

**CONFORMED COPY**

---

---

**IDA GRANT NUMBER H047 KOS**

# **Development Grant Agreement**

**(Economic Assistance Grant IV)**

**between**

**UNITED NATIONS INTERIM ADMINISTRATION MISSION IN KOSOVO**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated September 22, 2003**

---

---

**IDA GRANT NUMBER H047 KOS**

**INTERNATIONAL DEVELOPMENT ASSOCIATION GRANT AGREEMENT**

AGREEMENT, dated September 22, 2003, between UNITED NATIONS INTERIM ADMINISTRATION MISSION IN KOSOVO (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Recipient a letter dated May 14, 2003, describing a program of actions, objectives and policies designed to achieve structural adjustment of the economy of Kosovo (hereinafter called the Program), declaring the Recipient's commitment to the execution of the Program, as well as confirming the Provisional Institutions of Self-Government's endorsement of same, for the benefit of Kosovo, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Recipient and the Provisional Institutions of Self-Government have carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association; and

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Recipient, for the benefit of Kosovo, by making the Grant as hereinafter provided;

NOW THEREFORE, the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. (a) The following provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Article II;
- (iii) Sections 3.01 and 3.04 (c);
- (iv) Sections 4.01, 4.02, 4.03, 4.05 and 4.06;
- (v) Article V;

- (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
- (vii) Article VIII;
- (viii) Article IX;
- (ix) Article X;
- (x) Article XI; and
- (xi) Article XII.

(b) The General Conditions shall be modified as follows:

- (i) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (ii) the term “Credit”, wherever used in the General Conditions, means the Grant;
- (iii) the term “credit” is modified to read “grant”; except that where used in Sections 6.02 (a) (ii) and 6.02 (c) (i), as modified below, the term “credit” shall continue to read “credit”;
- (iv) the term “Credit Account”, wherever used in the General Conditions, means the Grant Account;
- (v) the term “Development Credit Agreement”, wherever used in the General Conditions, means this Development Grant Agreement;
- (vi) paragraph 11 of Section 2.01 is modified to read as follows:

“11. “External debt” means any debt which is or may become payable other than in the currency of Kosovo.”;
- (vii) paragraph 12 of Section 2.01 is modified to read as follows:

“12. “Project” means the program, referred to in the Preamble to this Development Grant Agreement, in support of which the Grant is made.”;
- (viii) Section 4.01 is modified to read as follows:

“Except as the Recipient and the Association shall otherwise agree, withdrawals from the Grant Account shall be made in the currency of the deposit account referred to in Section 2.02 of the Development Grant Agreement.”;

- (ix) Section 4.02 (a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02. Currencies in which Commitment Charge is Payable.

(a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

- (x) Wherever used in Section 4.02 (c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.

- (xi) Section 4.03 and its heading are modified to read as follows:

“Section 4.03. Amount of the Grant

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

- (xii) Section 4.06 (b) shall be modified to read as follows:

“(b) The principal of the Grant shall be paid without restrictions of any kind imposed by the Recipient or in Kosovo.”

- (xiii) Section 5.01 is modified to read as follows:

“The Recipient shall be entitled to withdraw the proceeds of the Grant from the Grant Account in accordance with the provisions of the Development Grant Agreement and of these General Conditions.”

- (xiv) The last sentence of Section 5.03 is deleted.

- (xv) Section 5.08 is modified to read as follows:

“It is the policy of the Association that no proceeds of the Grant shall be withdrawn on account of payments for any taxes levied by the Recipient or in Kosovo 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 Association may, by notice to the Recipient, increase or decrease the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

(xvi) Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

(c) Paragraph (e) of Section 6.02 is deleted.

(xvii) Section 8.01 of the General Conditions is modified to read as follows:

“(a) The commitment charges on the Grant shall be paid without deduction for, and free from, any taxes levied by the Recipient or in Kosovo.

(b) The Development Grant Agreement, and any other agreement to which these General Conditions apply, shall be free from any taxes levied by the Recipient or in Kosovo on or in connection with the execution, delivery or registration thereof.”

(xviii) Paragraph (b) of Section 9.01 of the General Conditions is modified to read as follows:

“(b) The Recipient shall afford all reasonable opportunity for representatives of the Association to visit any part of Kosovo for purposes related to the Grant.”

- (xix) Section 9.02 of the General Conditions is modified to read as follows:

“The Recipient shall furnish to the Association all such information as the Association shall reasonably request with respect to financial and economic conditions in Kosovo including its balance of payments and its external debt as well as that of its political or administrative subdivisions and any entity owned or controlled by, or operating for the account or benefit of Kosovo or any such subdivision, and any institution performing the functions of a central bank or exchange stabilization fund, or similar functions, for Kosovo.”

- (xx) Section 9.06 (c) is modified to read as follows:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, the Recipient shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Grant Agreement, the performance by the Recipient and the Association of their respective obligations under the Development Grant Agreement and the accomplishment of the purposes of the Grant.”

- (xxi) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

- (xxii) Section 12.05 of the General Conditions is modified to read as follows:

“Section 12.05. Termination of Development Grant Agreement  
The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”

Section 1.02. Wherever used in this Agreement, 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) “Assembly” means the Assembly within the PISG (as hereinafter defined), or any successor or successors thereto.

(b) “Constitutional Framework” means the Constitutional Framework for Provisional Self-Government in Kosovo, established pursuant to the Recipient’s Regulation No. 2001/9 of May 15, 2001 on a Constitutional Framework for Provisional Self-Government in Kosovo as amended and promulgated by the Special Representative of the Secretary-General of the United Nations pursuant to the authority given to him under United Nations Security Council Resolution 1244 (1999) of June 10, 1999 (UNSCR 1244 (1999)).

(c) “Deposit Account” means the account referred to in Section 2.02 (a) of this Agreement.

(d) “EFC” means the Economic and Fiscal Council contemplated by the Constitutional Framework, or any successor or successors thereto.

(e) “Euro” means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

(f) “Government” means the Government within the PISG, or any successor or successors thereto.

(g) “KEK” means Korporata Energjetike e Kosovës, The Power Corporation of Kosovo, or any successor or successors thereto.

(h) “MFE” means the Ministry of Finance and Economy within the PISG, or any successor or successors thereto.

(i) “PA” means Pristina Airport, or any successor or successors thereto.

(j) “PISG” means the Provisional Institutions of Self-Government established pursuant to the Constitutional Framework.

(k) “PTK” means Posta dhe Telekom i Kosoves, The Post and Telecommunications Corporation of Kosovo, or any successor or successors thereto.

(l) “SRSG” means the Special Representative of the Secretary-General, acting pursuant to the authority given to him under United Nations Security Council Resolution 1244 (1999) of June 10, 1999 (UNSCR 1244 (1999)).

(m) “UR” means UNMIK Railways, or any successor or successors thereto.

(n) “Water and Waste POEs” means, collectively, the following 15 publicly owned water and waste companies operating in the territory of Kosovo, namely, Batlava Pristina, NPK Hidroteknika Gjilan, NPK Ujesjellesi Peya, NPK Cvileni, OKP Ujesjellesi Mitrovica, NP Higjiena Teknika Pristina, NPK Higjiena Gjilan, NPK Higjiena Publike Peya, NPK Cabrati Gjakova, NPK Higjiena Prizren, NPK Uniteti Mitrovica, Iber Lepence Pristina, NPK Hidro-Higjiena Ferizaj, NPKP Rahovec, and Hidrosistemi Radoniqi Gjakova, or any successor or successors to any one thereto.

## **ARTICLE II**

### **The Grant**

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Development Grant Agreement, a grant in an amount in various currencies equivalent to three million seven hundred thousand Special Drawing Rights (SDR 3,700,000) (the Grant).

Section 2.02. (a) The Recipient through the MFE shall open, prior to furnishing to the Association the first request for withdrawal from the Grant Account, and thereafter maintain in a commercial bank a deposit account in Euros on terms and conditions satisfactory to the Association. All withdrawals from the Grant Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c) of this Section, the Recipient shall be entitled to use the proceeds of the Grant withdrawn from the Grant Account and deposited in the Deposit Account in support of the Program.

(c) The Recipient undertakes that the proceeds of the Grant shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Grant shall have been used to make a payment for an expenditure so excluded, the Recipient shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Grant Account for cancellation.

Section 2.03. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant account or cancelled; and



(ii) at the rate set as of June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.04 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by the Recipient; and (iii) in Euros or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.04. Commitment charges shall be payable semi-annually on June 15th and December 15th in each year.

Section 2.05. The Closing Date shall be January 31, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

### **ARTICLE III**

#### **Particular Covenants**

Section 3.01. (a) The Recipient and the Association shall from time to time, at the request of either party, exchange views on 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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Grant which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Recipient shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified

copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

#### **ARTICLE IV**

##### **Additional Event of Suspension**

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### **ARTICLE V**

##### **Termination**

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### **ARTICLE VI**

##### **Representative of the Recipient; Addresses**

Section 6.01. The Deputy Special Representative of the Secretary-General of the United Nations for Kosovo, Head of UNMIK Pillar IV, is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

United Nations Interim Administration Mission in Kosovo  
One Mother Theresa Street  
Pristina, Kosovo

Facsimile:

(212) 963-8442-5642, or

(381-38-504) 604-5642

For the Association:

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)  
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 in Pristina, Kosovo, as of the day and year first above written.

UNITED NATIONS INTERIM ADMINISTRATION  
MISSION IN KOSOVO

By /s/ Nikolaus Lambsdorff  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Orsalia Kalantzopoulos  
Authorized Representative

## SCHEDULE 1

### Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Grant shall not be used to finance any of the following expenditures:

1. expenditures in the currency of Kosovo or for goods or services supplied from the territory of Kosovo; provided, however, that if the currency of Kosovo is also that of a country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall not be excluded;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another grant, credit, or loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories, or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Recipient or of a beneficiary of the Grant during the procurement or execution of such contract, without the Recipient having taken timely and appropriate action satisfactory to the Association to remedy the situation.

## **SCHEDULE 2**

### **Actions Referred to in Recital (B) of the Preamble to this Agreement**

1. The Kosovo Consolidated Budget for calendar year 2003, satisfactory to the Association, has been approved by the SRSG, acting on the advice of the EFC.
2. The 2004-06 macro and revenue forecasts for the medium-term budget framework and the budget calendar have been produced by the MFE and, upon the advice given by the EFC, agreed by the SRSG as indicative ceilings to start the 2004 budget process; and the 2004 draft budget circular has been issued by the MFE.
3. The SRSG has promulgated a regulation establishing the office of the Auditor General and the Audit Office, satisfactory to the Association, and the Audit Office has been established.
4. The Assembly has adopted and the SRSG has promulgated a law on mortgages and a law on bankruptcy, both satisfactory to the Association.
5. The Assembly has adopted and the SRSG has promulgated a law on the establishment of an immovable property rights register, and supplementary legislation necessary to render such law effective has been submitted by the Government to the Assembly, both satisfactory to the Association.
6. Audits, conducted pursuant to terms of reference satisfactory to the Association, have been completed, by independent auditors of recognized standing, acceptable to the Association, of the four principal publicly owned enterprises operating within Kosovo (KEK, PTK, PA and UR), as well as of each of the Water and Waste POEs.

M:\BACKUP\Kosovo\Conformed\H047-KOS.doc  
8/21/2003 10:56 AM

M:\BACKUP\Kosovo\Conformed\H047-KOS.doc  
6/20/2003 9:04

AM