

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
Washington, D.C. 20433
U.S.A.(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS**CONFORMED COPY**

October 25, 2010

H.E. Ahmet Shala
Minister
Ministry of Finance and Economy
Pristina
Republic of Kosovo

**Re: Swiss Support for Kosovo Debt Management Support Trust Fund
(Trust Fund Grant Number TF097842)**

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Kosovo (“Recipient”), I am pleased to inform you that the International Development Association (“Association”), acting as administrator of grant funds provided by the Swiss Confederation, represented by the State Secretariat for Economic Affairs - SECO (“Donor”) under the Kosovo Debt Management Support Trust Fund (“Trust Fund”), proposes to extend to the Recipient, a grant in an amount not to exceed seven hundred and fifty thousand United States Dollars (US\$750,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Schedule.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to contract the Grant for the purpose and on the terms and conditions set out below.

**Article I
Purpose of the Grant**

1.01 The Grant is provided for the sole purpose of making debt service payments or pre-payments on debt owed by the Recipient to the International Bank for Reconstruction and Development (“IBRD”), exclusive of any interest, penalties or fees related to pre-payments, for debt that was originally incurred by the Republic of Serbia or its predecessor States, as a constituent part of the former Yugoslavia, prior to June 10, 1999, and that has been assumed by the Recipient under the Loan Assumption Agreement dated June 29, 2009 between the IBRD and the Recipient (“Assumption Agreement”) for Loan Number 7088 YF (“Loan”). The Recipient acknowledges and agrees that it is a beneficiary of the Grant with respect to the Loan, but will not directly receive Grant funds.

**Article II
Withdrawal of Grant Proceeds**

2.01. Upon effectiveness of this Agreement, and subject to the availability of funds in the Trust Fund,

(a) the Recipient hereby instructs the IBRD to apply the Grant towards the regular debt service payments of principal, interest and charges of the Loan due semi-annually, as shall be calculated in accordance with Article II and Schedule 2 of the Schedule to the Assumption Agreement; and

(b) the Recipient shall be entitled to provide transfer instructions to the Association for pre-payments of the Loan, in accordance with the terms of this Agreement and substantially in the form attached as Schedule 1, which includes the IBRD's prepayment application form ("Transfer Instructions"). In the event of receipt of a duly signed and completed Transfer Instruction, the Association shall transfer the requested amount on or before the requested date from the Trust Fund to the Recipient's debt account with the IBRD pertaining to the Loan, provided that the Association shall have received the Transfer Instructions no later than 45 days before the requested payment date. Should a Transfer Instruction be received less than 45 days before a requested payment date, the amount shall be transferred by the Association within 45 days following the request. The IBRD shall be entitled to send an invoice to the Recipient for payment of interest or fees, as the case may be, should the Recipient request a pre-payment for the Loan. Payment of such interest and fees shall be the sole responsibility of the Recipient.

Article III Termination

3.01. This Agreement shall terminate on December 31, 2011 or such later date as the Association may establish by notice to the Recipient (the Termination Date). Any amount of the Grant remaining unwithdrawn on or after the Termination Date shall be cancelled.

Article IV Notices; Recipient's Representative; Addresses

4.01. All Transfer Instructions and notices required or permitted to be given pursuant to this Agreement shall be in writing and shall be deemed to have been duly given or made when delivered by hand or by mail, or facsimile to the representatives of the signatories to this Agreement at their addresses as set out below or such other addresses as may be notified by either party from time to time. Notices forwarded by registered mail shall be deemed to be delivered five business days after the date of posting. Notices made by facsimile transmission shall also be confirmed by mail and shall be deemed to have been delivered one business day after receipt of the facsimile.

4.02. The following representatives and addresses are specified for the purposes of this Agreement:

For the Recipient:

Ministry of Finance and Economy
Str. Nena Teresa
1000 Pristina
Republic of Kosovo
Facsimile: +381 38 211 113

For the Association:

Ms. Jane Armitage
Country Director
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America
Facsimile: 1-202-477-6391

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the Association. This Agreement shall become effective upon receipt by the Association of this countersigned copy and dispatch by the IBRD of the declaration of effectiveness of the Assumption Agreement.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Jane Armitage
Country Director and Regional Coordinator
for Southeast Europe
Europe and Central Asia

AGREED:
REPUBLIC OF KOSOVO

By: /s/ Mr. Ahmet Shala

Name: H.E. Ahmet Shala

Title: Minister of Finance and Economy

Date: November 9, 2010

SCHEDULE

[Kosovo Ministry of Finance Letterhead]

_____, 2010

Loan Client and Financial Services Division (CTRCF)
Attn: Mr. Saswata Jana/ Mr. Amit Mehra
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
United States of America
Facsimile: 1-202-522-1654

**RE: Swiss Support for Kosovo Debt Management Support Trust Fund
(Trust Fund Grant Number TF097842)
Transfer Instructions and Prepayment Application Form**

Dear Sirs:

In accordance with the Trust Fund Grant Agreement for the above-referenced trust fund between the International Development Association, acting as administrator of grant funds provided by the Swiss Confederation, represented by the State Secretariat for Economic Affairs - SECO ("Grant Agreement"), we hereby instruct the International Development Association to transfer the following amounts from the above-referenced trust fund to the Republic of Kosovo's debt account with the International Bank for Reconstruction and Development pertaining to Consolidation Loan C (Loan Number 7088 YF), on or before the indicated dates:

| | |
|--|---|
| Amount of Prepayment to be transferred (principal only) Amount: _____ | Timing of requested transfer (in accordance with Section 2.01(b) of the Grant Agreement) Date: _____ |
|--|---|

The Prepayment Application Form is enclosed. Please confirm in writing that the requested payments have been made.

Sincerely,

Ahmet Shala
Minister of Finance
Republic of Kosovo

Enclosure: Prepayment Application Form



APPLICATION FORM FOR PREPAYMENT OF IBRD LOANS

Country/Borrower :

Date of Request:

Proposed Prepayment Date (must be at least 45 days after Date of Request)¹ :

Loan Particulars :

| Loan No. | Loan Type (Please mark) | | | | | | Indicate Full or Partial Prepayment | For <u>Partial</u> Prepayments , please indicate following: | | |
|----------|-------------------------|------|-----|-----|------|-----|-------------------------------------|---|--------|--|
| | CPL | SCPL | VSL | FSL | FSCL | NPL | | Currency | Amount | |
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(Use additional sheets, if required)

Notes:

1. *CPL: Currency Pool Loans
 SCPL: Single Currency Pool Loans
 VSL: Variable Spread Loans
 FSL: Fixed Spread Loans
 FSCL: Fixed Rate Single Currency Loan
 NPL: Pre-Pool Loans*

2. *For CPL only:
 Prepayment of CPL's are accepted only between the first of the month and two business days before the 15th of the month. In selecting a prepayment date, borrowers should keep in mind that we can only calculate the final amounts due on CPL's two business days after the closing of our mid-month accounting cycle (14th of the month), which is when the pool unit value is determined. This means that a prepayment date closer to the beginning of the month will result in a longer waiting period before the final amounts are known, with subsequent impact in the settlement of excess/shortfall prepayments.*

3. *No currency conversion facilities are currently being offered on prepayments. All prepayments are payable in the currency of the loan. CPL's are payable in any of the outstanding currencies in the pool (or a combination thereof) in any proportion determined by the IBRD.*

For Partial Prepayment of FSL's specify Maturities to be prepaid * :

| FSL Loan No. | Maturity Date | Maturity Amount | Maturity Amount to be prepaid |
|--------------|---------------|-----------------|-------------------------------|
| | | | |
| | | | |

(Use additional sheets, if required)

* For FSL, the borrower may specify which loan maturities are to be prepaid. If the borrower does not so specify, any such prepayment will be applied as follows: (a) if the Loan Agreement provides for the separate amortization of Disbursed Amounts, the prepayment is applied in the inverse order of such Disbursed Amounts, with the Disbursed Amount that had been withdrawn last being prepaid first and with the latest maturity of such Disbursed Amount being prepaid first; and (b) in all other cases, the prepayment is applied in the inverse order of maturity of the loan, with the latest maturity being repaid first.

Reason for prepayment:

Contact Information for Prepayment Confirmation:

| | |
|-----------------------------|------------------|
| Name: _____ | Telephone: _____ |
| Title: _____ | Facsimile: _____ |
| Address 1: _____ | Email: _____ |
| Address 2: _____ | |
| Signature: _____ | |
| Other Contact Person: _____ | Telephone: _____ |
| | Facsimile: _____ |
| | Email: _____ |

- The Authorized Representative is the person currently designated as representative of the borrower, or by a person duly authorized to act on his/her behalf, as per the legal agreement of the loan
- This form should be sent to The IBRD under a cover letter of the borrower proposing the prepayment. Please mention any additional contact details (including address, Fax and Telephone Numbers) that will facilitate the prepayment process.

This completed form and any related correspondence should be addressed to:

Attn: Mr. Saswata Jana / Mr. Amit Mehra Telephone: +1 (202) 458-8330
 Loan Client and Financial Services Division (ACTCF) Facsimile: +1 (202) 522-1654
 The World Bank E Mail: loanclientservices@worldbank.org
 1818 H Street, NW
 Washington DC 20433
 USA

Disclaimers:

- This form is not a recommendation for prepayment by the World Bank*
- Information available regarding correspondence address, types of loans and currencies of recall is subject to change*
- Submission of this form implies an independent decision for prepayment made by the borrower*
- Submission of this form to the World Bank is not to be construed as acceptance of the prepayment proposal by the World Bank*

