

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER TF097648

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Sustainable Employment Development Trust Fund Grant Agreement

(First Sustainable Employment Development Policy Operation)

between

REPUBLIC OF KOSOVO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

**acting as Administrator of International Bank for
Reconstruction and Development Surplus Funds**

Dated March 11, 2011



GRANT NUMBER TF097648

**SUSTAINABLE EMPLOYMENT DEVELOPMENT
TRUST FUND GRANT AGREEMENT**

AGREEMENT dated March 11, 2011, entered into between:

REPUBLIC OF KOSOVO (“Recipient”); and

INTERNATIONAL DEVELOPMENT ASSOCIATION (“World Bank”), acting as administrator of the Trust Fund, the Kosovo Sustainable Employment Development Trust Fund, established pursuant to Resolution No. 2008-0005, IDA No. 2008-0003 of the Board of Directors of IBRD and IDA (TF No. 071152) and financed from surplus funds provided by the International Bank for Reconstruction and Development (“Bank” or “IBRD”), for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The World Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework.

WHEREAS the World Bank has entered into a Financing Agreement for the First Sustainable Employment Development Policy Operation, of even date herewith, to co-finance the Program (“SEDPO Financing Agreement”).

WHEREAS the European Communities, the Government of the Swiss Confederation, the Italian Ministry of Foreign Affairs, the Ministry of Foreign Affairs of the Czech Republic, the Ministry of Foreign Affairs of Denmark, the Ministry of Foreign Affairs of Finland, the Ministry of Foreign Affairs of the Republic of Estonia, the Norwegian Ministry of Foreign Affairs, the Swedish Ministry of Foreign Affairs, and the United States Agency for International Development (“Donors”, individually referred to as “Donor”) have agreed to co-finance the Program on the terms and conditions set forth in the administration agreements entered into or to be entered into between the respective Donor and the World Bank, as administrator of the funds provided by the respective Donor, and in the grant agreements to be entered into between the World Bank, as administrator of the funds provided by the respective Donor, and the Recipient.

The Recipient and the World Bank therefore hereby agree as follows:

**Article I
Standard Conditions; Definitions**

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 1, 2008 (“Standard Conditions”), with the modifications set forth in Section II of 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 Standard Conditions or in the Appendix to this Agreement.

**Article II
The Grant**

- 2.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to eleven million Euro (€1,000,000) (“Grant”) to assist in financing the Project.
- 2.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

**Article III
Program**

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end and further to Section 2.08 of the Standard Conditions:
- (a) the Recipient and the World Bank shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the World Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the World Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the World Bank 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 Section I of the Schedule to this Agreement.

Article IV
Additional Remedies

- 4.01. The Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following:
- (a) a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out; and
 - (b) *Event prior to Effectiveness.* The World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement that, prior to such date, but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

Article V
Effectiveness; Termination

- 5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:
- (a) the execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental action;
 - (b) the SEDPO Financing Agreement, of even date herewith, has been executed and delivered, and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled; and
 - (c) the World Bank is satisfied with the progress achieved by the Recipient in carrying out the Program, and that the Recipient's macroeconomic policy framework is appropriate.
- 5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a), there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing the following matters: on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.

- 5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance that the conditions under Section 5.01 have been met (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.
- 5.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient’s Representative; Addresses

- 6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.
- 6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Mother Teresa Street
10000 Pristina
Republic of Kosovo

Facsimile:

+38 138 213 113

- 6.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable:

Telex:

Facsimile:

INDEVAS

248423 (MCI) or

1-202-477-6391

Washington, D.C. 64145 (MCI)
AGREED at Pristina, Republic of Kosovo, as of the day and year first above
written.

REPUBLIC OF KOSOVO

By /s/ Bedri Hamza

Authorized Representative

INTERNATIONAL DEVELOPMENT
ASSOCIATION
acting as Administrator of the Kosovo Sustainable
Employment Development Trust Fund

By /s/ Jane Armitage

Authorized Representative

SCHEDULE

Program Actions; Availability of Grant Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient has approved the Public Financial Management Reform Action Plan, in form and manner satisfactory to the World Bank.
2. The Recipient has enacted the Law on the Civil Service No. 03/L-149 and the Law on Civil Service Remuneration No. 03/L-147, with a completed analysis of cost implications, and published such laws in the Official Gazette dated June 25, 2010, all in a form and manner satisfactory to the World Bank.
3. The Recipient has: (i) established a permanent inter-ministerial committee on sustainable employment; and (ii) approved an employment strategy. The Recipient's inter-ministerial committee on sustainable employment has approved an action plan based on the employment strategy and included actions with budgetary implications for 2010 in the 2010 budget, all in a form and manner satisfactory to the World Bank.
4. The Recipient has: (i) approved the Kosovo Cadastre Agency's strategy and business plan; and (ii) enacted the Law on Leasing No. 03/L-103, dated July 17, 2009, and published such law in the Official Gazette dated August 10, 2009; both satisfactory to the World Bank.
5. The Recipient, through the Kosovo Accreditation Agency, has completed an accreditation review of all private tertiary education institutions, in a form and manner satisfactory to the World Bank.
6. The Recipient's Cabinet has taken decision 02/51, dated January 23, 2009, to increase the level of social assistance and pension benefits to cover the cumulated inflation since calendar year 2005, but without resorting to higher labor taxes, in a form and manner satisfactory to the World Bank.

Section II. Availability of Grant Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Schedule; and (c) such additional instructions as the World Bank may specify by notice to the Recipient.

- B. Allocation of Grant Amounts.** The Grant is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Grant. The allocation of the amounts of the Grant to this end is set out in the table below:

Allocation	Amount of the Grant Allocated
Single Withdrawal Tranche	□ 1,000,000
TOTAL AMOUNT	□ 1,000,000

- C. Withdrawal Tranche Release Condition.**

No withdrawal shall be made of the Single Withdrawal Tranche unless the World Bank is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the appropriateness of the Recipient's macroeconomic policy framework.

- D. Deposits of Grant Amounts.** Except as the World Bank may otherwise agree:

1. all withdrawals from the Grant Account shall be deposited by the World Bank into an account designated by the Recipient and acceptable to the World Bank; and
2. the Recipient shall ensure that upon each deposit of an amount of the Grant into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the World Bank.

- E. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Grant shall not be used to finance Excluded Expenditures. If the World Bank determines at any time that an amount of the Grant was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the World Bank, refund an amount equal to the amount of such payment to the World Bank. Amounts refunded to the World Bank upon such request shall be cancelled.

- F. Closing Date.** The Closing Date referred to in Section 3.06(c) of the Standard Conditions is December 31, 2011.

APPENDIX

Section I. Definitions

1. “Excluded Expenditure” means any expenditure:
- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the World Bank has financed or agreed to finance, or which the World Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups 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:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, 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
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)
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- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous 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;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the World Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Grant proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the World Bank to address such practices when they occur.
2. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated July 6, 2010, from the Recipient to the World Bank declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the World Bank in support of the Program during its execution.
 3. “Single Withdrawal Tranche” means the amount of the Grant allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of the Schedule to this Agreement.

Section II. Modifications to the Standard Conditions

The Standard Conditions are modified as follows:

1. Sections 2.01 (*Project Execution Generally*) and 2.07 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
2. Paragraph (a) of Section 2.03 (renumbered as such pursuant to paragraph 1 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
3. Paragraph (c) of Section 2.04 (renumbered as such pursuant to paragraph 1 above) is modified to read as follows:

“Section 2.04. *Documents; Records.* The Recipient shall ensure that:

... (c) all records evidencing expenditures under the Grant are retained until two years after the Closing date;”

4. Paragraph (b) of the Section 2.05 (renumbered as such pursuant to paragraph 1 above and relating to *Program Monitoring, Reporting and Evaluation*) is modified to read as follows:

“Section 2.05. *Program Monitoring, Reporting and Evaluation*. The Recipient shall:

... (b) ensure the preparation and delivery to the World Bank, not later than six months after the Closing Date, a Completion Report of such scope and in such detail as the World Bank shall reasonably request, on the execution of the Program, the performance by the Recipient and the World Bank of their respective obligations under the Grant Agreement and the accomplishment of the purposes of the Grant.”

5. Sections 3.05 (*Designated Accounts*) and 3.06 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article III are renumbered accordingly.

6. The following terms and definitions set forth in the Appendix to the Standard Conditions are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Grant is put in support of the Program, other than to finance expenditures excluded pursuant to the Grant Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Grant Agreement in support of which the Grant is made.” All references to “Project” throughout these Standard Conditions are deemed to be references to “Program”.