as appropriate.

The Contractor is expected to take a proactive approach to incorporating relevant cross-cutting themes into the Project and is required to incorporate these themes into all performance monitoring and reporting.

D. Performance-Based Management System (PBMS)

The Contractor shall develop and submit a Performance-Based Management System (PBMS) for monitoring performance and impact. It will be an on-going, collaborative process with the participation of the Contractor, USAID/Kosovo, and other partners and stakeholders. Therefore, the design and implementation of a comprehensive PBMS, which measures impact on order results/objectives will be an integral part of the implementation of this Task Order.

It is expected that the data will be collected at least annually and will be coordinated with USAID. The PBMS should be two-tiered and include: 1) measures (disaggregated by gender when appropriate) of overall performance and impact of the activities carried out under the Task Order (the Contractor is held accountable); and 2) measures progress against the objective and results expressed in the order. The PBMS should also include mechanisms through which findings can be incorporated, on a continual basis, into the implementation process.

A.6 REPORTS

A. Work Plan

The Contractor shall submit the first Annual Work Plan to the USAID Cognizant Technical Officer (CTO) that encompasses all relevant activities for the development and implementation of tasks detailed by quarter within 45 days of the effective date of the Task Order.

The initial Work Plan shall contain a PBMS. The Work Plan will be developed in close collaboration with KEK and other donors to ensure it meets their needs and to coordinate all activities. This will enhance the likelihood that program interventions will be sustained beyond the life of the Task Order. In the event of changes in funding during the Task Order period, the Contractor shall be requested by USAID/Kosovo to modify its implementation plan in accordance with directives associated with those changes. Subsequent Annual Work Plans should be submitted not less than 45 days prior to the anniversary date of the Task Order.

Each Work Plan should include, at a minimum:

- Proposed accomplishments and expected progress towards achieving Task Order results, and performance measures tied to the Monitoring and Evaluation Plan;
- A timeline for implementation of the year's proposed activities, including target completion dates;
- Information on how activities will be implemented;
- Personnel required for achieving proposed targets;
- Major commodities to be procured;
- Details of collaboration with counterparts and other stakeholders and other USAID-funded partners; and
- How the Contractor shall make effective use of any time during which counterparts are not readily accessible. For example, during summer months, counterparts may be unavailable or not actively engaged in management and improvement efforts. The Contractor's Work Plan will detail how the Contractor shall use this time usefully to move forward in achieving the Project goals.

The second year Work Plan should include a strategy to enable USAID to begin progressively phasing out technical assistance in all areas of support by the end of this Project, enumerating proficiencies expected by counterparts and a strategy for achieving them (including resource needs) and including long-term needs that may require donor assistance after this Project.

B. Quarterly Performance Report

The Contractor shall submit the Quarterly Performance Report to USAID within five business days after the end of the quarter. These reports shall be brief and concise reports that describe progress made towards objectives, measured against results, and that identify implementation issues that may inhibit or enhance Contractor performance.

In addition, the Quarterly Performance Report should contain:

- Progress (activities completed; benchmarks achieved; performance standards completed) since the last report;
- Comparing progress to planned achievements under the Work Plan and Performance Based Management System.
- Problems encountered and whether they were solved or are still outstanding;
- Proposed solutions to new or ongoing problems;
- Documentation of best practices that can be taken to scale;
- List of upcoming events with dates.

C. Success Stories

The Contractor shall report on available Success Stories that highlight the ways, which the program is benefiting the local people. These success stories should identify: (1) what activities were supported by USAID; (2) who benefited from these activities; (3) how these activities changed the lives of beneficiaries. These Success Stories will be used by USAID in communications with key constituents and possible posting on USAID websites. Success Stories should not exceed more than one page in length.

D. Monthly Financial Voucher

The Contractor shall submit the Monthly Financial Voucher to USAID within five business day after the end of the month, subject to CTOs approval.

The Monthly Financial Voucher shall be identified by the Award Number and shall state the total costs for which reimbursements is being requested. The Monthly Financial Voucher should contain monthly expenditure, which will contain a summary page, with the total award budget, which reflects spending by category for the month and show cumulative spending to-date. If there are significant accrued expenditures for the month being reported upon, which for some reason have not yet been billed to the Award, the Contractor shall include a brief note to that effect, with the specific amount involved, thus enabling the CTO to accurately track the KEK Program's expenditure.

E. Regular Contact and Periodical Meeting with USAID

Maintain regular contact and meet periodically with USAID to discuss Contract implementation status, issues, requirements, and opportunities. The Chief of Party will need to be available to USAID on a regular basis. Resident consultants are required to brief USAID and provide written updates at regular intervals and short-term advisors are required to brief USAID if requested.

Immediately inform USAID of any impediments that will lead to an inability to accomplish objectives. Immediately inform USAID of any requests for modification of this Statement of Work.

Identify additional technical support needs to USAID. Contractor's definition of needs should not be released to Kosovar counterparts until clearance is obtained from USAID.

F. Annual Report

The Contractor shall submit the Annual Report to USAID within 30 days after the close of the first year, describing success in achieving each of the yearly indicators. The Annual Report will be used by USAID to assess performance over the previous year and to assess the status of the Project in relation to the time remaining for performance.

G. Completion Report

The Contractor shall prepare a Completion Report within 30 days following the estimated completion date of the Task Order, which will highlight the following:

1. Level of success in attaining stated deliverables and/or reasons for not attaining deliverables. This should include a line item comparison of the tangible results enumerated in Contractor's annual work plans.

2. Any opportunities for further refinement, enhancement, logical extension, or expansion of the completed work and how it fits into USAID's strategic objectives in Kosovo.

3. Any perceived problems, vulnerabilities, or weaknesses in the assistance provided, with any recommendations for addressing the identified weaknesses.

A.7 SPECIAL INSTRUCTIONS

A. Documentation and Training Materials. The Contractor shall produce well-documented materials as appropriate in the course of the Project. These documents should be instructive, streamlined, adaptable to various situations and the Kosovar market environment, and written in Albanian, Serbian and English, where appropriate. The Contractor may also produce documentation and guidelines that may be used for replication by other divisions in KEK or other institutions. When USAID-funded technical assistance is used in a significant way to produce document or training materials, however, a brief acknowledgement may be added on the title page or in the preface that identifies the contributions of the parties, refers to the rights in data clause of the contract, and grants to Kosovar institutions a general license to use the training materials for their intended purpose.

B. Skill Transfer. Maximize rapid skill transfer to Kosovars at a competency level which assures that Kosovars can perform all tasks and maintain all systems at fully operational levels without Contractor assistance as soon as practicable.

C. Coordination. Coordinate all related tasks with other appropriate USAID projects and assist Kosovar counterparts with coordinating activities with other appropriate Kosovar institutions as situations warrant.

D. On Site Requirements. Contractor shall make a firm commitment to make its best efforts to retain consultants on-site for the duration of the project and their involvement in it. Consultant travel off-site should be limited to essential trips related to the project and be approved by the USAID CTO.

E. Coordination and Cooperation. During the course of the work, other institutions and foreign consultants may simultaneously undertake selected initiatives related to the management improvement of KEK. To ensure the success of the effort, coordination and team work will be required to get the job done quickly, efficiently, and effectively. Unnecessary duplication of past efforts should be avoided and, instead, consultants should work in a collaborative spirit, sharing information and lessons learned.

F. Required Approvals. Contractor shall obtain the approval of the USAID CTO if personnel assigned to this Project shall be out of Kosovo or working on projects in any other country at any time during the implementation of this project.

G. Media Relations. The Contractor shall obtain the approval of the USAID CTO and consult with appropriate officials of the relevant host country entity prior to engaging in interviews with foreign or local press, releasing press releases, holding news conferences, or engaging other communications with the news media regarding activities related to this Statement of Work, and obtain approval from the USAID CTO before engaging in contact with U.S. media organizations. The Contractor agrees to coordinate such communications with the relevant host country counterpart(s) and the USAID CTO to ensure that the role of the counterpart(s) is accurately explained and described.

A.8 GENDER CONSIDERATION

In accordance with USAID's recognition that gender issues are important considerations in development, the Contractor shall look for gender implications or opportunities during performance. The Contractor shall make its best effort to evaluate gender considerations and opportunities for participation in the activity, as well as to define gender-based barriers to achieving some of the tasks outlined in this Task Order. If such barriers are outlined, the Contractor shall propose an approach to eliminate them in the proposal. The Contractor shall be required to report gender-disaggregated data as and when appropriate.

A.9 ADDRESS FOR CENTER FOR DEVELOPMENT INFORMATION AND EVALUATION (CDIE)

The Contractor shall provide one (1) copy of the Final Report to the Bureau for Program and Policy Coordination/Center for Development Information and Evaluation (PPC/CDIE) in accordance with AIDAR 752.7005. The address to submit the Development Experience Documents is, as follows:

USAID Development Experience Clearinghouse (DEC)
8403 Colesville Road, Suite 210
Silver Spring, MD 20910, USA
E-mail: docsubmit@dec.cdie.org;
Fax: (301) 558-7787; and
On-line Address:

http://www.dec.org/index.cfm?fuseaction=docsubmit.home

A.10 COGNIZANT TECHNICAL OFFICER

The Cognizant Technical Officer for this Task Order will be designated by a separate Memorandum.

A.11 TECHNICAL DIRECTIONS/RELATIONSHIP WITH USAID

The technical directions during the performance of the Task Order shall be provided by the Task Order Cognizant Technical Officer (CTO) or Alternate Task Order Cognizant Technical Officer, pursuant to Section G.3 of the Indefinite Quantity Contract (IQC) Number: EPP-I-00-03-00008-00.

A.12 KEY PERSONNEL

In accordance with Section F.6 of the Indefinite Quantity Contract, the following positions are considered key:

Name of Individual	Position
(b)(4)	

The positions and individuals specified above have been designated as and are considered to be essential to the successful completion of the objective of this Task Order. Prior to replacing any of the specified individuals for this position, the Contractor shall immediately notify the Contracting Officer (CO) and USAID Cognizant Technical Officer (CTO) reasonably in advance and shall submit written justification (including proposed substitutions) in sufficient detail to permit evaluation of the impact on the program. Failure to provide Key Personnel designated above may be considered non-performance by the Contractor unless such failure is beyond the control, and through no fault or negligence of the Contractor. The Contractor shall immediately notify the CO and CTO of any Key Personnel's departure and the reasons therefore. The Contractor shall take steps to immediately rectify this situation and shall propose a substitute candidate for each vacated position along with a budget impact statement in sufficient detail to permit evaluation of the impact on the program. No replacement of personnel shall be made by the Contractor without the written consent of the Contracting Officer and Cognizant Technical Officer.

A.13 APPROVAL OF SALARIES

The salaries for the following individuals are hereby approved as reflected on the AID Form 1420-17 - Contractor Employee Biographical Data Sheets submitted with the Contractor's Proposal, as revised, and accepted by USAID:

(b)(4)

The salaries of all other individuals not listed above will require the prior written approval of the Contracting Officer.

The salaries of all other Third Country Nationals (TCNs) and Cooperating Country Nationals (CCNs) not listed above will require the prior written approval of the Contracting Officer.

A.14 CONSENT TO SUB-CONTRACT

Pursuant to the clause of the Indefinite Quantity Contract, entitled "Sub-Contract" (FAR 52.244-2), the Contracting Officer consent is hereby provided for the placement of the following Sub-Contract for professional/technical services:

Sub-Contractor	**Estimated Amount**
Hunton and Williams Financial Stimulus, Ltd. Vitelli and Associates	(b)(4)

The Contracting Officer shall approve all salaries paid under Cost-Reimbursement Sub-Contracts (note that a Purchase Order issued by a Contractor is a Sub-Contract); and any other type of Contract in which the actual salary of the individual to be used under the Contract or Task Order is required in order to establish the price or the fixed unit rate of the Contract or Task Order (which may include Non-Competitive Firm-Fixed Contract, or Indefinite Quantity Contracts using a "multiplier").

A.15 PERIOD OF PERFORMANCE

The period of performance of the Task Order shall commence on the date indicated in Block 7 of the Cover Page and the estimated completion date as indicated in Block 8 of the Cover Page.

Pursuant to Section F.3 of the Indefinite Quantity Contract (IQC), the CTO has the authority to extend the estimated completion date without additional cost, provided that the extension does not cause the elapsed time for completion of the work, including the furnishing of all deliverables, and not to extend beyond 60 (sixty) calendar days from the original estimated completion date set forth in the Task Order. Prior to the original estimated completion date, the Contractor shall provide a copy of the Cognizant Technical Officer's written approval for any extension of the term of this Task Order to the Contracting Officer. In addition, the Contractor must attach a copy of the Cognizant Technical Officer's approval to the final voucher submitted for payment. The CTO may grant more than one extension of less than 60 days, but the total number of days the Task Order is extended may not exceed 60 days. Only one 60-day CTO extension is authorized for this Task Order, regardless of any modifications to the Task Order executed by the Contracting Officer, including formal extensions of the Task Order completion date or revisions to the Statement of Work.

It is the Contractor's responsibility to ensure that the Cognizant Technical Officer-approved adjustments to the original estimated completion date do not result in costs incurred that exceed the Estimated Cost-Plus-Fixed-Fee of this Task Order. Under no circumstances shall such adjustments authorize the Contractor to be paid any sum in excess of the Task Order.

Proposed adjustments to the period of performance of a Task Order, which would cause the elapsed time for completion of the work to exceed 60 calendar days beyond the original completion date must be approved in writing and in advance by the Contracting Officer.

A.16 PAYING OFFICE

The Paying Office of this Task Order is, as follows:

Controller's Office
USAID/Kosovo
Arberia, Ismail Qemali Street Number: 1
10000 Pristina
Kosovo

A.17 ACCOUNTING AND APPROPRIATION DATA

Basic Task Order

MAARD Number:	167-MAARD-A4-A17-7008
Objective Number (ON):	A4
Program Area Number (PAN):	A17
Program Element Number (PEN):	A069
Program Sub-Element Number (PSN):	A0309 and A0310
Benefiting Geographic Area (BGA):	167
Operating Unit (OU):	Kosovo
Expanded Object Class Code (EOCC):	4100301
Reservation Control Number (RCN):	I767001
Funding Source:	Special Annual Initiative Support Eastern European Democracy (AI-SEED) Funds
Appropriation:	726/71010
Fund Code (FC):	AI-07
Allotment Code (ALC) Number:	72-13
Distribution:	167-M
Accounting Line Number: 1	
Obligated Amount:	(b)(4)
Program Sub-Element Number (PSN):	A0309
Accounting Line Number: 2	
Obligated Amount:	(b)(4)
Program Sub-Element Number (PSN):	A0310
Total Amount Obligated:	**$1,050,000**

12/18/06

12/18/06

A.18 BUDGET

The Contractor shall accomplish the results described in the Statement of Work for the consideration set forth below:

CLIN 001	Labor	(b)(4)
CLIN 002	Fringe Benefits	
CLIN 003	Overhead (Full OH and Field OH)	
CLIN 004	Independent Consultant Labor	
CLIN 005	Sub-Contractor Costs	
CLIN 006	Other Direct Costs	
CLIN 007	Indirect Costs (G&A and MH&S)	
	Total Estimated Costs	
	Fixed-Fee	
	Total Estimated Cost-Plus-Fixed-Fee:	

*Pending establishment of revised provisional or final indirect cost rates, Indirect Costs shall be reimbursed on the basis of the approved Negotiated Indirect Cost Rate Agreement (NICRA) dated March 9, 2006, until amended.

(a) The Contractor shall not be paid any sum in excess of the Total Estimated Cost-Plus-Fixed-Fee or the Total Obligated Amount, whichever is less.

(b) The estimated cost for the performance of the work required hereunder, exclusive of Fixed-Fee is $4,429,382. The Fixed-Fee is (b)(4). The Estimated Cost-Plus-Fixed-Fee is (b)(4).

(c) Within the estimated Cost-Plus-Fixed-Fee specified in paragraph (b) above, the amount currently obligated and available for reimbursement of allowable costs incurred by the Contractor (and payment of fee, if any) for performance hereunder is (b)(4) The Contractor shall not exceed the aforesaid obligated amount.

(d) Funds obligated hereunder are anticipated to be sufficient through (b)(4)

(e) The inclusion of any costs in the above budget does not obviate the requirement for prior approval by the Contracting Officer of cost items designated as requiring prior approval by any of the terms and conditions of the Task Order/Indefinite Quantity Contract including the applicable cost principles (see FAR 52.216-07 entitled "Allowable Cost and Payment"), nor does it constitute a determination of allowability by the Contracting Officer of any item of cost, unless specifically stated elsewhere in the Task Order/Indefinite Quantity Contract.

(f) The Contractor agrees to furnish data, which the Contracting Officer may request on costs expended or accrued under this Task Order in support of the budget information provided herein.

A.19 PERFORMANCE STANDARDS

The Contractor's performance shall be evaluated annually in accordance with the Performance Standards in Section G.10 of the Indefinite Quantity Contract.

A.20 DUTY POST

The Duty Post for this Task Order is Kosovo. Any work to be conducted outside Kosovo, with the exception of the Home Office Project Manager, shall require advance written approval of the USAID CTO.

A.21 USE OF GOVERNMENT FACILITIES OR PERSONNEL

(a) The Contractor and any employee or consultant of the Contractor is prohibited from using U.S. Government facilities (such as office space or equipment), or U.S. Government clerical or technical personnel in the performance of the services specified in the Task Order, unless the use of Government facilities or personnel is authorized in advance, in writing, by the Contracting Officer.

(b) If at any time it is determined that the Contractor, or any of its employees or consultants, have used U.S. Government facilities or personnel either in performance of the Task Order itself, or in advance, without authorization in writing, by the Contracting Officer, then the amount payable under the Task Order shall be reduced by an amount equal to the value of the U.S. Government facilities or personnel used by the Contractor, as determined by the Contracting Officer.

(c) If the parties fail to agree on an adjustment made pursuant to this clause it shall be considered a "dispute" and shall be dealt with under the terms of the "Disputes" clauses of the Task Order/Indefinite Quantity Contract.

A.22 LOGISTICAL SUPPORT

The Contractor shall be responsible for providing or arranging for all logistic support needed to successfully complete the Task Order.

A.23 ACCESS TO CLASSIFIED INFORMATION

The Contractor shall not have access to classified information.

A.24 WORK WEEK

The standard work week in Kosovo is from Monday through Friday. The Contractor is authorized to work a five-day (5) work week. Short-term Expatriate Consultants may be authorized a six-day (6) work week with no premium pay on a case-by-case basis with the prior written approval of the Cognizant Technical Officer.

A.25 LANGUAGE REQUIREMENT

The proficiency in the English language is required to accomplish the requirements of this Task Order. Fluent English is required for Contractor's long- and short-term expatriate professionals. Contractor should anticipate that some documents produced under this Contract (excluding those produced for USAID) may need to be provided in Albanian, Serbian and English.

A.26 AUTHORIZED GEOGRAPHIC CODE

The authorized geographic code for procurement of goods and services under this Task Order is 000 (United States). However, local procurement in the cooperating country is authorized within the parameters specified in 22 CFR 228.40, "Local Procurement."

A.27 INDEFINITE QUANTITY CONTRACT

This Task Order is under the Indefinite Quantity Contract (IQC) Number: EPP-I-00-03-00008-00 with PA Government Services, Inc. All Contract Clauses by reference or in full text under the IQC as appropriate are applicable to this Task Order.

A.28 IMPLEMENTATION OF SECTION 579, 2003 APPROPRIATION ACT - REPORTING FOREIGN TAXES

(a) The Contractor must annually submit a report by April 16 of the next year.

(b) Contents of Report. The reports must contain:

(i) Contractor name.
(ii) Contact name with phone, fax and email.
(iii) Contract number and Task Order number(s).
(iv) Amount of foreign taxes assessed by a foreign government [each foreign government must be listed separately] on commodity purchase transactions valued at $500 or more financed with U.S. foreign assistance funds under this agreement during the prior U.S. fiscal year. NOTE: For fiscal year 2003 only, the reporting period is February 20, 2003 through September 30, 2003.

(v) Only foreign taxes assessed by the foreign government in the country receiving U.S. assistance are to be reported. Foreign taxes by a third party foreign government are not to be reported. For example, if an assistance program for Lesotho involves the purchase of commodities in South Africa using foreign assistance funds, any taxes imposed by South Africa would not be reported in the report for Lesotho (or South Africa).
(vi) Any reimbursements received by the Contractor during the period in (iv) regardless of when the foreign tax was assessed plus, for the interim report, any reimbursements on the taxes reported in (iv) received by the Recipient through October 31 and for the final report, any reimbursements on the taxes reported in (iv) received through March 31.

(vii) The final report is an updated cumulative report of the interim report.
(viii) Reports are required even if the Contractor did not pay any taxes during the report period.
(ix) Cumulative reports may be provided if the Contractor is implementing more than one program in a foreign country.

(c) Definitions. For purposes of this clause:

(i) "Agreement" includes USAID direct and country contracts, grants, cooperative agreements and interagency agreements.
(ii) "Commodity" means any material, article, supply, goods, or equipment.
(iii) "Foreign government" includes any foreign governmental entity.
(iv) "Foreign taxes" means value-added taxes and custom duties assessed by a foreign government on a commodity. It does not include foreign sales taxes.

(d) Where. Submit the reports to:

Mailing Address: **Mr. Peter Duffy**
Program Officer
Program and Project Development Office
USAID/Kosovo
Arberia, Ismail Qemali Street Number: 1
10000 Pristina
Kosovo

E-Mail: pduffy@usaid.gov

Fax Number: **381-38-249-493**

(e) Subagreements. The Contractor must include this reporting requirement in all applicable subcontracts, subgrants and other subagreements.

(f) For further information see

http://www.state.gov/m/rm/c10443.htm .

A.29 USAID DISABILITY POLICY - ACQUISITION (DECEMBER 2004)

(a) The objectives of the USAID Disability Policy are: (1) to enhance the attainment of United States foreign assistance program goals by promoting the participation and equalization of opportunities of individuals with disabilities in USAID policy, country and sector strategies, activity designs and implementation; (2) to increase awareness of issues of people with disabilities both within USAID programs and in host countries; (3) to engage other U.S. government agencies, host country counterparts, governments, implementing organizations and other donors in fostering a climate of nondiscrimination against people with disabilities; and (4) to support international advocacy for people with disabilities. The full text of the policy paper can be found at the following website:

http://www.usaid.gov/about/disability/DISABPOL.FIN.html.

(b) USAID therefore requires that the Contractor not discriminate against people with disabilities in the implementation of USAID programs and that it make every effort to comply with the objectives of the USAID Disability Policy in performing this Contract. To that end and within the scope of the contract, the Contractor's actions must demonstrate a comprehensive and consistent approach for including men, women and children with disabilities.

A.30 MANAGEMENT OF INFORMATION TECHNOLOGY RESOURCES

Pursuant to ADS 547, Information Technology (IT) is defined as follows:

Information Technology

(A) The term 'information technology', with respect to an executive agency means any equipment or interconnected system or subsystem of equipment, that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information by the executive agency. For purposes of the preceding sentence, equipment is used by an executive agency if the equipment is used by the executive agency directly or is used by a Contractor under a contract with the executive agency which (i) requires the use of such equipment, or (ii) requires the use, to a significant extent, of such equipment in the performance of a service or the furnishing of a product.

(B) The term 'information technology' includes computers, ancillary equipment, software, firmware and similar procedures, services (including support services), and related resources.

(C) Notwithstanding subparagraphs (A) and (B), the term `information technology' does not include any equipment that is acquired by a Federal Contractor incidental to a Federal contract. (Source: Clinger-Cohen Act) (Chapters 541-548, 552)

1. The Contractor shall maintain accountable property records of IT resources. These records must identify each accountable item of U.S. Government-funded property acquired or furnished under the contract in a format acceptable to the Contracting Officer and must be furnished to the Contracting Officer six months after the effective date of the contract or Task Order and thereafter annually based on the effective date of the contract.

2. In the event any IT resources are lost, stolen, destroyed or damaged beyond economical repair, the Contractor must promptly notify both the CTO and the Contracting Officer.

3. As part of the Property Disposition Plan, the Contractor shall provide a separate and final inventory of IT resources. After consultation with the CTO and the USAID Office of Information Resource Management, the Contracting Officer will provide disposition instructions to the Contractor. The Contractor shall provide a final report to the CTO and Contracting Officer on the final disposition of all IT resources.

A.31 BRANDING POLICY

Marking shall comply with USAID "Graphic Standards Manual" available at www.usaid.gov/branding, or any successor branding policy.

A.32 INFORMATION TECHNOLOGY REQUIREMENT

The Contractor shall comply with the requirements contained in ADS 548 which require review and approval by the Bureau for Management/Office of Information Resource Management (M/IRM) in USAID/W of information technology components in which the life-cycle cost of commodities or services (e.g., installation, maintenance, and technical assistance) exceeds $100,000.

A.33 AIDAR 752.7028 DIFFERENTIALS AND ALLOWANCES (JULY 1996)

(This clause does not apply to TCN or CCN employees. TCN and CCN employees are not eligible for differentials and allowances, unless specifically authorized by the cognizant Assistant Administrator or Mission Director. A copy of such authorization shall be retained and made available as part of the Contractor's records which are required to be preserved and made available by the "Examination of Records by the Comptroller General" and "Audit" clauses of this contract).

(a) Post differential. Post differential is an additional compensation for service at places in foreign areas where conditions of environment differ substantially from conditions of environment in the continental United States and warrant additional compensation as a recruitment and retention incentive. In areas where post differential is paid to USAID direct-hire employees, post differential not to exceed the percentage of salary as is provided such USAID employees in accordance with the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 500 (except the limitation contained in Section 552, "Ceiling on Payment") Tables-Chapter 900, as from time to time amended, will be reimbursable hereunder for employees in respect to amounts earned during the time such employees actually spend overseas on work under this contract. When such post differential is provided to regular employees of the Contractor, it shall be payable beginning on the date of arrival at the post of assignment and continue, including periods away from post on official business, until the close of business on the day of departure from post of assignment en route to the United States. Sick or vacation leave taken at or away from the post of assignment will not interrupt the continuity of the assignment or require a discontinuance of such post differential payments, provided such leave is not taken within the United States or the territories of the United States. Post differential will not be payable while the employee is away from his/her post of assignment for purposes of home leave. Short-term employees shall be entitled to post differential beginning with the forty-third (43rd) day at post.

(b) Living quarters allowance. Living quarters allowance is an allowance granted to reimburse an employee for substantially all of his/her cost for either temporary or residence quarters whenever Government-owned or Government-rented quarters are not provided to him/her at his/her post without charge. Such costs are those incurred for temporary lodging (temporary quarters subsistence allowance) or one unit of residence quarters (living quarters allowance) and include rent, plus any costs not included therein for heat, light, fuel, gas, electricity and water. The temporary quarters subsistence allowance and the living quarters allowance are never both payable to an employee for the same period of time. The Contractor shall be reimbursed for payments made to employees for a living quarters allowance for rent and utilities if such facilities are not supplied. Such allowance shall not exceed the amount paid USAID employees of equivalent rank in the Cooperating Country, in accordance with either the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 130, as from time to time amended, or other rates approved by the Mission Director. Subject to the written approval of the Mission Director, short-term employees may be paid per diem (in lieu of living quarters allownce) at rates prescribed by the Federal Travel Regulations, as from time to time amended, during the time such short-term employees spend at posts of duty in the Cooperating Country under this contract. In authorizing such per diem rates, the Mission Director shall consider the particular circumstances involved with respect to each such short-term employee including the extent to which meals and/or lodging may be made available without charge or at nominal cost by an agency of the United States Government or of the Cooperating Government, and similar factors.

(c) Temporary quarters subsistence allowance. Temporary quarters subsistence allowance is a quarters allowance granted to an employee for the reasonable cost of temporary quarters incurred by the employee and his family for a period not in excess of (i) 90 days after first arrival at a new post in a foreign area or a period ending with the occupation of residence (permanent) quarters, if earlier, and (ii) 30 days immediately preceding final departure from the post subsequent to the necessary vacating of residence quarters, unless an extension is authorized in writing by the Mission Director. The Contractor will be reimbursed for payments made to employees and authorized dependents for temporary quarters subsistence allowance, in lieu of living quarters allowance, not to exceed the amount set forth in the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 120, as from time to time amended.

(d) Post allowance. Post allowance is a cost-of-living allowance granted to an employee officially stationed at a post where the cost of living, exclusive of quarters cost, is substantially higher than in Washington, D.C. The Contractor will be reimbursed for payments made to employees for post allowance not to exceed those paid USAID employees in the Cooperating Country, in accordance with the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 220, as from time to time amended.

(e) Supplemental post allowance. Supplemental post allowance is a form of post allowance granted to an employee at his/her post when it is determined that assistance is necessary to defray extraordinary subsistence costs. The Contractor will be reimbursed for payments made to employees for supplemental post allowance not to exceed the amount set forth in the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 230, as from time to time amended.

(f) Educational allowance. Educational allowance is an allowance to assist an employee in meeting the extraordinary and necessary expenses, not otherwise compensated for, incurred by reason of his/her service in a foreign area in providing adequate elementary and secondary education for his/her children. The Contractor will be reimbursed for payments made to regular employees for educational allowances for their dependent children in amounts not to exceed those set forth in the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 270, as from time to time amended.(See Standardized Regulation 270)

(g) Educational travel. Educational travel is travel to and from a school in the United States for secondary education (in lieu of an educational allowance) and for college education. The Contractor will be reimbursed for payments made to regular employees for educational travel for their dependent children provided such payment does not exceed that which would be payable in accordance with the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 280, as from time to time amended.

(See Standardized Regulation 280) Educational travel shall not be authorized for regular employees whose assignment is less than two years.

(h) Separate maintenance allowance. Separate maintenance allowance is an allowance to assist an employee who is compelled, by reason of dangerous, notably unhealthful, or excessively adverse living conditions at his/her post of assignment in a foreign area, or for the convenience of the Government, to meet the additional expense of maintaining his/her dependents elsewhere than at such post. The Contractor will be reimbursed for payments made to regular employees for a separate maintenance allowance not to exceed that made to USAID employees in accordance with the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 260, as from time to time amended. (See Standardized Regulation 260)

(i) Payments during evacuation. The Standardized Regulations (Government Civilians, Foreign Areas) provide the authority for efficient, orderly, and equitable procedure for the payment of compensation, post differential and allowances in the event of an emergency evacuation of employees or their dependents, or both, from duty stations for military or other reasons or because of imminent danger to their lives. If evacuation has been authorized by the Mission Director the Contractor will be reimbursed for payments made to employees and authorized dependents evacuated from their post of assignment in accordance with the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 600, and the Federal Travel Regulations, as from time to time amended. (See Standardized Regulation 600)

(j) Danger pay allowance.

(1) The Contractor will be reimbursed for payments made to its employees for danger pay not to exceed that paid USAID employees in the cooperating country, in accordance with the Standardized Regulations (Government Civilians, Foreign Areas), Chapter 650, as from time to time amended. (See Standardized Regulation 650)

(2) Danger pay is an allowance that provides additional compensation above basic compensation to an employee in a foreign area where civil insurrection, civil war, terrorism or wartime conditions threaten physical harm or imminent danger to the health or well-being of the employee. The danger pay allowance is in lieu of that part of the post differential which is attributable to political violence. Consequently, the post differential may be reduced while danger pay is in effect to avoid dual crediting for political violence.

A.34 AIDAR 752.7005 SUBMISSION REQUIREMENTS FOR DEVELOPMENT EXPERIENCE DOCUMENTS (JANUARY 2004)

(a) Contract Reports and Information/Intellectual Products.

(1) The Contractor shall submit to USAID's Development Experience Clearinghouse (DEC) copies of reports and information products which describe, communicate or organize program/project development assistance activities, methods, technologies, management, research, results and experience as outlined in the Agency's ADS Chapter 540. Information may be obtained from the Cognizant Technical Officer (CTO). These reports include: assessments, evaluations, studies, development experience documents, technical reports and annual reports. The Contractor shall also submit to copies of information products including training materials, publications, databases, computer software programs, videos and other intellectual deliverable materials required under the Contract Schedule. Time-sensitive materials such as newsletters, brochures, bulletins or periodic reports covering periods of less than a year are not to be submitted.

(2) Upon contract completion, the Contractor shall submit to DEC an index of all reports and information/intellectual products referenced in paragraph (a)(1) of this clause.

(b) Submission requirements.

(1) Distribution.

(i) At the same time submission is made to the CTO, the Contractor shall submit, one copy each, of contract reports and information/intellectual products (referenced in paragraph (a)(1) of this clause) in either electronic (preferred) or paper form to one of the following:

(A) Via E-mail: docsubmit@dec.cdie.org;

(B) Via U.S. Postal Service:

Development Experience Clearinghouse
8403 Colesville Road, Suite 210
Silver Spring
MD 20910, USA;

(C) Via Fax: (301) 588-7787; or

(D) Online:

http://www.dec.org/index.cfm?fuseaction=docSubmit.home.

(ii) The Contractor shall submit the reports index referenced in paragraph (a)(2) of this clause and any reports referenced in paragraph (a)(1) of this clause that have not been previously submitted to DEC, within 30 days after completion of the contract to one of the address cited in paragraph (b)(1)(i) of this clause.

(2) Format.

(i) Descriptive information is required for all Contractor products submitted. The title page of all reports and information products shall include the contract number(s), Contractor name(s), name of the USAID cognizant technical office, the publication or issuance date of the document, document title, author name(s), and strategic objective or activity title and associated number. In addition, all materials submitted in accordance with this clause shall have attached on a separate cover sheet the name, organization, address, telephone number, fax number, and Internet address of the submitting party.

(ii) The report in paper form shall be prepared using non-glossy paper (preferably recycled and white or off-white) using black ink. Elaborate art work, multicolor printing and expensive bindings are not to be used. Whenever possible, pages shall be printed on both sides.

(ii) The electronic document submitted shall consist of only one electronic file which comprises the complete and final equivalent of the paper copy.

(iv) Acceptable software formats for electronic documents include WordPerfect, Microsoft Word, and Portable Document Format (PDF). Submission in PDF is encouraged.

(v) The electronic document submission shall include the following descriptive information:

(A) Name and version of the application software used to create the file, e.g., WordPerfect Version 9.0 or Acrobat Version 5.0.

(B) The format for any graphic and/or image file submitted, e.g., TIFF-compatible.

(C) Any other necessary information, e.g. special backup or data compression routines, software used for storing/retrieving submitted data, or program installation instructions.

A.35 AIDAR 752.228-70 MEDICAL EVACUATION (MEDEVAC) SERVICES (APRIL 2006)

(Pursuant to class deviation OAA-DEV-2006-1c)

(a) Contractor must provide MEDEVAC service coverage to all U.S. citizen, U.S. resident alien, and Third Country National employees and their authorized dependents (hereinafter "individual") while overseas under a USAID-financed direct contract. USAID will reimburse reasonable, allowable, and allocable costs for MEDEVAC service coverage incurred under the contract. The Contracting Officer will determine the reasonableness, allowability, and allocability of the costs based on the applicable cost principles and in accordance with cost accounting standards.

(b) Exceptions.

(i) The Contractor is not required to provide MEDEVAC insurance to eligible employees and their dependents with a health program that includes sufficient MEDEVAC coverage as approved by the Contracting Officer.

(ii) The Mission Director may make a written determination to waive the requirement for such coverage. The determination must be based on findings that the quality of local medical services or other circumstances obviate the need for such coverage for eligible employees and their dependents located at post.

(c) Contractor must insert a clause similar to this clause in all subcontracts that require performance by Contractor employees overseas.

A.36 AIDAR 752.7007 PERSONNEL COMPENSATION (APRIL 2006)

(Pursuant to class deviation No. OAA-DEV-2006-02c)

(a) Direct compensation of the Contractor's personnel will be in accordance with the Contractor's established policies, procedures, and practices, and the cost principles applicable to this contract.

(b) Reimbursement of the employee's base annual salary plus overseas recruitment incentive, if any, which exceed the USAID Contractor Salary Threshold (USAID CST) stated in USAID Automated Directives System (ADS) Chapter 302 USAID Direct Contracting, must be approved in writing by the Contracting Officer, as prescribed in 731.205-6(d) or 731.371(b), as applicable.

- END OF TASK ORDER -

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

Best Available Copy

2. AMENDMENT/MODIFICATION NO. | 3. EFFECTIVE DATE | 4. REQUISITION/PURCHASE REQ. NO. | 5. PROJECT NO. (If applicable)

6. ISSUED BY | CODE | 7. ADMINISTERED BY (If other than Item 6)

1994 Budapest, Hungary

8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)

4001 North Fairfax
Arlington, VA 22203

TIN: (b)(3):TIN
DUNS: 00-958-5279

9A. AMENDMENT OF SOLICITATION NO.

9B. DATED (SEE ITEM 11)

10A. MODIFICATION OF CONTRACT/ORDER NO.

10B. DATED (SEE ITEM 13)

X | 12-14-2006

CODE | FACILITY CODE

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers [ ] is extended. [ ] is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing Items 8 and 15, and returning ____ copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.

B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).

C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:

D. OTHER (Specify type of modification and authority)

E. **IMPORTANT:** Contractor [ ] is not, [X] is required to sign this document and return ____ copies to the issuing office.

(b)(4)

FUNDS AVAILABLE
DATE 7/8/08
BY

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print)

DEAN S. WHITE, PRESIDENT

15B. CONTRACTOR/OFFEROR

(Signature of person authorized to sign)

15C. DATE SIGNED

JULY 10, 2008

16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print)

Clement J. Becher

16B. UNITED STATES OF AMERICA

BY

(Signature of Contracting Officer)

16C. DATE SIGNED

7-10-08

STANDARD FORM 30 (REV. 10-83)

1. The following changes are made to the **COVER PAGE - BLOCK 8, ESTIMATED COMPLETION DATE** of the Award:

   On Block 8, delete the Estimated Completion Date of "December 17, 2008" and insert the Estimated Completion Date of "June 30, 2010" in lieu thereof.

2. The following changes are made to the **COVER PAGE - BLOCK 9 AND SECTION A.17, ACCOUNTING AND APPROPRIATION DATA** of the Award:

   On Block 9 and Section A.17 entitled ACCOUNTING AND APPROPRIATION DATA, add the following:

   a. "Modification No. 3

MAARD Number:	167-A4-A17-8056
Funding Source:	Special Assistance Initiative-Support Eastern European Democracy (AI SEED) Funds
Appropriation:	72?/81010
Beginning Budget Fiscal Year (BBFY):	2007
Ending Budget Fiscal Year (EBFY):	2008
Fund Code (FC):	AI-SUP
Reservation Control Number (RCN):	1867012
Expanded Object Class Code (EOCC):	4100301
Allotment Code (ALC) Number:	72-13
Objective Number (ON):	A4
Program Area Number (PAN):	A17
Program Element Number (PEN):	A069
Benefiting Geographic Area (BGA):	167
Operating Unit (OU):	Kosovo
Distribution:	167-M
Accounting Line Number:	01
Obligated Amount:	(b)(4)
Amount Obligated This Modification:	
Prior Amount Obligated:	
Revised Total Amount Obligated:	

FUNDS AVAILABLE
DATE 2/8/08
BY [illegible]

   b. Delete the Total Obligated Amount of (b)(4) and insert (b)(4) wherever it appears in the Award."

3. The following changes are made to **SECTION A.5, STATEMENT OF WORK** of the Award:

Section A.5 is hereby modified to add Attachment A to this Modification, as a revision to the Statement of Work.

4. The following changes are made to **SECTION A.13, APPROVAL OF SALARIES** of the Award:

Delete this Section in its entirety and insert the following in lieu thereof:

"**A.13 APPROVAL OF SALARIES**

The salaries for the following individuals are hereby approved as reflected on the AID Form 1420-17 - Contractor Employee Biographical Data Sheets submitted with the Contractor's Proposal, as revised, and accepted by USAID:

(b)(4)

1.
2.
3.
4.
5.
6.
7.
8.
9.
10.
11.
12.
13.
14.
15.
16.
17.
18.
19.
20.
21.
22.
23.
24.
25.
26.
27.
28.
29.

The salaries of all other individuals not listed above will require the prior written approval of the Contracting Officer."

5. The following changes are made to **SECTION A.14, CONSENT TO SUB-CONTRACT** of the Award:

Delete this Section in its entirety and insert the following in lieu thereof:

"**A.14 CONSENT TO SUB-CONTRACT**

Pursuant to the clause of the Indefinite Quantity Contract, entitled "Sub-Contract" (FAR 52.244-2), the Contracting Officer consent is hereby provided for the placement of the following Sub-Contract for professional/technical services:

	Sub-Contractor	Estimated Amount
1.	Hunton and Williams	(b)(4)
2.	Financial Stimulus, Ltd.	
3.	Vitelli and Associates	
4.	Energy Management Consulting Services	
5.	H&M Engineering	
6.	PA Consulting Group	

The Contracting Officer shall approve all salaries paid under Cost-Reimbursement Sub-Contracts (note that a Purchase Order issued by a Contractor is a Sub Contract); and any other type of Contract in which the actual salary of the individual to be used under the Contract or Task Order is required in order to establish the price or the fixed unit rate of the Contract or Task Order (which may include Non-Competitive Firm-Fixed Contract, or Indefinite Quantity Contracts using a "multiplier")."

6. The following changes are made to **SECTION A.18, BUDGET** of the Award:

Delete this Section in its entirety and insert the following in lieu thereof:

"A.18 **BUDGET**

The Contractor shall accomplish the results described in the Statement of Work for the consideration set forth below:

CLIN 001	Labor	(b)(4)
CLIN 002	Fringe Benefits	
CLIN 003	Overhead (Full OH and Field OH)	
CLIN 004	Independent Consultant Labor	
CLIN 005	Sub-Contractor Costs	
CLIN 006	Other Direct Costs	
CLIN 007	Indirect Costs (G&A and MH&S)	
	Total Estimated Cost	
	Fixed-Fee	
	Total Estimated Cost-Plus-Fixed-Fee:	

* Pending establishment of revised provisional or final indirect cost rates, Indirect Costs shall be reimbursed on the basis of the approved Negotiated Indirect Cost Rate Agreement (NICRA) dated July 11, 2007, until amended.

(a) The Contractor shall not be paid any sum in excess of the Total Estimated Cost-Plus-Fixed-Fee or the Total Obligated Amount, whichever is less.

(b) The estimated cost for the performance of the work required hereunder, exclusive of Fixed-Fee is (b)(4). The Fixed-Fee is (b)(4) The Estimated Cost-Plus-Fixed Fee is (b)(4).

(c) Within the estimated Cost-Plus-Fixed-Fee specified in paragraph (b) above, the amount currently obligated and available for reimbursement of allowable costs incurred by the Contractor (and payment of fee, if any) for performance hereunder is (b)(4). The Contractor shall not exceed the aforesaid obligated amount.

(d) Funds obligated hereunder are anticipated to be sufficient through (b)(4)

(e) The inclusion of any costs in the above budget does not obviate the requirement for prior approval by the Contracting Officer of cost items designated as requiring prior approval by any of the terms and conditions of the Task Order/Indefinite Quantity Contract including the applicable cost principles (see FAR 52.216-07 entitled "Allowable Cost and Payment"), nor does it constitute a determination of allowability by the Contracting Officer of any item of cost, unless specifically stated elsewhere in the Task Order/Indefinite Quantity Contract.

(f) The Contractor agrees to furnish data, which the Contracting Officer may request on costs expended or accrued under this Task Order in support of the budget information provided herein."

All other terms and conditions of the Award and its Modification, as previously amended, remain unchanged, and in full force and effect.

- END OF MODIFICATION NO. 3 -

ATTACHMENT A

STATEMENT OF WORK

Korporata Energjetike e Kosoves (KEK) Network and Supply Program

BACKGROUND

The revised Statement of Work (SOW) supports the ultimate objective of Kosovo's electric utility, *Korporata Energjetike e Kosoves* (Kosovo Energy Corporation - KEK's) successful privatization. This revision is based on discussions with the Government of Kosovo (GOKS) of this objective. A joint USAID/GOKS/World Bank discussion on KEK distribution privatization on April 16, 2008 concluded with a confirmation of this objective. USAID, under a separate activity, is assisting the GOKS with the design and preparation of an announcement of a KEK distribution privatization process.

The original Statement of Work was to serve the over-arching objective of improving the financial and physical performance of KEK to prepare it for eventual private-sector participation (i.e. privatization.) Three broad activities were envisioned: (1) To support KEK's Managing Director to provide overall strategic guidance to the company, with particular emphasis on enhancing KEK's revenues; (2) to increase collection of revenues from electricity consumers through support to KEK's Network and Supply Divisions; and (3) to improve the institutional, policy and legal environment in which KEK operates so that it is supportive of KEK's collection efforts and conducive to KEK privatization.

Since program inception, the USAID, in close collaboration with its implementers PA Government Services, Inc., has established that KEK's institutional and systemic deficiencies (internal and external) are more pervasive and acute than anticipated at the time of program design. These deficiencies represent obstacles to an improvement in KEK's performance, and jeopardize the over-arching objective of a timely and successful privatization of KEK's distribution functions.

At program inception, it was anticipated that PA Government Services, Inc. would be able to effect the envisaged improvements in KEK's performance by serving as coaches/advisors to KEK's indigenous management, and that the latter possessed the requisite know-how and managerial capacities to perform their function and drive initiatives that PA Government Services, Inc. would help them develop. Ultimately, KEK's management's abilities have proven less than sufficient to effectively manage the complex challenges that face the company. This is compounded by an extremely complex external environment, with frequent government interference in KEK's operations (e.g., instructions from the Ministry of Energy and Mines to KEK to provide uninterrupted power to non paying customers during politically-sensitive periods; instructions to reinstate individual KEK employees who had been dismissed for malfeasance, etc.) Since program inception, the composition of KEK's Board of Directors has changed twice, with new Boards of Directors calling for changes in management appointments soon after in each instance. Kosovo's government has also changed, as has Kosovo's institutional framework following Kosovo's declaration of independence and change in status.

Notwithstanding the challenges that USAID's program has encountered, substantial progress has been made. Further improvement in KEK's performance, and the sustainability of such performance, requires that policies promulgated by KEK senior management (with USAID support) be adhered to throughout the company. In other words, management must be able to effectively control the company's divisions in order to progress through the reform process. Management must possess clear and accurate information on where electricity is being consumed and lost throughout the network, as well as the actual rates of payment. For this, strong internal controls must be in place, with a system of accountability for results and performance that recognizes success and remedies failure. Where it is encountered, fraud, waste and abuse in the company must be aggressively prosecuted and rooted out. These objectives require the presence of a well-trained and sufficiently motivated staff that is able to operate in an environment in which consumer demands and service quality requirements will increase in lock step with collection improvements.

Success will also require that the acute systemic inadequacies in the majority of KEK's critical business processes be remedied. These systemic inadequacies were not identified at the time of original program design, and thus were not emphasized in USAID's original program design or explicitly included as areas of focus in the original scope of work. These include such areas as financial management and accounting, procurement and inventory management, human resource management, and many other critical business processes, all of which are to varying degrees interdependent, and whose consequences are exacerbated by the ineffectual management and organizational hierarchy referred to above that avoids any meaningful individual accountability for decisions or performance.

Insofar as KEK's billing and collection systems do not exist in isolation, but rather are critical functions within a wider framework comprised of multiple interdependent business processes, USAID has recognized that the desired sustainable improvement in KEK's performance and the enhancement of its attractiveness as an object for privatization requires a more comprehensive and holistic approach. Through this Modification, USAID will expand the scope of our assistance to KEK. This expansion is prudent, and that there is sufficient cause to reasonably expect that the expansion of the program will facilitate the achievement of USAID's over-arching objective of a successful KEK privatization, with concomitant benefits to Kosovo's broader energy-sector initiatives (i.e. new generation capacity – Kosovo C) and economy.

ACTIVITY RESULTS TO DATE

Since program inception, many accomplishments have been achieved, notwithstanding a lag in the emergence of tangible improvements in terms of KEK's commercial performance. The progress and results that have been witnessed are viewed as pre-cursors to improvements vis-à-vis *key performance indicators* of KEK's commercial performance, and likewise will invariably prove beneficial to USAID's broader sector objectives and a successful privatization of KEK's distribution functions.

The results achieved at KEK are presented below according to several categories including: corporate organization and business planning; financial planning and accounting; generation; mining; network operations; and, supply operations.

Corporate Organization and Business Planning

- Proposed a new organization structure for KEK. The chart was approved by the Board and implemented, eliminating four executive positions.

- Developed and gained Board approval of the 2007-2008 business plan. This was the first such business plan prepared at KEK that was able to achieve Board approval.

- Terminated all bonuses paid to management and employees. Previously, KEK was spending over €0.[illegible] million per year on bonuses, which was regularly paid without regard to performance.

- Drafted proposal for KEK severance program. This program, intended to begin the steps to address the serious over-staffing seen in KEK, received Board approval for implementation.

- Obtained approval from the KEK Board of Director (BOD) and the shareholder (KTA) for the right to sell KEK non energy related assets. KEK management remains somewhat hesitant to fully implement the strategy due to opposition from employees.

Financial Planning and Accounting

The efforts conducted by the USAID team in financial planning and accounting have been comprehensive and have included revamping the accounting to addressing internal controls. Importantly, as noted below, the benefits of this work to KEK can be measured in the millions of Euros.

- Developed a new long-term financial planning model. This model supports efforts to improve business planning at KEK.

- Established a new independent Internal Audit organization and achieved significant results in the fight against corruption. The new structure and organization of the Internal Audit function resulted in substantial improvements in fighting corruption, fraud and embezzlement. As a result of Internal Audit investigations, to date, 22 employees were dismissed and over 30 cases have been submitted to the prosecutor's office for follow up.

- Implemented a new budgeting and cost control system and reduced excessive costs found within the KEK system. Improved budgeting and cost control and focused investigations by the new Internal Audit function resulted in a substantial reduction in entertainment, communication, transportation, and other expenses. The annual estimated financial benefit to KEK is €[illegible] million.

- Set up a Revenue Protection Unit within KEK. This special organization targets the reduction of commercial losses, especially focusing on the theft of electricity. As the unit becomes fully operational and trained, the annual benefit of such activities is expected to reach €[illegible] million.

- Developed a new Chart of Accounts and substantially improved management and regulatory reporting. To improve the quality of financial reporting, the USAID team prepared a revised Chart of Accounts that has been submitted to the Energy Regulatory Office (ERO) for approval.

- Developed a draft inventory coding system. This effort focuses on implementing a uniform inventory coding to help reduce losses from inventory mismanagement. When implemented, the estimated financial savings are €6.0 million annually.

- Reduced deferred maintenance. KEK directed €3.5 million of cost savings to maintenance, which has been historically under funded.

- Completed the recommendations of Deloitte & Touche on accounting for the separation of KEK and KOSTT. This effort required restating the 2005 Financial Statements, recording €101 million impairment of assets and preparing the opening balances for KEK JSC and KOSTT. Completion of this task brought KEK into statutory compliance.

- Initiated the transfer of ownership of the CCP and CAS from Kontel to KEK. This change in ownership is estimated to save €0.24 million annually. However, in addition to the cost savings, PA Government Services, Inc. assisted KEK in gaining control over financial reporting, decreased dependence on an outside Contractor and increased the security of information.

Legal Support

- Prepared draft amendments to the Criminal Code to criminalize electricity theft. These amendments received the endorsement of the Government but have not yet been advocated for adoption through the Assembly.

- Produced new draft Employee Manual. At present, KEK has disparate documents addressing company policy and procedures. The new manual consolidates and updates the policies and procedures to establish a basis for improved human resource performance (and discipline) within KEK.

- Advised on numerous contractual matters affecting KEK. Examples include: new supply agreement for Sharcem; termination of contract with RTK; overdraft facility, KOS-GIRO and trade credit facility with Raiffeisen Bank; overhaul contract for B2 turbine; debt settlement agreement with Iber Lepenci (a hydropower plant and supplier of water to KEK plants); Ferro Nikilei contract problems; A5 rehabilitation contracts; new LP rotors for B units; BSW mine opening tender documents and contracts; land expropriation documents for the Trepca By-Pass.

Generation Support

- Completed technical assessments of the conditions of the B1 and B2 units to better understand the units' rehabilitation requirements. This analysis indicated that the units are in worse shape than expected.

- Identified the root cause of the B units' Low-Pressure rotor failures. The USAID team determined that poor water quality monitoring and treatment were the cause of rotor failures. This should be remedied prior to the installation in 2010 of two newly purchased LP rotors.

- Supported management of KEK on generation operations to increase domestic availability of generation. This included, for instance, deciding to cut rotor blades to return units to service thus avoiding a protracted outage.

- Prepared a rehabilitation proposal to restore A5 to service as well as secure additional coal delivery equipment in order to increase domestic supply of electricity. The team is working with the Government in an effort to secure the financing required for A5 implementation.

- Developed a load forecast for the near-term (2007-2008) and long term (2025), as well as analysis of power supply including the needs for imported power. The analysis served as the basis for development of a short and long term generation maintenance plan and development of the strategy and planning for reactivation of A1 and A2, and efforts to constrain the amount of imports.

- The USAID team presented KEK's status and power supply outlook to the Special Representative of the UN Secretary General (SRSG). As a result, the SRSG issued an executive decision in December 2007 allocating €17 million to KEK to be used for purchasing power in the January to March 2008 period.

- Identified the potential impact of the disruption of water supply to Kosovo A and B plants. This possible threat to energy security was reviewed in light of the coordinated declaration of independence.

- Recommended inclusion of a pumped-storage facility for the Zhur hydro plant project. This will allow for the electricity generated by coal during off peak period to be used during the peak demand period.

- Prepared recommendations for regional cooperation. Improved regional cooperation can promote system stability, reliability of service, and an opportunity for sharing reserves among the participants. The first steps towards a mid-term generation planning and power exchange was implemented earlier this year.

Mining

- Reviewed the options for securing coal supply in the future and began steps required to open the Sibovc South West (SSW) mine. Developed a four-point plan to ensure that coal supply is not exhausted by late 2010 timeframe. Also led on efforts to either rehabilitate and/or purchase new equipment required for the new SSW mine opening. This included working with the Government in an effort to secure financing for the needed equipment as well as for KEK to receive a license for mine opening.

Network Operations

- Undertook several steps to improve the security of supply. This included: (a) developing the Trepca bypass; (b) building of the "Mitrovice 1" the 110/35/(20)10 kV substation; (a) identifying the potential impact of the disruption of power supply from the neighboring countries (associated with the coordinated declaration of independence).

- Introduced the proper accounting of energy used at KEK facilities and by customers located on KEK land. This will benefit KEK by about €0.[illegible] million [illegible].

- Obtained approval for an executive order on how KEK will handle the replacement of stolen network assets, especially wire and cable. It is necessary for KEK to indicate that it will not replace stolen assets at its own cost; this should help to improve 'self-policing' among community members.

- Developed operational and capital expenditure plans for the network. These plans, updated quarterly, identify priority expenditures in light of KEK's current financial condition. The team also organized the coordination of capital expenditures plans between KOSTT (Kosovo Transmission System and Market Operator) and KEK.

- Inspection and sealing of KOSTT delivery points to KEK. This effort was completed in an attempt to ensure the accuracy of the metering at the delivery points. However, there is no assurance against continued tampering. Also, 220 kV and 400 kV metering points that affect KEK imports are not covered by this program. Additionally, new KEK owned check metering was introduced at the three largest customers (Sharcem, Ferro Niklei and Trepca), which represent over €1.5 million of revenue per month.

- Prepared methodology for rationalizing new customer connections. One of the problems facing KEK is connection to the network without proper authorization and lack of full technical compliance. This methodology provides an efficient process for addressing new customer connections to the KEK network.

- Introduced meter reading at the 10 kV feeder level as well as feeder categorization and feeder energy accounting system. These new procedures allow for a two-part load shedding plan to be introduced (ABC program).

Supply Operations

- Introduced the KOS-GIRO payment system to expand the ability of customers to pay through the banking system. This system improves the internal control environment within KEK and increases transparency through expanded use of the banking system for processing customer payments.

- Prepared revised procedures for how to address customer disconnections. The disconnection procedures were one-sided in favor of the customer. The USAID team worked with KEK to recraft the procedures and submit them to the ERO for approval. ERO consideration is pending.

- Gained government support for freezing the bank account of budget customers due to non-payment. This effort successfully froze the accounts of the budget entities with over €1,000 of debt. As of the end of June 2007, approximately €1.2 million of the outstanding €1.6 million debt was collected.

- Initiatives Related to Minority Areas. On July 25, 2007, two minority commercial enterprises were disconnected for nonpayment. This resulted in a significant amount of controversy on the part of several stakeholders, especially with United Nations Mission in Kosovo (UNMIK). The positive result is increased awareness and understanding of the issues KEK is facing when required to provide electricity to minority areas without compensation. A negative result was that KEK was ordered by UNMIK to not disconnect an illegal reconnection made by these customers even though payment had not been received by KEK.

- Relations with Minority Enclaves. To facilitate dialogue and properly frame the issues, the USAID team developed two issue papers focused on minority areas, including near and medium term solutions. The USAID team also held meetings with representatives of EPS to explore the potential for them to provide "humanitarian energy" in 2007-2008 and to establish payment for electricity in minority areas. The USAID team developed estimates for energy use for each of the next 12 months in every minority community that was used in negotiations between Electric Utility in Serbia (EPS), UNMIK and the Government of Serbia. The USAID team served as UNMIK's advisor.

- Addressing the problems associated with vulnerable customers. The USAID team is working with Government representatives to address the issue of electricity payment for vulnerable customers. Although the Government now has in place a "Social Cases" subsidy of [illegible] million to address approximately [illegible] needy households (9% of total households), the USAID team proposed that the subsidy be expanded to cover 30,000 households at no additional cost to the Kosovo Central Budget (the USAID team proposes that the amount of subsidy per household be reduced in order to expand the number of households that can be covered through the subsidy program.

PROPOSED REVISIONS TO THE STATEMENT OF WORK (SOW)

Summary

USAID and the Government of Kosovo have agreed that efforts to privatize KEK distribution (network and supply) should be accelerated given the weaknesses apparent in state-ownership of the company, the inherent superiority of the private sector in running commercial enterprises, and the desire to eliminate the need for the Kosovo Consolidated Budget to provide continued subsidies to the inefficiently run state owned power sector. This was agreed in principle with the Prime Minister's office on April 16, 2008, and work is progressing to formalize a government announcement of the commencement of the privatization of KEK's distribution function.

While the formal announcement of the commencement of a process for KEK's privatization is imminent, this does not supplant the need for continued efforts towards KEK's commercialization. To the contrary, a successful and timely privatization will be furthered by the intensification of such efforts, along with transaction-specific activities in support of the efforts of the to-be-appointed *investment bank* (transaction advisor) that will be retained to manage the privatization itself. In other words, commercial reforms at KEK should proceed in lock-step with preparation for a privatization transaction. Additionally, commercialization and KEK privatization will not be fully successful without the emergence of a supportive and reasonably stable external environment. There has to be clear 'buy-in' among stakeholders to a comprehensive reform program. KEK and key stakeholders need to pursue this effort as a partnership if they are to succeed.

In addition to improving the commercial and operational performance at KEK, simultaneously undertaking actions required to support privatization. This revised SOW directly supports several of the Government of Kosovo's and USAID's goals for the Kosovo energy sector including: (i) sustainable and transparent privatization of KEK's distribution function; (ii) attracting investment and improved management skills; (iii) reducing corruption, (iv) improving the quality of service to provide 'around the-clock' supply for paying customers, (v), ensuring reasonably priced electricity, and (vi) regularizing customers in minority areas. Further, there is also recognition that reform of KEK is vital for supporting the Kosovo C transaction, the single largest foreign investment opportunity available in Kosovo. By focusing further efforts on commercial and operational improvements, this amendment also supports the broader economic and social development of Kosovo. It is obvious that the impacts of the energy crisis are serious; businesses and socially critical institutions (e.g., hospitals) are harmed through interruption of supply and incur much higher costs when using self generation. Further, popular support for, and confidence in, Kosovo's governing institutions can also be enhanced if the energy crisis is addressed.

This Modification is necessary to assure the achievement of USAID's energy program's over-arching objective of increasing the physical and financial viability of Kosovo's energy sector through the attraction of private-sector capital. This Modification is a logical step in the pursuit of achieving the Mission's Strategic Objective (SO) 4.1 "Social stabilization achieved through special initiatives" as detailed in the USAID/Kosovo Strategic Plan for 2004-2008. Within the new Foreign Assistance (F) framework, this activity falls under the Economic Growth Objective, Infrastructure Program Area, and Modern Energy Program Element, under which USAID addresses the needs of attracting private investment, increasing electricity payment rates and privatization, as well as strengthening the energy-sector regulator. Of the proposed additional funding, approximately $2 million will be allocated to support the purchase and deployment of electric meters and associated network equipment to enhance services in Kosovo's ethnic enclaves and normalize service to them.

OBJECTIVES

To date, the program has made significant progress and there have been tangible near-term successes. However, as described above, it is clear that the expansion, realignment, and redoubling of activities at KEK are necessary to support USAID's broader objectives for Kosovo's energy sector and the specific over-arching objective of supporting a successful KEK distribution privatization. All activities in this Scope of Work are intended to support the realization of this over-arching objective.

Combined with the program's original three objectives and tasks already being undertaken to support them, this Task Order Modification introduces the following objectives and associated tasks outlined below:

Objective 4: Preparation of KEK Distribution Functions for Privatization

Activities in support of preparing KEK's distribution division for privatization will be conducted in coordination with the *Investment Bank* (or *Transaction Advisor*) retained to advise the Kosovo Government on the conduct the privatization itself. Illustrative outcomes of activities under this objective should include:

- Support Privatization Transaction Advisor in completing financial and legal un-bundling of KEK's Distribution function from its other divisions (mining, generation, and ancillary services);
- Support Privatization Transaction Advisor in completing an asset inventory and registration of KEK's respective divisions (distribution, mining, generation, etc.); and
- Assistance to Privatization Transaction Advisor on the preparation of an *Information Memorandum* dealing with KEK Distribution for inclusion in the announcement of KEK's privatization.

The Contractor shall coordinate activities in response to specific requests of the Transaction Advisor, with the understanding that for such activities the Contractor shall notify USAID and seek technical directions in each instance.

Objective 5: Support to KEK Commercialization

The Contractor shall redouble efforts to accelerate the introduction and entrenchment of "commercially-oriented" business practices and processes within KEK to improve operational efficiency, financial performance, and end-user service quality and reliability. USAID feel that the achievement of incremental improvements in KEK's performance as KEK is prepared for privatization will enhance the prospect for successful privatization by demonstrating the commitment of Government and other stakeholders to sustainable commercial reforms. Illustrative outcomes of activities under this objective should include:

- Refinements in institutional management reporting hierarchy and delegations of authorities and responsibilities to effect greater individual accountability for performance;
- Refinements in divisions' strategic and program-management systems and processes;
- Verification of data contained in company customer data-bases and financial-management systems;
- Completion of takeover by KEK's IT and accounting department of the responsibility for maintaining and servicing KEK's customer data-base system and accounting system ("CCP" and "CAS", respectively) and the termination of out sourced services for said maintenance and servicing; and
- Implementation of the re configuration of billing, collection, and non-payment disconnection procedures to improve KEK's revenue collection performance on a district by district basis.

Objective 6: Anti-Corruption Efforts - The Reduction and Prosecution of Fraud, Waste, and Abuse

Since program inception, and by virtue of close-quarter exposure to KEK's internal workings, USAID has confirmed that much of KEK's poor performance is rooted in endemic waste, abuse, and fraud that to date appears to have been largely ignored by a succession of management teams at KEK (or at best ineffectively tackled.) Corruption at multiple levels and of various descriptions has been and remains a pervasive and pernicious element within the company, with attendant consequences for KEK's financial performance and ability to serve its customers' needs at desired levels of quality and reliability. The expected outcome of activities under this objective should include the elimination (or at least substantial reduction) of the incidence of such fraud, waste, and abuse as a result of:

- Changes within KEK's revenue collection and reporting procedures to safeguard against diversion or misreporting of collected revenues;

- Changes in procedures for accounting for delivered power at each node within KEK's network; where equipment becomes available, this will include oversight and management of installation of metering and control equipment;
- Provision of strategic and tactical guidance to KEK's anti corruption department and its internal audit committee for investigation of suspected incidents of impropriety or malfeasance committed by KEK's workforce;
- Introduction of procedural refinements to KEK's procurement procedures to provide rigorous safeguards against corruption of procurement actions; where warranted, the Contractor shall assist KEK's technical divisions in the preparation of technical specifications for procured goods and services to ensure that procurements are designed *solely* on the basis of KEK's legitimate requirements. ***In no event***, however, will the Contractor participate in any process for the determination of award of contract to any party, unless specifically authorized in advance by USAID; and
- The preservation of KEK's existing assets and the preemption of any new encumbrances, liens, or liabilities placed upon or against KEK assets such that the objective of privatization is jeopardized.

As under Objective 5, above, USAID believe that a demonstration of Government's and management's commitment to support difficult yet necessary efforts to tackle endemic corruption and abuse will enhance the value of KEK and its attractiveness to a would-be private investor.

Objective 7: Legal and Regulatory Support

As Kosovo's energy-sector legal and regulatory framework evolve to reflect norms and practices prevalent elsewhere in Europe, KEK will need to develop its ability to function within this reformed environment. The Contractor shall support KEK in adapting to a reforming legal and regulatory environment that is emerging in Kosovo (with significant support of USAID through parallel engagements, and of other donor organizations.) Illustrative outcomes of activities in support of this objective will include:

- KEK's regulatory affairs department will be able to competently prepare and present KEK's tariff applications and other matters before the Energy Regulatory Office;
- KEK's regulatory affairs department will succeed in advocacy efforts in favor of tariff reform, re balancing, and rationalization;
- KEK, the Energy Regulatory Office and relevant Government institutions will complete the development of a targeted subsidy program for low income households;

- Discussions on regulatory reforms necessary to enhance the objective of KEK distribution privatization (in conjunction with Privatization Transaction Advisors) will yield the desired adjustments to Kosovo's regulatory environment.

A demonstration of the commitment of Government and other sector stake-holders to reform of Kosovo's legal and regulatory environment will contribute to KEK's successful privatization by bolstering the confidence of would-be suitors in the environment in which KEK will operate after privatization.

Objective 8: Normalization of Service to Enclave Communities

Electric service to Kosovo's ethnic minority populations (i.e. its Serb enclaves) is currently provided by KEK under its Kosovo-wide load-shedding (rationing) scheme whereby neighborhoods and communities receive service at levels of regularity and reliability commensurate with their payment regularity. With few exceptions (e.g., some larger commercial customers), Kosovo Serb enclaves have virtually no contact with KEK other than by virtue of their physical connection to KEK's distribution network. KEK's billing and collection personnel do not enter these communities, do not record customers' consumption, and make no attempt to collect payment for service. Payment regularity of customers in Serb enclave areas is thus virtually non-existent. As a consequence, these enclaves are subjected to the most severe load-shedding (rationing.) Notwithstanding the reduced service to these enclaves, KEK estimates that they represent roughly 8% of total system load.

KEK believe most customers in these areas, if offered an opportunity to pay for service in exchange for increased service regularity, would choose to become paying customers. USAID has determined that the regularization of service to enclave communities south of the Ibar River can be achieved through the deployment of so called "communal meters", whereby enclave community leaders agree with KEK to remit in bulk on behalf of all customers for power delivered to their areas. Billing and collection from individual consumers becomes the responsibility of the local community. This approach has been employed successfully in other countries with similar inter-ethnic tensions. The Contractor shall assist KEK in the implementation of this approach by:

- Engaging with the Kosovo Energy Regulatory Office, Government of Kosovo, and local enclave community leaders on the agreement of the parameters for "communal metering", including licensing requirements;
- Developing contractual arrangements governing the provision of service on a "communal-meter" basis;

- Procuring necessary equipment for installation in identified enclaves (with funds provided by USAID under this modification for this specific purpose);
- Overseeing and documenting to USAID the installation of USAID-funded equipment, monitoring progress post-implementation, and advising on necessary refinements to the scheme;
- Customers in targeted enclaves that participate in the described communal-metering programs will enjoy improved service reliability and stability, with corresponding benefits to economic activity in those areas,
- Politically, the envisaged normalization of commercial relationships between KEK and customers in targeted enclaves can contribute to efforts to mend inter-ethnic divides that persist in Kosovo.

Activities under this objective will focus, unless otherwise instructed during the course of implementation, areas in Kosovo's three Serb majority northern municipalities will not be directly addressed under this objective, as the physical realities of the system are not conducive to the adoption of this approach.

For this activity a conditional negative determination is recommended with the condition that procurement, transportation, and installation of any equipment shall be done in an environmentally sound manner. The Contractor shall provide USAID with evidence that the recipient organization followed all applicable environmental laws.

Of the additional $8 million, approximately $2 million will be dedicated to support the procurement of commodities (network meters and associated materials) and their deployment in support of efforts to normalize and improve service delivery to Kosovo's ethnic-minority enclaves.

DELIVERABLES

The objectives, targets, and deliverables outlined in the original Task Order and confirmed in the first Annual Work Plan remain, as revised below:

No.	Objectives supporting these results	Indicator	2006 Actual Baseline Revised in 2007	2007 Actual	2008 Target	2009 Target
1.	1, 2, 3, 5, 6, 7, 8	Reduce commercial losses as compared with previous year (ratio of commercial losses vs. energy available for sale)	31%	30%	25%	10%
2.	1, 2, 5, 6, 8	Reduce technical losses (ratio of technical loss vs. energy delivered to distribution)	18.2%	17.4%	17.0%	16.5%
3.	1, 2, 3, 5, 6, 7, 8	Revenue billed vs. energy available for sale	69.1%	69.9%	75%	90.0%
4.	1, 2, 3, 5, 6, 7, 8	Revenue collected as a percentage of value of energy available for sale	51.3%	53.5%	60.0%	80.0%
5.	1, 2, 3, 5, 6, 7, 8	Collected revenue in Euros	€ 96m	€ 106m	€110.5m	€140m

Additionally, the Contractor shall undertake to achieve targets by following additional indicators within the period of performance of the program:

- Support of the privatization of KEK distribution (network and supply) to a competent strategic investor. (Facilitated by activities under objective 4) through the combined efforts of the Government of Kosovo, the international community, and the Transaction Advisor,

- Implement new Chart of Accounts, including annual Balance Sheets, Income Statements, and Cash Flow Statements (Facilitated by activities under objectives: 4);

- Support the unbundling of KEK distribution (network and supply) from generation and mining [Facilitated by activities under objectives: 4];

- Complete installation of Communal Metering in Minority Areas [Facilitated by activities under objectives: 8];

- Establish a fully operational Internal Audit Function in KEK capable of performing company audits [Facilitated by activities under objectives: 5, 6];

- Support the continued strengthening of a fully operational Anti-Corruption Department in KEK, including Revenue Protection reporting through Internal Audit to the KEK BoD [Facilitated by activities under objectives: 5, 6];

- Improve domestic supply availability (and reduce demand) such that by the end of the period of performance, customers that pay in full for their electricity use have access to 24-hour supply [Facilitated by activities under objectives: 1, 2, 3, 5, 6, 7, 8];

- Achieve reductions in the average use of electricity by households[1] by at least 10% due to a demand response at end-user level as a result of more effective enforcement of collection and disconnection policy [Facilitated by activities under objectives: 1, 2, 3, 5, 6, 7, 8];

- Reduce unaccounted for electricity to 10% by the end of the period of performance [Facilitated by activities under objectives: 5, 6, 8]; and

- Improve the financial performance of KEK by striving to achieve a collection ratio (relative to available electricity) of 80%, thus helping to limit any future KEK distribution and generation related demands on the Kosovo Consolidated Budget to either higher than anticipated supply costs, unplanned capital expenditures, emergency situations, or payment for customers that are not permitted to be disconnected in the event of non-payment [Facilitated by activities under objectives: 1, 2, 3, 5, 6, 7, 8].

The Contractor shall submit a revised Annual Work Plan to the USAID Cognizant Technical Officer (CTO) that encompasses all additional activities for the development and implementation of tasks detailed by quarter within 15 days of the effective date of the Modification. The Work Plan will contain a revised Performance Based Management System (PBMS) for monitoring performance and impact of additional activities.

---

[1] Households consume about 60% of total electricity demand.

CRITICAL ASSUMPTION FOR PROGRAM SUCCESS

USAID's and the Contractor efforts at KEK cannot be successful without full commitment and support of key counterparts in Government and at KEK itself. USAID and the United States Embassy's Chief of Mission in Kosovo have communicated their expectations to the office of the Prime Minister, and intend to conclude a formal agreement with the Government of Kosovo on which continued US support to energy-sector development in Kosovo will be based. This agreement will include specific references to Government of Kosovo commitments to support the Contractor in their role as advisors to KEK's Board of Directors and KEK's management.

To monitor progress against Task Order objectives, and to ensure effective dialogue with Government of Kosovo Counterparts, USAID and the Government of Kosovo will meet formally and regularly (not less frequently than once per quarter.)

USAID will consistently monitor Government of Kosovo's, KEK Board of Directors', and KEK Management's adherence to the terms of the referenced agreement. Where non-compliance is observed, USAID will engage with Government of Kosovo counterparts to effect remedies. Where USAID determine that no such remedies are available or practical, USAID may call for a suspension or termination of the program.

PERSONNEL

In order to accomplish the additional tasks and meet the increased targets, the Contractor shall mobilize additional Resident and Short-Term Advisors as per the revised staffing schedule below:

Resident Advisors as follows:

1. Chief of Party
2. Network Advisor
3. Supply Advisors - **2 Persons**
4. Legal Advisor
5. Finance and Accounting Advisor
6. Anti-corruption Advisor
7. Communications and Outreach Advisor
8. Procurement and Administration

Short-Term Advisors in the following areas:

1. Human Resources
2. Regulatory
3. Engineering (Thermal and Hydro Generation) - **2 Persons**
4. IT
5. Legal
6. Procurement (meters)

Local Staff

The Contractor's employment of local (Kosovar) staff is currently limited to administrative support expatriate Advisors. The Contractor shall seek to employ a greater number of local professionals to complement expatriates in their technical functions and support KEK counterparts in its various divisions. Five such positions are envisioned, in addition to those engaged under the current Task Order.

- END OF ATTACHMENT A -