

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4692-XK
GRANT NUMBER H545-XK

Financing Agreement

(Public Sector Modernization Project)

between

REPUBLIC OF KOSOVO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 10, 2010

CREDIT NUMBER 4692-XK
GRANT NUMBER H545-XK

FINANCING AGREEMENT

AGREEMENT dated March 10, 2010, entered into between REPUBLIC OF KOSOVO (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to two million three hundred thousand Special Drawing Rights (SDR 2,300,000) (“Grant”); and
 - (b) an amount equivalent to two million nine hundred thousand Special Drawing Rights (SDR 2,900,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Euro.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through the Ministry of Economy and Finance and the Ministry of Public Administration, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Project Operational Manual has been adopted by the Recipient in a form and manner satisfactory to the Association.
 - (b) The members of the Intergovernmental Steering Committee have been appointed by the Recipient, in a manner satisfactory to the Association.
 - (c) The Project Coordinator, a procurement expert and a financial management expert have been hired by the Recipient, and the Project Supervisors have been designated by the Recipient, in accordance with terms of reference and in a manner satisfactory to the Association.
 - (d) The PFM Reform Action Plan has been adopted by the Recipient, in a form and manner satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

- 4.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Economy and Finance.

- 5.02. The Recipient's Address is:

Ministry of Economy and Finance
Mother Teresa Street
10000 Pristina
Republic of Kosovo

Facsimile:

+38 138 213 113

- 5.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI)

1-202-477-6391

AGREED at Pristina, Republic of Kosovo, as of the day and year first above written.

REPUBLIC OF KOSOVO

By /s/ Ahmet Shala

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ranjit Nayak

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) strengthen the performance of key budget organizations in budget formulation, budget execution and public procurement; (b) establish the foundations for effective and fiscally sustainable payroll and human resource management in the core civil service; and (c) create conditions for further automation of the Recipient's work processes and for the development of e-government applications.

The Project consists of the following parts:

Part I: Public Financial Management and Procurement Performance

(a) Improvement of public financial management capacity in the Recipient's line budget organizations, through the provision of consultants' services and training.

(b) Support for: (i) the implementation of a cost reduction strategy for public procurement; (ii) upgrading of the Recipient's information and communication technologies system for e-procurement; and (iii) establishment of an electronic contract monitoring system, through the provision of consultants' services, training and goods.

Part II: Payroll Administration and Foundations for Professional Civil Service

(a) Support for: (i) the implementation of the Recipient's pay and grading reform for the core civil service; and (ii) capacity building for the implementation of key human resource management functions, through the provision of consultants' services and training.

(b) (i) Development of a strategic plan for human resource information management; (ii) updating of the Recipient's current information systems for human resource information management; and (iii) linkage of those information systems with the Recipient's Treasury system, through the provision of consultants' services, goods and training.

Part III: Security and Efficiency of Government Information Systems

(a) Support for the development of security and inter-operability standards for Government information and communication technology systems and implementation of selected aspects of the Recipient's e-government strategy, through the provision of consultants' services.

(b) Establishment of a Government data center for the storage and maintenance of Government information and applications, through the provision of goods.

Part IV: Project Management

Support for Project management, through the provision of consultants' services and training.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall carry out the Project in accordance with the implementation arrangements spelled out in paragraphs (a) through (d) of this section, and shall ensure that the Intergovernmental Steering Committee, the Project Director, the Project Coordinator, the fiduciary staff and the Project Supervisors are properly maintained and operational, with adequate funding and under terms of reference acceptable to the Association:

(a) The Intergovernmental Steering Committee shall be responsible for: (i) providing strategic direction and oversight for implementation of the Project; and (ii) reviewing and approving annual work plans.

(b) The Project Director shall be responsible for: (i) Project operational decisions; (ii) oversight of fiduciary functions; (iii) endorsement of the annual work plans; and (iv) implementation of the Project in accordance with annual work plans.

(c) The Project Coordinator shall be responsible for day-to-day implementation of the Project. The Project Coordinator shall be assisted by two fiduciary experts, one in financial management, and one in procurement matters.

(d) The Project Supervisors shall be responsible for: (i) supervising the implementation of the Project activities in their respective Beneficiary Agency; and (ii) preparing draft annual work plans.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Implementation Covenant

The Recipient, through the Project Director, shall: (i) not later than March 1, 2010, submit to the Association an annual work plan for the Project for the remainder of calendar year 2010, and shall agree with the Association on steps to be taken in calendar year 2011; and (ii) on December 1 of each year, starting on December 1, 2010, submit to the Association for review and approval an annual work plan for the Project for the

following calendar year, and shall agree with the Association on steps to be taken in the following calendar year.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than December 31, 2013.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the

requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding, subject to the modifications and additions set forth in the Annex to Schedule 2
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Fixed Budget Selection
(b) Consultant Qualifications

Procurement Method
(c) Least Cost Selection
(d) Individual Consultants
(e) Sole Source Selection

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below. The Recipient and the Association intend, to the extent practicable, that the proceeds of the Grant provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, consultants' services and Training for Parts I, II.b(iii), III and IV of the Project	2,360,000	1,500,000	100%
(2) Goods consultants' services and Training for Parts II.a, II.b(i) and II.b(ii) of the Project	370,000	800,000	100%
(3) Unallocated	170,000	0	
TOTAL AMOUNT	<u>2,900,000</u>	<u>2,300,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement.

(b) under Category (2), until the Recipient has enacted new legislation regulating the civil service and putting in place a framework for civil servants' salaries, in a form and manner satisfactory to the Association.

2. The Closing Date is June 30, 2013.

ANNEX TO SCHEDULE 2

National Competitive Bidding: Additional Provisions

A. Generalities

Open Procedure shall be the default method of procurement. Procurement procedures, including methods and prior review processes cannot be changed without express consent from the World Bank.

B. Registration

1. Bidding shall not be restricted to pre-registered firms.
2. Where registration is required, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.
3. Bidders not from the territory of the Recipient shall not be precluded from bidding. If a registration process is required, any bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register.

C. Advertising

Invitations to bid shall be advertised in at least one widely circulated Albanian-language daily newspaper and in at least one widely circulated Serbian-language daily newspaper available over the territory of the Recipient allowing a minimum of thirty (30) days for the preparation and submission of bids.

D. Pre-qualification

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one widely circulated daily newspaper available over the territory of the Recipient a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, and technical and financial requirements, shall be explicitly stated in the pre-qualification documents, which shall be determined on a "pass/fail" method, not through the use of a merit point system. When pre-qualification is not used, the qualifications of the bidder recommended for contract award shall be assessed by post-qualification, applying minimum experience, technical and financial requirements, which shall be explicitly stated in the bidding documents.

E. Participation by Publicly-Owned Enterprises

Publicly-owned enterprises shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

F. Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of works, acceptable to the Association. Europe and Central Asia Regional Sample Bidding Documents, modified as acceptable by the Association, shall be used.

G. Bid Opening and Bid Evaluation

1. Bids shall be submitted in a single envelope containing the bidder's qualification information, technical and price bids, which shall be opened simultaneously at the public bid opening.

2. Bids shall be opened in public, immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid and any discounts offered shall be read aloud and recorded in the minutes of the public bid opening.

3. Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents. No merit point system will be used.

4. Extensions of bid validity will be allowed once only for not more than thirty (30) days. No further extensions shall be requested without the prior approval of the Association.

5. Contracts shall be awarded to the qualified bidder having submitted the lowest-evaluated, substantially responsive bid and no negotiation shall take place.

H. Price Adjustment

Civil works contracts of long duration (more than 18 months) shall contain an appropriate price adjustment clause.

I. Rejection of Bids

1. All bids shall not be rejected and new bids solicited without the Association's prior concurrence.

2. When the number of bids received is less than three, re-bidding shall not be carried out without the Association's prior concurrence.

J. Securities

Bid security shall not exceed three percent (3%) of the estimated cost of the contract and performance security not more than ten percent (10%) of this cost. No advance payment shall be made to contractors without a suitable advance payment security. These securities shall be included in the bidding documents in a text and format acceptable to the Association.

K. Confidentiality

The process of bid evaluation shall be confidential until the publication of contract award has been issued.

L. Standards and Technical Specifications

The Recipient shall specify internationally accepted standards whenever possible. Where such international standards are unavailable or are inappropriate, national standards may be specified.

M. Right to Inspect and Audit

Each contract shall provide that the suppliers, contractors and subcontractors shall permit the Association, at its request, to inspect their accounts and records relating to the procurement and performance of the contract and to have said accounts and records audited by auditors appointed by the Association. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

O. Fraud and Corruption

The Association shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the Association.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15:	
commencing March 15, 2020 to and including September 15, 2029	1%
commencing March 15, 2030 to and including September 15, 2049	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Association” means the International Development Association.
3. “Beneficiary Agency” means one of the following entities, who shall be collectively referred to as “Beneficiary Agencies”: Ministry of Finance and Economy; Ministry of Public Administration; Ministry of Agriculture; Ministry of Education; Ministry of Health; Ministry of Justice; Kosovo Judicial Council; Public Procurement Agency; Public Procurement Regulatory Commission; and any other entity of the Recipient as agreed on a case-by-case basis between the Recipient and the Association.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
7. “Intergovernmental Steering Committee” means the body referenced in Section I.A.1 of Schedule 2 to this Agreement, composed of high-level representatives of the Beneficiary Agencies and chaired by a representative of the Office of the Prime Minister.
8. “Kosovo Judicial Council” means the Recipient’s institution responsible for setting administrative policies and providing administrative oversight for the judiciary and the courts, established by UNMIK Regulation No. 2005/52 on December 20, 2005, and includes any successor thereto.
9. “Ministry of Agriculture” means the Recipient’s Ministry of Agriculture and includes any successor thereto.
10. “Ministry of Education” means the Recipient’s Ministry of Education and includes any successor thereto.

11. “Ministry of Economy and Finance” means the Recipient’s Ministry of Economy and Finance and includes any successor thereto.
12. “Ministry of Health” means the Recipient’s Ministry of Health and includes any successor thereto.
13. “Ministry of Justice” means the Recipient’s Ministry of Justice and includes any successor thereto.
14. “Ministry of Public Administration” means the Recipient’s Ministry of Public Administration and includes any successor thereto.
15. “Office of the Prime Minister” means the Recipient’s Office of the Prime Minister, and includes any successor thereto.
16. “PFM Reform Action Plan” means the Recipient’s action plan for public financial management, prepared by a secretariat within the Ministry of Finance and Economy.
17. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
18. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 22, 2009, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
19. “Project Coordinator” means the person referenced in Section I.A.1 of Schedule 2 to the Agreement, appointed by the Project Director and based in the Ministry of Finance and Economy, charged with overall coordination of the Project.
20. “Project Director” means the senior Government official referenced in Section I.A.1 of Schedule 2 to this Agreement, designated by the Recipient’s Minister of Finance and Economy, charged with overall management of the Project.
21. “Project Operational Manual” means the document adopted by the Recipient and satisfactory to the Association, setting forth the rules and regulations for implementation of the Project, including, *inter alia*, the detailed procurement, financial management and monitoring and evaluation provisions, as the same may be amended from time to time with the agreement of the Association.
22. “Project Supervisor” means the senior Government official in the respective Beneficiary Agency referenced in Section I.A.1 of Schedule 2 to this Agreement, designated by the head of the respective Beneficiary Agency, charged with

managing the activities relevant to the respective Beneficiary Agency, and shall collectively be referred to as “Project Supervisors.”

23. “Public Procurement Agency” means the Recipient’s agency charged with public procurement, established by Section 90 of UNMIK Regulation 2003/17, as amended, on January 15, 2004, and includes any successor thereto.
24. “Public Procurement Regulatory Commission” means the Recipient’s commission responsible for the overall development and operation of the public procurement rules and system in Kosovo, established by Section 81 of UNMIK Regulation No. 2003/17, as amended, on January 15, 2004, and includes any successor thereto.
25. “Recipient” means the Republic of Kosovo.
26. “Training” means training activities (other than consultants’ services) to be carried out under the Project, as approved by the Association, including the reasonable and necessary local and international travel and visa expenses incurred by participants in training workshops and study tours, as well as lodging, subsistence, local and international per diem allowances, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), translation and interpretation costs, facility rental costs, and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Association.