

CONFORMED COPY

GRANT NUMBER H342-KOS

Financing Agreement

(Institutional Development for Education Project)

between

UNITED NATIONS INTERIM ADMINISTRATION MISSION IN KOSOVO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 14, 2007

GRANT NUMBER H342-KOS

FINANCING AGREEMENT

AGREEMENT dated December 14, 2007, entered into between UNITED NATIONS INTERIM ADMINISTRATION MISSION IN 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 in an amount equivalent to six million four hundred thousand Special Drawing Rights (SDR 6,400,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 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 Payment Dates are June 15 and December 15 in each year.
- 2.05. 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 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 - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consists of the following:
- (a) Any action has been taken for the dissolution, disestablishment, or suspension of the Project Steering Committee.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Special Representative of the Secretary-General of the United Nations Interim Administration Mission in Kosovo.
- 6.02. The Recipient's Address is:

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

Facsimile:

(212) 963-8442-5642, or
(381-38) 504-604-5642

- 6.03. 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, Kosovo, as of the day and year first above written.

**INITIALED ON BEHALF OF THE PROVISIONAL
INSTITUTIONS OF SELF-GOVERNMENT**

By /s/ Fehmi Ismaili

Authorized Representative

**UNITED NATIONS INTERIM ADMINISTRATION
MISSION IN KOSOVO**

By /s/ Anil Vasisht

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ranjit Nayak

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to strengthen systems, institutions and management capacities needed for education quality improvements.

The Project consists of the following parts:

Part A

Strengthening the organization and financing of the education system, with particular attention to the legal framework and funding formula, including:

1. developing an appropriate legal framework and management structures and processes for primary, secondary, and tertiary education which clarify the roles and responsibilities of each level and the accountability mechanisms of the education system;
2. strengthening the leadership, decision making and resource management at the municipality and school levels through training and municipal development grants;
3. piloting of formula-based funding from the municipality to schools and enhancement of school financial autonomy; and
4. providing school development grants which would promote activities to improve the quality of teaching-learning conditions and enhance inclusive education at school level.

Part B

Building institutions and management capacity to promote quality improvements in primary and secondary education, including:

1. implementing teachers' professional development, including in-service training, and licensing system as developed by MEST in 2004 and 2007;
2. implementing the assessment of students' learning outcomes, and establishing the baselines to monitor learning outcomes in the long-term, and the review of the pilot *matura* (high school leaving exam) and its full implementation; and
3. strengthening the institutional capacities and management processes of the key department in MEST concerning the quality of education, including teacher training, curriculum development, and assessment.

4. providing training and an enabling operational environment for the use of the educational management information system (EMIS) for analysis of key policy issues and decision making by MEST and municipalities.

Part C

Creating conditions to introduce efficient and appropriate designs and reduce multiple shifts in Kosovo's schools to address the current and future constraints in learning space, including:

1. school mapping, as well as preparing the school facility investment and maintenance plans;
2. developing standard designs for classrooms and school facilities, which are fiscally sustainable, appropriate for new teaching methods, and energy efficient; and
3. constructing two model schools based on the new design standards and school mapping.

Part D

Strengthening management capacity in higher education, at system and institutional levels to support the implementation of Higher Education Strategy 2005-2015, including:

1. supporting MEST in developing amendments to the Law on Higher Education and in drafting a new law on financing higher education; and
2. building the capacity of MEST departments and staff responsible for carrying out the functions defined in the amended Law on Higher Education and feasibility studies of: (a) a cost-effective expansion strategy for the Kosovo higher education system (size and configuration, institutional diversification); and (b) the financial sustainability of the Kosovo higher education system (financing needs, cost-sharing, scholarships and student loans, budget allocation mechanisms).

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements**

A. Institutional Arrangements. The Recipient shall ensure that the Project is carried out in accordance with the institutional and coordination arrangements set forth below in this Section I.

1. The Recipient shall ensure that responsibility for the implementation of the Project shall be vested with the MEST.
2. The Recipient shall ensure that a Project Steering Committee (“PSC”) is established, to be chaired by the Minister of MEST or his designate, and including the Permanent Secretary of MEST, representatives from MFE, the Ministry of Local Government, the Donor Coordination Office in the Prime Minister’s Office, and representatives from two participating municipalities on a rotating basis.
3. The Recipient shall ensure that the PSC meets on a semi-annual basis and also on an *ad hoc* basis as needed during Project implementation.
4. The Recipient shall ensure that a Project Operations Manual, acceptable to the Association, is adopted by the PSC by March 31, 2008.
5. The Recipient shall ensure that MEST organizes on an annual basis a joint review to discuss the progress of project activities as well as implementation strategies with key stakeholders.
6. The Recipient shall ensure that MEST implements the EMP and applies and implements the policies, procedures and arrangements set forth therein.

B. The Recipient shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof.

C. The Recipient shall ensure that MEST provides appropriate arrangements for effective management of the Project, including the hiring of at least one full-time project coordinator reporting to the Permanent Secretary, one full-time financial management specialist dedicated to the Project, and one full-time procurement specialist dedicated to the Project.

D. School Grant Program. In carrying out Part A(4) of the Project, the Recipient shall ensure that the School Grants are provided in accordance with the procedures and eligibility criteria set forth in the Operations Manual, which shall include the following:

1. school Grant proposals shall be prepared by eligible schools, and shall be evaluated by the School Grants Approval Board; and
2. following approval by the School Grants Approval Board, a School Grant Agreement shall be entered into on terms and conditions in compliance with criteria set forth in the Project Operations Manual.

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall ensure that MEST monitors and evaluates the progress of the Project and prepares Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph 2 of this paragraph. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
2. The performance indicators referred to above in sub-paragraph 1 consist of the following:
 - (a). MEST establishes baseline of the student learning outcomes at Grades 5 and 9 by 2010;
 - (b). MEST/MFE monitors, analyzes and publishes capital and recurrent expenditures (by level of education, by municipality, per student, by spending composition) each year;
 - (c). eighty percent (80%) of municipalities supported under the project are able to report on the status of dropout and retention disaggregated by gender and community by 2011;
 - (d). sixty percent (60%) of schools supported under the project that produces annual school improvement plans and monitoring reports by 2011; and
 - (e). seventy percent (70%) of teachers are licensed as regular teachers by 2011.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained 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 or cause to be prepared and furnished to the Association, as part of the Project Report not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have or shall cause to 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 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 months after the end of such period.

Section III. Procurement

A. General

Procurement procedures, including methods and prior review processes, cannot be changed without express consent from the Association.

1. **Goods and Works.** All goods and works 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 and Works

1. **International Competitive Bidding.** Works estimated to cost US \$500,000 equivalent or more will be procured under contracts awarded on the basis of International Competitive Bidding. Goods, equipment, and non-consultant technical services estimated to cost US \$100,000 equivalent or more will be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Works.** Works estimated to cost less than US \$500,000 equivalent may be procured under contracts awarded on the basis of National Competitive Bidding, subject to the additional provisions set out in the Annex to Schedule 2 of this Agreement. Works estimated to cost less than US \$100,000 equivalent may be procured under contracts awarded on the basis of Shopping. Works may be procured under contracts awarded on the basis of Direct Contracting, subject to the Association's prior written consent.
3. **Other Methods of Procurement of Goods.** Goods, equipment, and non-consultant technical services estimated to cost less than US \$100,000 equivalent may be procured under contracts awarded on the basis of National Competitive Bidding, subject to the additional provisions set out in the Annex to Schedule 2 of this Agreement. Goods, equipment, and non-consultant technical services estimated to cost less than US \$50,000 equivalent may be procured under contracts awarded on the basis of Shopping and procedures further indicated in the Operations Manual. Works may be procured under contracts awarded on the basis of Direct Contracting, subject to the Association's prior written consent.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Consultants' services estimated to cost US \$200,000 equivalent or more shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** Consultants' services estimated to cost less than US \$200,000 equivalent may be procured under contracts awarded on the basis of Fixed Budget Selection, Consultant Qualifications, Least Cost Selection, or Individual Consultants. For consultants' services contracts estimated to cost less than US \$100,000, short lists may be based solely on national firms unless qualified international firms expressed interest in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Individual consultants must be selected in accordance with the provisions of 5.1 to 5.4 of Section V of the Consultants Guidelines. Consultants' services may be procured under contracts awarded on the basis of Single Source Selection, subject to the Association's prior written consent.

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.

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 Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
1. Goods, works, consultants’ services, Training, and Incremental Operating Costs under Part A	2,550,000	100%
2. Goods, works, consultants’ services, Training, and Incremental Operating Costs under Part B	1,470,000	100%
3. Goods, works, consultants’ services, Training, and Incremental Operating Costs under Part C	1,400,000	100%
4. Goods, works, consultants’ services, Training, and Incremental Operating Costs under Part D	340,000	100%
5. Unallocated	640,000	
TOTAL AMOUNT	<u>6,400,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed one million two hundred thousand Special Drawing Rights (SDR 1,200,000) may be made for payments made prior to this date but on or after November 5, 2007, for Eligible Expenditures.
2. The Closing Date is June 30, 2012.

ANNEX TO SCHEDULE 2**National Competitive Bidding: Additional Provisions****A. Registration**

1. Bidding shall not be restricted to pre-registered firms.
2. Where registration is required, bidders (1) shall be allowed a reasonable time to complete the registration process, and (2) 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 Kosovo 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.

B. 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 Kosovo allowing a minimum of thirty (30) days for the preparation and submission of bids.

C. 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 Kosovo 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.

D. 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.

E. Bidding Documents

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

F. 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.

G. Price Adjustment

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

H. 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.

I. 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.

J. Confidentiality

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

K. 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.

APPENDIX**Section I. 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. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “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.
4. “EMP” or “Environmental Management Plan” means the environmental management plan publicly disclosed by the Recipient on October 25, 2007, and satisfactory to the Association, consisting of the set of mitigation, monitoring, and institutional measures to be taken to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement these measures, as the same may be amended and supplemented from time to time with the Association’s prior written approval.
5. “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.
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. “Incremental Operating Costs” means reasonable and necessary incremental expenditures related to the operation of the Project, including on account of Project implementation, management, coordination, and monitoring and evaluation, as approved by the Association on the basis of budgets acceptable to the Association, including consultant fees (not otherwise financed under Consultants’ services), consumable office supplies, office equipment maintenance and repair, vehicle operation (including fuel) and repair, communication, translation and interpretation, production of documents, publication of advertisements and procurement notices, travel costs, including per diem charges, and other miscellaneous costs as may be agreed with the Association, but excluding salaries or honoraria of officials and employees of the Recipient and the PISG.

8. “MEST” means the Ministry of Education, Science and Technology within the PISG, or any successor or successors thereto.
9. “MFE” means the Ministry of Finance and Economy within the PISG (as hereinafter defined), or any successor or successors thereto.
10. “National Competitive Bidding” means the procurement procedure referred to in the Procurement Guidelines, as defined below.
11. “PISG” means the Provisional Institutions of Self-Government 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, 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)).
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 5, 2007 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.
14. “School Grant” means a grant, made, or to be made, out of the Grant proceeds to finance eligible activities under Part A(4) of the Project.
15. “School Grant Agreement” means an agreement to be entered into pursuant to Part A(4) of Schedule 1 to this Agreement among the Recipient, an eligible school selected in accordance with the provisions of the Operations Manual, represented by its Director, and the municipality of the selected school, represented by the relevant Municipal Education Director.
16. “School Grants Approval Board” means the board established to oversee and monitor implementation of the School Grants and to approve all school grants applications.
17. “Training” means expenditures, as approved by the Association, on the basis of annual budgets and plans acceptable to the Association, and incurred in connection with training, workshops, seminars, conferences, and study tours to be carried out under the Project, including travel costs and per-diem allowances for the trainees, and other training-related expenditures as agreed with the Association.

