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CREDIT NUMBER 7052-XK

# **Financing Agreement**

**(Public Finances and Sustainable Growth Development Policy Financing)**

**between**

**REPUBLIC OF KOSOVO**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

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**FINANCING AGREEMENT**

AGREEMENT dated as of the Signature Date between REPUBLIC OF KOSOVO (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (i) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

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

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in the amount of fifty million six hundred thousand Euro (Euro 50,600,000) (variously, “Credit” and “Financing”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Service Charge is the greater of: (a) the sum of three-fourths of one percent (3/4 of 1%) per annum plus the Basis Adjustment to the Service Charge; and (b) three-fourths of one percent (3/4 of 1%) per annum; on the Withdrawn Credit Balance.
- 2.04. The Interest Charge is the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum; on the Withdrawn Credit Balance.

- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Euro.
- 2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

### **ARTICLE III — PROGRAM**

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
  - (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
  - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
  - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following: namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following: namely the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of thirty (30) days after notice of the event has been given by the Association to the Recipient.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following: namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date one hundred twenty (120) days after the Signature Date.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is its Minister of Finance, Labor, and Transfers ("MFLT") who, *inter alia*, may on behalf of the Recipient agree to any revision of the provisions set forth in the Schedules to this Agreement, in accordance with Section 11.02(b) of the General Conditions.
- 6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient's address is:

Ministry of Finance, Labor and Transfers  
New Government Building  
Mother Teresa Street  
10000 Pristina  
Republic of Kosovo; and

(b) the Recipient's Electronic Address is:

Facsimile:

+383-38-213-113

E-mail:

debtunit@rks-gov.net

- 6.03. For purposes of Section 11.01 of the General Conditions:

(a) The Association's address is:

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

(b) the Association's Electronic Address is:

Telex: 248423 (MCI) Facsimile: 1-202-477-6391

AGREED as of the Signature Date.

**REPUBLIC OF KOSOVO**

By

  
\_\_\_\_\_  
Authorized Representative

Name: Hekuran Murati

Title: Minister of Labor, Finance and transfers

Date: April 21, 2022

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

By

  
\_\_\_\_\_  
Authorized Representative

Name: Anna Bjerde

Title: Regional Vice President

Date: April 21, 2022

## SCHEDULE 1

### Program Actions; Availability of Financing Proceeds

#### Section I. Actions under the Program

- A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

##### **Pillar 1 – Improving Fiscal Transparency**

1. To enhance the transparency and oversight of Government debt management operations, the Recipient has adopted and submitted to Parliament the Draft Law on State Debt and State Guarantees that: (i) codifies annual and quarterly debt reporting requirements, and (ii) requires an annual reporting of the Government to the Parliament on the implementation of the State Debt Program, as evidenced by Government Decision No. 04/46 dated November 30, 2021.
2. To improve the evidence base for fiscal policy making and transparency, the Recipient has adopted requirements for conducting and publishing long-term costing of new pension policy proposals and other social protection policy proposals, as well as regular updating (at least every five years) for existing pension policies, as evidenced through the Administrative Instruction No. 09/2021 dated December 13, 2021.

##### **Pillar 2 – Enhancing private sector development**

3. To improve the efficiency and coordination of business inspections, the Recipient has enacted the Law on Inspections to (i) reduce the number of inspectorates and legal overlaps, (ii) establish a general inspector's office, and (iii) introduce risk-based inspections, as evidenced through Law No. 08/L-067 dated December 23, 2021 and published in the Recipient's Official Gazette No. 2 dated January 18, 2022.
4. To reduce the regulatory burden on agriculture and agribusiness activities and trade, the Recipient has adopted regulations to: (i) reduce the number of agriculture and agribusiness sector licenses and simplify the licenses approval process, and (ii) reduce the fees and documentation requirements for producers, exporters, and importers in the agriculture and agribusiness sector, as evidenced through MAFRD's Administrative Instructions Nos. 3, 4, 5, 6 and 9.
5. To foster digitalization and digital service delivery by businesses, the Recipient has enacted the Law on Electronic Identification and Trust Services

in Electronic Transactions that enables electronic identification and trust services for electronic domestic transactions, as evidenced through evidenced through Law No. 08/L-022 dated December 6, 2021 and published in the Recipient's Official Gazette No.11 dated December 23, 2021.

**Pillar 3 – Strengthening Environmental Sustainability**

6. To foster sustainable development through better management of solid waste and transition towards a circular economy aligned with the European Union norms and standards, the Recipient has (i) adopted and submitted to the Parliament the Draft Law on Amending and Supplementing the Law No. 04/L-060 on Waste to create the legal basis for an extended producer responsibility mechanism and procedures for the establishment of the deposit refund system, as evidenced by Government Decision No. 06/44 dated November 10, 2021; and (ii) adopted the Integrated Waste Management Strategy (2021-2030) and Action Plan (2021-2023) which sets objectives, instruments, and targets to pave the way for a circular economy and improve public service delivery, as evidenced through Government Decision No. 08/14 dated May 28, 2021.
7. To launch the introduction of a competitive mechanism to support renewable energy investments in the power sector, the Recipient has adopted a Concept Document on Renewable Energy Sources that initiates the required regulatory and legal changes to the current legal and policy framework, as evidenced by Government Decision No. 19/52 dated December 29, 2021.

**Section II. Availability of Financing Proceeds**

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Financing Allocated (expressed in EUR)</b>
(1) Single Withdrawal Tranche	50,600,000
<b>TOTAL AMOUNT</b>	<b>50,600,000</b>

**C. Withdrawal Tranche Release Conditions.**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

**D. Deposit of Financing Amounts.**

The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the account to which the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

**E. Closing Date.** The Closing Date is September 30, 2023.



**SCHEDULE 2**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each May 15 and November 15:	
commencing May 15, 2027 to and including November 15, 2046	<b>1.65%</b>
commencing May 15, 2047 to and including November 15, 2051	<b>3.40%</b>

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.

## APPENDIX

### Definitions

1. “Administrative Instruction No. 09/2021” means the Recipient’s Administrative Instruction of the same number dated December 13, 2021 on Amending and Supplementing the Administrative Instruction No. 3/2015 on Budget Impact Assessment for New Government Initiatives.
2. “Basis Adjustment to the Interest Charge” means the Association’s standard basis adjustment to the Interest Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.
3. “Basis Adjustment to the Service Charge” means the Association’s standard basis adjustment to the Service Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.
4. “Draft Law on State Debt and State Guarantees” means the Recipient’s draft law adopted by the Government and submitted to the Parliament through Government Decision No. 04/46 dated November 30, 2021 and registered on the Parliament website as “Draft Law No. 08/L-099 on State Debt and State Guarantee” on December 12, 2021.
5. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022).
6. “Government Decision No. 04/46” means the Recipient’s Government decision of the same number dated November 30, 2021 on approving the Draft Law on State Debt and State Guarantee.
7. “Government Decision No. 06/44” means the Recipient’s Government decision of the same number dated November 10, 2021 on approving the Draft Law on Amending and Supplementing the Law No. 04/L-060 on Waste.
8. “Government Decision No. No. 08/14” means the Recipient’s Government decision of the same number dated May 28, 2021 on “Adopting the Integrated Waste Management Strategy (2021-2030) and Action Plan (2021-2023)”.

9. "Government Decision No. 19/52" means the Recipient's Government decision of the same number dated December 29, 2021 on "Adopting the Concept Document on Renewable Energy Sources".
10. "Law on Electronic Identification and Trust Services in Electronic Transactions" means the Recipient's Law No. 08/L-022 approved by the Recipient's Parliament on December 6, 2021 and published in the Recipient's Official Gazette No.11 dated December 23, 2021.
11. "Law on Inspections" means the Recipient's Law No. 08/L-067 approved by Recipient's Parliament on December 23, 2021 and published in the Recipient's Official Gazette No. 2 dated January 18, 2022.
12. "MAFRD" means the Recipient's Ministry of Agriculture, Forestry and Rural Development, or any successor thereto.
13. "MAFRD's Administrative Instructions Nos. 3, 4, 5, 6 and 9" means collectively the MAFRD's (i) Administrative Instruction No. 03/2021 dated April 29, 2021 on determination of criteria for internal trade, import, export of wine and other grape and wine products published in the Recipient's Official Gazette website on May 6, 2021; (ii) Administrative Instruction No. 04/2021 dated April 29, 2021 on registration of grape growers, wine producers, fruit wines and other grape and wine products published in the Recipient's Official Gazette website on May 6, 2021; (iii) Administrative Instruction No.05/2021 dated April 29, 2021 on amending and supplementing of the Administrative Instruction No. 08/2009 on determination of tax for registration of entities, testing of varieties for the cultivation production value and printing of labels for cereals seeds published in the Recipient's Official Gazette website on May 6, 2021; (iv) Administrative Instruction No. 06/2021 dated April 29, 2021 on amending and supplementing the Administrative Instruction No. 14/2004 on registration, licensing and determination of tax for importers, exporters and traders of planting material, amended and supplemented by the Administrative Instruction No.04/2007 dated March 14, 2007 and the Administrative Instruction No. 04/2011 dated April 24, 2011 published in the Recipient's Official Gazette website on May 6, 2021; and (v) Administrative Instruction No. 09/2021 dated November 10, 2021 on services performed by the department of vineyards and wine published in the Recipient's Official Gazette website on November 11, 2021.
14. "Parliament" means the Recipient's Assembly.
15. "Program" means: the program of objectives, policies, and actions set forth or referred to in the letter dated February 9, 2022 from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution and comprising actions taken, including those set forth in

Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program's objectives.

16. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.
17. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
18. "State Debt Program" means the program referred to in Article 9 of the Draft Law on State Debt and State Guarantees that sets out, *inter alia*, the objectives, guidelines and measures for managing state debt and state guarantees under the best international practices for the purpose of securing adequate funding at the lowest cost and risk possible, to be prepared by the Recipient's Government and presented to the Recipient's Parliament in accordance with the provisions of the said draft law.