

CONFORMED COPY

TF024299

Trust Fund Grant Agreement

(Pilot Small and Medium Scale Enterprise Line of Credit Project)

between

UNITED NATIONS INTERIM
ADMINISTRATION IN KOSOVO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
(Acting as Administrator of the Trust Fund for Kosovo)

Dated October 20, 2000

TF024299

TRUST FUND GRANT AGREEMENT

AGREEMENT, dated as of October 20, 2000 between UNITED NATIONS INTERIM ADMINISTRATION IN KOSOVO (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Administrator).

WHEREAS (A) the Board of Governors of the International Bank for Reconstruction and Development (the Bank), acting on the recommendation of its Board of Executive Directors, decided on September 30, 1999, to transfer from Bank surplus, by way of grant, \$25,000,000 to a trust fund (the Trust Fund) for Kosovo, Federal Republic of Yugoslavia (Serbia and Montenegro) (Kosovo), established by Resolutions of the Executive Directors of the Bank (Resolution No. 99-7) and the Administrator (Resolution No. IDA 99-4) and to be administered by the Administrator, to be used for financing an emergency reconstruction program in Kosovo;

(B) the Board of Governors of the Bank further decided on September 27, 2000, to transfer from Bank surplus, an additional amount of \$35,000,000, (Additional Contribution) to the Trust Fund;

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Administrator to assist, from the Additional Contribution, in the financing of

Part A of the Project;

(D) the Recipient intends to contract from the European Agency for Reconstruction (EAR) a grant (the EAR Grant) in an amount equivalent to ten million Deutsche Mark (DEM 10,000,000) to assist in the financing of Part B of the Project on terms and conditions set forth in an agreement (the EAR Grant Agreement) to be entered into between the Recipient and EAR; and

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing, to extend a grant to the Recipient for the benefit of Kosovo upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions" (the General Conditions) set forth in Schedule 5 to this Agreement constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Beneficiary" means any eligible small and medium scale enterprise duly established and operating in Kosovo which ICU or a PFI proposes to make or has made a Sub-loan;

(b) "BPK" means the Banking Payments Authority of Kosovo, established pursuant to Regulation No. 1999/20, dated November 15, 1999;

(c) "DEM" means Deutsche Marks;

(d) "Eligible Category" means the category set forth in the table in Part A of Schedule 1 to this Agreement;

(e) "Eligible Expenditures" means the expenditures for goods, works, services and working capital under the Sub-loans referred to in Section 2.02 of this Agreement;

(f) "ICU" means the Interim Credit Union of the Recipient, an autonomous non-bank financial institution, to be established pursuant to Section 6.01 (a) of this Agreement;

(g) "Operational Guidelines" means the guidelines to be adopted by ICU pursuant to Section 6.01 (a) of this Agreement, setting out the operational and administrative procedures for the implementation of the Project, including the preparation, approval, processing, financing, implementation and supervision of Sub-loans;

(h) "Participating Financial Institution" or "PFI" means any bank or other credit institutions established or operating in accordance with the laws and regulations of the Recipient and selected and approved by BPK for participation in the Project on the basis of criteria acceptable to the Administrator for purposes of administering Sub-loans out of the proceeds of the Grant;

(i) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(j) "Small and medium scale enterprise" or "SME" means an enterprise duly established and operating in the territory of the Recipient with less than 250 employees;

(k) "Subsidiary Grant Agreement" means the agreement entered into between the Recipient and ICU pursuant to Section 3.02 (a) of this Trust Fund Grant Agreement, as the same may be amended from time to time, and such term includes all schedules

supplemental to the Subsidiary Grant Agreement;

(l) "Subsidiary Loan Agreement" means any agreement entered into between ICU and a PFI pursuant to paragraph 1 (d) of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Loan Agreement;

(m) "Subsidiary Loan" means any loan made pursuant to a Subsidiary Loan Agreement;

(n) "Sub-loan Agreement" means any agreement entered into between ICU or a PFI and a Beneficiary pursuant to paragraph 1 (c) of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Sub-loan Agreement;

(o) "Sub-loan" means a loan made or proposed to be made by ICU or a PFI out of the proceeds of the Grant to a Beneficiary for a Sub-project;

(p) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan; and

(q) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

ARTICLE II

The Grant

Section 2.01. The Administrator agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Grant Agreement, a grant in an amount of ten million Deutsche Mark (DEM 10,000,000).

Section 2.02. The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Administrator shall so agree, amounts to be paid) by ICU or a PFI on account of withdrawals made by a Beneficiary under a Sub-loan to meet the reasonable cost of goods, works and services required for the Sub-project under Part A of the Project in respect of which the withdrawal from the Grant Account is requested.

Section 2.03. The Closing Date shall be December 31, 2003, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. The Recipient declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through ICU with due diligence and efficiency and in conformity with appropriate financial, technical and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) For purposes of the carrying out of Part A of the Project, the Recipient shall make available the proceeds of the Grant to ICU under a Subsidiary Grant Agreement to be entered into between the Recipient and ICU under terms and conditions which shall have been approved by the Administrator, which shall include those described in the Implementation Program set forth in Schedule 4 to this Agreement, as such Implementation Program shall be modified from time to time by the agreement of the Recipient and the Administrator.

(b) The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Administrator and to accomplish the purposes of the Grant, and except as the Administrator shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

Section 3.03. Except as the Administrator shall otherwise agree, procurement of the goods, works and services required for Part A of the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. For the purposes of Section 1.23 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Administrator, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Administrator a reasonable opportunity to exchange views with the Recipient on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain and shall cause ICU to maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Administrator, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall cause ICU to:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Administrator, consistently applied, by independent auditors acceptable to the Administrator;

(ii) furnish to the Administrator as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and

(iii) furnish to the Administrator such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Administrator may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of Project Management Reports or statements of expenditure, the Recipient shall cause ICU to:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one (1) year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Administrator's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual

audit referred to in paragraph (b) of this Section and that the
report of such audit contains a separate opinion by said
auditors as to whether the Project Management Reports or
statements of expenditure submitted during such fiscal year,
together with the procedures and internal controls involved in
their preparation, can be relied upon to support the related
withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Recipient shall through ICU carry out a time-bound action plan acceptable to the Administrator for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Recipient, through ICU, not later than July 31, 2001, or such later date as the Administrator shall agree, to prepare quarterly Project management reports, acceptable to the Administrator, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the four-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Grant during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Grant during the four-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Grant, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Recipient shall, through ICU, prepare, in accordance with guidelines acceptable to the Administrator, and furnish to the Administrator not later than forty-five (45) days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Administrator

Section 5.01. Pursuant to Section 1.15 (f) of the General Conditions, the following additional events are specified:

(a) ICU shall have failed to perform any of its obligations under the Subsidiary Grant Agreement;

(b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that ICU shall be able to perform its obligations under the Subsidiary Grant Agreement;

(c) the Operational Guidelines shall have been amended, abrogated, repealed or otherwise modified without the prior approval of the Administrator;

(d) the founding documents of ICU shall have been amended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of ICU or its ability to carry out the Project or to perform any of its respective obligations under the Subsidiary Grant Agreement;

(e) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Recipient to withdraw the proceeds of any

grant or
of the Project shall
terminated in whole or in part,
the agreement providing therefor; or

loan made to the Recipient for the financing
have been suspended, canceled or
pursuant to the terms of

agreed (B) any such loan shall have become due and payable prior to the
maturity thereof.

Recipient (ii) Subparagraph (i) of this paragraph shall not apply if the
Administrator that: establishes to the satisfaction of the

not (A) such suspension, cancellation, termination or prematuring is
of its caused by the failure of the Recipient to perform any
obligations under such agreement; and

Recipient from (B) adequate funds for the Project are available to the
consistent with the other sources on terms and conditions
Recipient under this Agreement. obligations of the

ARTICLE VI

Effectiveness; Termination

Section 6.01. This Agreement shall not become effective until evidence
satisfactory to the Administrator shall have been furnished to the Administrator that:

(a) ICU shall have been established and is fully operational in a manner
satisfactory to the Administrator and its Operational Guidelines, satisfactory to the
Administrator, has been adopted;

(b) The Subsidiary Grant Agreement shall have been executed with terms and
conditions satisfactory to the Administrator; and

(c) A short list of independent auditors and their terms of reference,
satisfactory to the Administrator, shall have been prepared.

Section 6.02. The date ninety (90) days after the date of this Agreement is
hereby specified for the purposes of Section 1.32 of the General Conditions.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Special Representative of the Secretary-General of the United
Nations for Kosovo is designated as representative of the Recipient for the purposes
of Section 1.28 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section
1.26 of the General Conditions:

For the Recipient:

United Nations Interim
Administration in Kosovo
Pristina
Kosovo

Facsimile:

873-76219-2837

For the Administrator:

International Development Association
1818 H Street, N.W.

Washington, D.C. 20433
United States of America

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names as of the day and year first above written.

UNITED NATIONS INTERIM
ADMINISTRATION IN KOSOVO

By /s/ Bernard Kouchner

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
(Acting as Administrator of the Trust Fund for Kosovo)

By /s/ Christiaan Poortman

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Grant Allocated (Expressed in DEM)	% of Expenditures to be Financed
Sub-loans under Part A of the Project	10,000,000	100% of amounts disbursed
TOTAL	10,000,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; and (b) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the criteria and procedures set forth in the Operational Guidelines and on terms and conditions set forth or referred to in the Attachment to the Annex to Schedule 4 to this Trust Fund Grant Agreement.

3. The Administrator may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under Sub-loans less than DEM 500,000 each, except for the first three Sub-loans and the first three Sub-loans in an amount of more than DEM 200,000, all under such terms and conditions as the

Administrator shall specify by notice to the Recipient.

B. Special Account

1. The Recipient shall open and maintain in DEM a special deposit account, in a commercial bank, on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure and attachment.

2. After the Administrator has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Grant Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Administrator shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Recipient for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Administrator of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Recipient for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Administrator shall not be required to make further deposits into the Special Account:

(a) if the Administrator determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Administrator determines at any time that all further withdrawals should be made by the Recipient directly from the Grant Account; or

(c) if the Recipient shall have failed to furnish to the Administrator, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Administrator shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Administrator shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 1.15 of the General Conditions. Upon such notification, the Administrator shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Administrator determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Administrator, the Recipient shall, promptly upon notice from the Administrator, provide such additional evidence as the Administrator may request, or deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Recipient may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Administrator made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equivalent to DEM 700,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Administrator shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to DEM 400,000 until the aggregate amount of withdrawals from the Grant Account, plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 1.07 of the General Conditions, shall equal or exceed the equivalent of DEM 1,700,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Administrator a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Special Account, the Recipient shall furnish to the Administrator requests for deposit into the Special Account at such intervals as the Administrator shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Administrator the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Administrator from the Grant Account under one or more of the Eligible Categories.

3. The Administrator shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Grant, minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 1.07 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Administrator shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals are Made On the Basis of Project Management Reports

1. Except as the Administrator may otherwise specify by notice to the Recipient, all withdrawals from the Grant Account shall be deposited by the Administrator into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Administrator from the Grant Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Grant Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Grant, the Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Administrator has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of DEM 1,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to provide financing to small and medium size enterprises on market-based terms to jump-start production and economic activity of the private sector; (ii) to re-establish basic credit management capacity and loan administration skills of new emerging banks; and (iii) to increase financial discipline and planning capacity of small and medium scale enterprises.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Administrator may agree upon from time to time to achieve such objectives:

Part A: Credit Facilities

The establishment and operation of a credit facility for the financing, through the provision of Sub-loans by ICU or PFIs to Beneficiaries, of specific development projects and associated working capital in the production and processing sectors.

Part B: Technical Assistance

1. Strengthening the institutional capacity of ICU for the implementation of the Project.

2. Strengthening the institutional capacity of PFIs through provision of technical assistance and training for the implementation of the Project.

* * *

The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following

Parts of this Section I.

Part B: Procurement Procedures

1. Commercial Practices

Contracts for the procurement of goods for Sub-projects estimated to cost the equivalent of less than \$50,000 per contract may be awarded in accordance with the established commercial practices of the Beneficiary, due account being taken also of other relevant factors such as time of delivery and efficiency and reliability thereof and availability of maintenance and spare parts, in accordance with the provision of paragraph 3.12 of the Guidelines.

2. International Shopping

Goods estimated to cost \$150,000 equivalent or less per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Competitive Bidding

Works estimated to cost \$50,000 equivalent or more but less than \$200,000 per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, may be procured under lump-sum or unit-rate-contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Administrator, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part C: Review by the Administrator of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Administrator for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the first two contracts for goods and works the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Administrator in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part C: Review by the Administrator of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Administrator for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for services estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Administrator for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. Except as the Recipient, the Administrator and ICU shall otherwise agree, the Subsidiary Grant Agreement shall contain the following Project implementation arrangements for purposes of carrying out of Part A of the Project whereby ICU shall undertake to:

(a) carry out its activities under Part A of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers and to provide, as promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) maintain Operational Guidelines in form and content satisfactory to the Administrator, duly perform all its obligations under the Subsidiary Grant Agreement and the Operational Guidelines and not assign, amend, abrogate or waive the Subsidiary Grant Agreement or the Operational Guidelines without obtaining the prior approval of the Administrator;

(c) make Sub-loans to Beneficiaries, directly or through PFIs, under terms

and conditions which shall have been approved by the Administrator and set forth in Sub-loan Agreements, and which shall include, without limitation, those set forth in the Attachment to the Annex to this Schedule;

(d) upon confirmation by BPK and the Administrator of their eligibility, lend to PFIs the equivalent of the proceeds of the Grant allocated from time to time to Category (1) of the table set forth in paragraph A.1 of Schedule 1 to this Trust Fund Grant Agreement under Subsidiary Loan Agreements to be entered into between ICU and each PFI, under terms and conditions which shall have been approved by the Administrator, and which shall include, without limitation, those set forth in the Annex to this Schedule;

(e) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with procedures satisfactory to the Administrator and the Recipient;

(f) monitor the overall execution of Part A of the Project and the carrying out by Beneficiaries and the PFIs of their obligations under their respective Sub-loan Agreements or Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Administrator;

(g) take or cause to be taken all action necessary or appropriate on its part to enable Beneficiaries and the PFIs to perform in accordance with the provisions of their respective Sub-loan Agreements and Subsidiary Loan Agreements all the obligations of Beneficiaries and the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance;

(h) exercise its rights under the Sub-loan Agreements and Subsidiary Loan Agreements in such manner as to protect the interests of the Administrator and the Recipient and to accomplish the purposes of the Grant, and, except as the Administrator shall otherwise agree, not assign, amend, abrogate or waive any such Agreement or any provision thereof;

(i) except as the Administrator shall otherwise agree, in respect of repayments of principal of Sub-loans and Subsidiary Loans:

(i) open and maintain, in a bank, acceptable to the Administrator, a separate account, on terms and conditions satisfactory to the Administrator; and

(ii) upon receipt of each such repayment, credit the same to such account. All amounts to be so credited shall be utilized, exclusively to finance, directly or through the PFIs, specific projects on similar terms and conditions as those applicable to the Sub-loans or Subsidiary Loans so repaid and credited to said account. ICU shall maintain said account and credit and utilize said repayments under the Project until the Closing Date.

(j) (i) exchange views with, and furnish all such information to the Administrator or the Recipient, as may be reasonably requested by the Administrator or the Recipient, with regard to the progress of its activities under Part A of the Project, the performance of its obligations under its respective Subsidiary Grant Agreement, and other matters relating to the purposes of Part A of the Project; and

(ii) promptly inform the Administrator and the Recipient of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Grant Agreement;

(k) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition;

(ii) have its financial statements (balance sheets, statements of

income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;

(iii) furnish to the Administrator, as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Administrator shall have reasonably requested; and

(iv) furnish to the Administrator such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Administrator shall from time to time reasonably request; and

(1) (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Administrator, the carrying out of the Project and the achievement of the objectives thereof;

(ii) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, on or about October 31, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(iii) review with the Administrator, by December 31, 2001, or such later date as the Administrator shall request, the report referred to in sub-paragraph (1) (ii) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's view on the matter.

Annex to SCHEDULE 4

Principal terms and Conditions of the Subsidiary Loan Agreement

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 1 (d) of Section 1 of Schedule 4 to this Agreement.

A. Terms

1. The principal amount to be relented out of the proceeds of the Grant to a PFI under its respective Subsidiary Loan Agreement shall be denominated in DEM and be the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof.

2. The Subsidiary Loan shall be: (a) charged monthly, quarterly or semiannually, on the principal amount thereof withdrawn and outstanding from time to time, interest at a margin acceptable to the Administrator; and (b) repaid in accordance with an amortization schedule pursuant to which each portion thereof utilized in the making of a Sub-loan shall have a maturity calculated to conform to the amortization schedule applicable to such Sub-loan.

3. The right of a PFI to the use of the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such PFI to perform any of its obligations under its respective Subsidiary Loan Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a

continuous period of 60 days.

B. Conditions

1. A Subsidiary Loan Agreement may be entered into with a PFI, which ICU, with the assistance of the BPK, pursuant to the arrangements referred to in paragraph 1 (b) of Part B of this Schedule 4, shall have determined, and the Administrator shall have agreed, that such PFI:

- (a) is duly established and licensed by BPK to operate in Kosovo;
- (b) its participation in the Project has been approved by BPK and the administrator and a borrowing limit from ICU has been determined;
- (c) has increasing capital and improving capital adequacy and growing assets of high quality;
- (d) has growing and strengthening earnings trends and demonstrated liquidity management capacity;
- (e) has developed sound internal audit and management information systems and effective corporate governance;
- (f) is operating pursuant to investment and lending policies and procedures which the Administrator and the BPK shall have judged acceptable, and has undertaken to maintain said policies and procedures; and
- (g) has adequate risk management systems based on compliance with applicable prudential regulations as determined by BPK.

2. Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective PFI shall undertake to:

- (a) carry out activities under Part A of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in paragraph 1 (f) of this Part B, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;
- (b) (i) make Sub-loans to Beneficiaries on the terms and conditions set forth in the Attachment to this Annex; (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Recipient, ICU and the Administrator, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of Part A of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of ICU; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with procedures satisfactory to the Administrator and ICU;
- (c) maintain, with staff and other resources and terms of reference, satisfactory to the Administrator and ICU: (i) a credit committee to be responsible for the evaluation and approval of Sub-loan applications; and (ii) a technical unit to be responsible for the appraisal and supervision of the carrying out of Sub-projects;
- (d) (i) exchange views with, and furnish all such information to the Administrator or ICU, as may be reasonably requested by the Administrator or ICU, with regard to the progress of its activities under Part A of the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of Part A of the Project; and (ii) promptly inform the Administrator and ICU of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement;
- (e) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing

principles consistently applied, by independent auditors acceptable to the Administrator; (iii) furnish to the Administrator, as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Administrator shall have reasonably requested; and (iv) furnish to the Administrator such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Administrator shall from time to time reasonably request; and

(f) assume the credit risk of each Sub-loan, as determined pursuant to guidelines acceptable to the Administrator, in the event the Beneficiary of the respective Sub-loan fails to repay all amounts due on the Sub-loan.

Attachment to the Annex to

SCHEDULE 4

Terms and Conditions of the Sub-loans

The provisions of this Attachment shall be for the purposes of paragraph 1 (c) of Section 1 of Schedule 4 to this Agreement.

1. The principal amount of each Sub-loan made out of the proceeds of the Credit allocated from time to time to Category (1) of the table set forth in paragraph A.1 of Schedule 1 to this Trust Fund Grant Agreement shall: (a) be denominated in DEM, and be the equivalent in DEM (determined as of the date or respective dates of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods, works and services financed out of such proceeds for Sub-loans under Part A of the Project; and (b) not exceed the equivalent of DEM 500,000.

2. Each Sub-loan shall be: (a) charged monthly, quarterly or semiannually, on the principal amount thereof withdrawn and outstanding from time to time, interest at a margin acceptable to ICU and the Administrator; (b) made for a period of not more than three years, but not less than three (3) months; (c) repaid, in respect of interest on the outstanding principal balance of the Sub-loan, monthly, quarterly or semi-annually as determined by ICU or the PFI in accordance with its investment and lending policies; and (d) repaid, in respect of the principal balance of the Sub-loan disbursed and outstanding, in a single maturity.

3. No expenditures for a Sub-project shall be eligible for financing out of the proceeds of a Sub-loan unless:

(a) the Sub-loan for such Sub-project shall have been approved by the Administrator and such expenditures shall have been made not earlier than 180 days prior to the date on which the Administrator shall have received the application and information required under paragraph 4 (a) of this Attachment in respect of such Sub-loan; or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan (as hereinafter defined) for which the Administrator shall have authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than 180 days prior to the date on which the Administrator shall have received the request and information required under paragraph 4 (b) of this Attachment in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project to be made by ICU or each respective PFI in an amount to be financed out of the proceeds of the Grant which shall not exceed the sum determined from time to time by the Administrator and notified to the Recipient, ICU or each such respective PFI, other than the first three Sub-loans and the first three Sub-loans in an amount of more than DEM 200,000 equivalent.

4. (a) When presenting a Sub-loan, other than a free-limit Sub-loan, to the Administrator for approval, ICU or the PFI shall furnish to the Administrator, an application, in a form satisfactory to the Administrator, together with: (i) a description of the Beneficiary; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Grant; (iii) the proposed terms and conditions of the Sub-loan, including the schedule

of amortization therefor; and (iv) any such other information as the Administrator shall reasonably request.

(b) Each request for authorization to make withdrawals from the Grant Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Grant; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Administrator not later than six months before the Closing Date.

5. Sub-loans shall be made to Beneficiaries who each shall have established to the satisfaction of ICU or the PFI making the Sub-loan, on the basis of guidelines acceptable to the Administrator that:

(a) it is a small and medium scale enterprise;

(b) it is engaged in agro-processing, manufacturing, construction or other economic activity that supports the resumption of such activity; and

(c) it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project.

6. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Administrator, to be:

(a) technically feasible and economically, financially and commercially viable;

(b) capable of being implemented and made operational within a period of not more than six (6) months;

(c) in compliance with environmental standards satisfactory to the Administrator and in compliance with all applicable laws and regulations of the Recipient relating to health, safety and environmental protection; and

(d) supported by a viable business plan satisfactory to ICU or a PFI.

7. Sub-loans shall be made on terms whereby ICU or the PFI making the Sub-loan shall obtain, through Sub-loan Agreements, rights adequate to protect its interest and those of the Recipient and the Administrator, including the right to:

(a) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate technical, economic, financial and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require that the goods, works and services to be financed out of the proceeds of the Grant be procured in accordance with the provisions of Schedule 3 to this Trust Fund Grant Agreement, and that such goods, works and services be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Administrator or ICU on behalf of the Recipient if the Administrator, the Recipient or the ICU shall so request, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Grant to the place of use or installation, any indemnity thereunder to be made payable in a

currency freely usable by the Beneficiary to replace or repair such goods;

(e) carry out and operate the Sub-project in accordance with appropriate health, safety and environmental standards, satisfactory to the Administrator;

(f) obtain all such information as the Administrator, the Recipient or ICU shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Grant upon failure by such Beneficiary to perform its obligations under its contract with ICU or the PFI.

SCHEDULE 5

General Conditions

Section 1.01. Application of General Conditions

Without limitation or restriction upon the scope of any other provisions of this Agreement, these General Conditions set forth certain basic terms and conditions applicable to this Agreement.

Section 1.02. Definitions

The following terms have the following meanings wherever used in these General Conditions:

(a) "Administrator" means the International Development Association, acting as administrator of the Trust Fund;

(b) "Closing Date" means the date specified in Section 2.03 of this Agreement after which the Administrator may, by notice to the Recipient, terminate the right of the recipient to withdraw from the Grant Account.

(c) "Dollars" and the sign "\$" mean dollars in the currency of the United States of America.

(d) "Grant" means the grant provided for in this Agreement;

(e) "Grant Account" means the account opened by the Administrator on its books in the name of the Recipient to which the amount of the Grant is credited;

(f) "Project" means the project for which the Grant is made, as described in Schedule 2 to this Agreement and as the description thereof may be amended from time to time by agreement between the Recipient and the Administrator; and

(g) "Taxes" includes imposts, levies, fees and duties of any nature, whether in effect at the date of this Agreement or thereafter imposed.

Section 1.03. Grant Account

The amount of the Grant shall be credited to the Grant Account and may be withdrawn therefrom by the Recipient as provided in this Agreement and in these General Conditions.

Section 1.04. Currencies in which Withdrawals are to be Made

Except as the Recipient and the Administrator shall otherwise agree, withdrawals from the Grant Account shall be made in the respective currencies in which the expenditures to be financed out of the proceeds of the Grant have been paid or are payable.

Section 1.05. Valuation of Currencies

Whenever it shall be necessary for the purposes of this Agreement to determine

the value of one currency in terms of another, such value shall be as reasonably determined by the Administrator.

Section 1.06. Withdrawal from the Grant Account

The Recipient shall be entitled to withdraw from the Grant Account amounts expended or, if the Administrator shall so agree, amounts to be expended for the Project in accordance with the provisions of this Agreement and of these General Conditions. Except as the Administrator and the Recipient shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories, other than the territory of Kosovo, which is not a member of the Administrator or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Section 1.07. Special Commitments by the Administrator

Upon the Recipient's request and upon such terms and conditions as shall be agreed upon between the Recipient and the Administrator, the Administrator may enter into special commitments in writing to pay amounts to the Recipient or others in respect of expenditures to be financed out of the proceeds of the Grant notwithstanding any subsequent suspension or cancellation by the Administrator or the Recipient.

Section 1.08. Applications for Withdrawal or for Special Commitment

When the Recipient shall desire to withdraw any amount from the Grant Account or to request the Administrator to enter into a special commitment pursuant to Section 1.07 of the General Conditions, the Recipient shall deliver to the Administrator a written application in such form, and containing such statements and agreements, as the Administrator shall reasonably request. Applications for withdrawal, including the documentation required therefor, shall be made promptly in relation to expenditures for the Project.

Section 1.09. Reallocation

Notwithstanding the allocation of an amount of the Grant or the percentages for withdrawal set forth or referred to in this Agreement, if the Administrator has reasonably estimated that the amount of the Grant then allocated to any withdrawal category set forth in this Agreement or added thereto by amendment will be insufficient to finance the agreed percentage of all expenditures in that category, the Administrator may, by notice to the Recipient:

(a) reallocate to such category, to the extent required to meet the estimated shortfall, proceeds of the Grant which are then allocated to another category and which in the opinion of the Administrator are not needed to meet other expenditures; and

(b) if such reallocation cannot fully meet the estimated shortfall, reduce the percentage for withdrawal then applicable to such expenditures in order that further withdrawals under such category may continue until all expenditures thereunder shall have been made.

Section 1.10. Evidence of Authority to Sign Applications for Withdrawal

The Recipient shall furnish to the Administrator evidence of the authority of the person or persons authorized to sign applications for withdrawal and the authenticated specimen signature of any such person.

Section 1.11. Supporting Evidence

The Recipient shall furnish to the Administrator such documents and other evidence in support of the application as the Administrator shall reasonably request, whether before or after the Administrator shall have permitted any withdrawal requested in the application.

Section 1.12. Sufficiency of Applications and Documents

Each application and the accompanying documents and other evidence must be sufficient in form and substance to satisfy the Administrator that the Recipient is entitled to withdraw from the Grant Account the amount applied for and that the amount to be withdrawn from the Grant Account is to be used only for the purposes specified in this Agreement.

Section 1.13. Treatment of Taxes

It is the policy of the Administrator that no proceeds of the Grant shall be withdrawn on account of payments for any taxes levied in the territory in which the Recipient is located on goods or services, or on the importation, manufacture, procurement or supply thereof. To that end, if the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant decreases or increases, the Administrator may, by notice to the Recipient, increase or decrease the percentage for withdrawal set forth or referred to in respect of such item in this Agreement as required to be consistent with such policy of the Administrator.

Section 1.14. Payment by the Administrator

The Administrator shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

Section 1.15. Suspension by the Administrator

If any of the following events of suspension shall have occurred and be continuing, the Administrator may, by notice to the Recipient, suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account:

(a) The Recipient shall have failed to perform any other obligation under this Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Project can be carried out or that the Recipient will be able to perform its obligations under this Agreement.

(c) After the date of the Agreement and prior to the effective date, any event shall have occurred which would have entitled the Administrator to suspend the Recipient's right to make withdrawals under the Grant if the Agreement had been effective on the date such event occurred;

(d) A representation made by the Recipient in or pursuant to the Agreement, or any statement furnished in connection therewith, and intended to be relied upon by the Administrator in making the Grant, shall have been incorrect in any material respect.

(e) Any action shall have been taken for the dissolution, disestablishment or suspension of operations of any Project implementation entity.

(f) Any other event specified in this Agreement for the purposes of this Section shall have occurred. The right of the Recipient to make withdrawals from the Grant Account shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to suspension shall have ceased to exist, unless the Administrator shall have notified the Recipient that the right to make withdrawals has been restored in whole or in part, as the case may be.

Section 1.16. Cancellation by the Administrator

If (a) the right of the Recipient to make withdrawals from the Grant Account shall have been suspended with respect to any amount of the Grant for a continuous period of thirty (3) days, or (b) at any time, the Administrator determines, after consultation with the Recipient, that an amount of the Grant will not be required to finance the Project's costs to be financed out of the proceeds of the Grant, or (c) at any time, the Administrator determines, with respect to any contract to be financed out of the proceeds of the Grant, that corrupt or fraudulent practices were engaged in

by representatives of the Recipient or of a beneficiary of the Grant during the procurement or the execution of such contract, without the Recipient having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Grant, or (d) at any time, the Administrator determines that the procurement of any item is inconsistent with the procedures set forth or referred to in this Agreement and establishes the amount of the expenditures in respect of such item which would otherwise have been eligible for financing out of the proceeds of the Grant or, (e) after the Closing Date, an amount of the Grant shall remain unwithdrawn from the Grant Account, the Administrator may, by notice to the Recipient, terminate the right of the Recipient to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Grant shall be cancelled.

Section 1.17. Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Administrator

No cancellation or suspension by the Administrator shall apply to amounts subject to any special commitment entered into by the Administrator pursuant to Section 1.07 of the General Conditions except as expressly provided in such commitment.

Section 1.18. Effectiveness of Provisions after Suspension or Cancellation

Notwithstanding any cancellation or suspension, all the provisions of this Agreement shall continue in full force and effect except as specifically provided in this Agreement.

Section 1.19. Cooperation and Information

(a) The Recipient and the Administrator shall cooperate fully to assure that the purposes of the Grant will be accomplished. To that end, the Recipient and the Administrator shall:

(i) from time to time, at the request of any one of them, exchange views with regard to the progress of the Project, the purposes of the Grant, and the performance of their respective obligations under this Agreement; and furnish to the other party all such information related thereto as it shall reasonably request; and

(ii) promptly inform each other of any condition which interferes with, or threatens to interfere with, the matters referred to in paragraph (i) above.

Section 1.20. Insurance

The Recipient shall insure or cause to be insured, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Grant against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation. Any indemnity for such insurance shall be payable in a freely usable currency to replace or repair such goods.

Section 1.21. Use of Goods and Services

Except as the Administrator shall otherwise agree, the Recipient shall cause all goods and services financed out of the proceeds of the Grant to be used exclusively for the purposes of the Project.

Section 1.22. Plans and Schedules

The Recipient shall furnish, or cause to be furnished, to the Administrator promptly upon their preparation, the plans, specifications, reports, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Administrator shall reasonably request.

Section 1.23. Records and Reports

(a) The Recipient shall: (i) maintain records and procedures adequate to record and monitor the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods and services financed out of the proceeds of the Grant, and to disclose their use in the Project; (ii) enable the Administrator's representatives to visit any facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Grant and any plants, installations, sites, works, buildings, property, equipment, records and documents relevant to the performance of the obligations of the Recipient under this Agreement; and (iii) furnish to the Administrator at regular intervals all such information as the Administrator shall reasonably request concerning the Project, its cost and, where appropriate, the benefits to be derived from it, the expenditure of the proceeds of the Grant and the goods and services financed out of such proceeds.

(b) Upon the award of any contract for goods or services to be financed out of the proceeds of the Grant, the Administrator may publish a description thereof, the name and nationality of the party to which the contract was awarded and the contract price.

(c) Promptly after completion of the Project, but in any event not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Administrator, the Recipient shall prepare and furnish to the Administrator a report, of such scope and in such detail as the Administrator shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Recipient and the Administrator of their respective obligations under this Agreement and the accomplishment of the purposes of the Grant.

Section 1.24. Maintenance

The Recipient shall at all times operate and maintain, or cause to be operated and maintained, any facilities relevant to the Project, and promptly as needed, make or cause to be made all necessary repairs and renewals thereof.

Section 1.25. Land Acquisition

The Recipient shall cause to be taken all such action as shall be necessary to acquire as and when needed all such land and rights in respect of land as shall be required for carrying out the Project and shall furnish to the Administrator, promptly upon its request, evidence satisfactory to the Administrator that such land and rights in respect of land are available for purposes related to the Project.

Section 1.26. Notices and Requests

Any notice or request required or permitted to be given or made under this Agreement and any other agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address specified in this Agreement, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Delivery made by facsimile transmission shall be confirmed by mail.

Section 1.27. Evidence of Authority

The Recipient shall furnish to the Administrator sufficient evidence of the authority of the person or persons who will, on behalf of the Recipient, take any action or execute any documents required or permitted to be taken or executed by the Recipient under this Agreement, and the authenticated specimen signature of each such person.

Section 1.28. Action on Behalf of the Recipient

Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of the Recipient may be taken or executed by the representative of the Recipient designated in this Agreement for the purposes of this Section or any person thereunto authorized in writing by such representative. Any modification or amplification of the provisions of this Agreement

may be agreed to on behalf of the Recipient by written instrument executed on behalf of the Recipient by the representative so designated or any person thereunto authorized in writing by such representative, provided that, in the opinion of such representative, such modification or amplification is reasonable in the circumstances and will not substantially increase the obligations of the Recipient under this Agreement. The Administrator may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative any modification or amplification of the provisions of this Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Recipient thereunder.

Section 1.29. Settlement of Disputes

Any dispute arising out of, or relating to, this Agreement which is not settled by agreement of the parties shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force.

Section 1.30. Execution in Counterparts

This Agreement may be executed in several counterparts, each of which shall be an original.

Section 1.31. Effective Date

(a) Except as the Recipient and the Administrator shall otherwise agree, this Agreement shall enter into effect on the date on which the Administrator dispatches to the Recipient notice of its acceptance of the evidence required under this Agreement.

(b) If, before the Effective Date, any event shall have occurred which would have entitled the Administrator to suspend the right of the Borrower to make withdrawals from the Grant Account if this Agreement had been effective, the Administrator may postpone the dispatch of the notice referred to in paragraph (a) of this Section until such event or events shall have ceased to exist.

Section 1.32. Termination of Trust Fund Grant Agreement for Failure to Become Effective

If this Agreement shall not have entered into effect by the date specified therein for the purposes of this Section, this Agreement and all obligations of the parties thereunder shall terminate, unless the Administrator, after consideration of the reasons for the delay, shall establish a later date for the purposes of this Section. The Administrator shall promptly notify the Recipient of such later date.