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**CREDIT NUMBER 4815-XK**

# **Financing Agreement**

**(First Sustainable Employment Development Policy Operation)**

**between**

**REPUBLIC OF KOSOVO**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated March 11, 2011**

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**CREDIT NUMBER 4815-XK**

**FINANCING AGREEMENT**

Agreement dated March 11, 2011, entered into between the REPUBLIC OF KOSOVO (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association” or “IDA”), for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association 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 Association, 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 071152) and financed from surplus funds provided by the International Bank for Reconstruction and Development (“Bank” or “IBRD”), entered into the Trust Fund Grant Agreement (“SEDPO Trust Fund Grant Agreement”), of even date herewith, to co-finance the Program.

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 Association, as administrator of the funds provided by the respective Donor, and in the grant agreements to be entered into between the Association, as administrator of the funds provided by the respective Donor, and the Recipient.

The Recipient and the Association therefore 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 credit in an amount equivalent to four million three hundred thousand Special Drawing Rights (SDR 4,300,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Euro.

**ARTICLE III — PROGRAM**

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
  - (a) the Recipient and the Association 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 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; and
  - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that 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 Schedule 1 to this Agreement.

#### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

#### **ARTICLE V — EFFECTIVENESS**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Association is satisfied with the progress achieved by the Recipient in carrying out the Program, and that the Recipient's macroeconomic policy framework is appropriate; and
  - (b) the SEDPO Trust Fund Grant Agreement 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.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

#### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Minister of Finance.
- 6.02. The Recipient's Address is:

Ministry of Finance  
Mother Teresa Street  
10000 Pristina  
Republic of Kosovo

Facsimile:  
+38 138 213 113

- 6.03. The Association's Address is:

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)	1-202-477-6391

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

By /s/ Jane Armitage  
Authorized Representative

**SCHEDULE 1****Program Actions; Availability of Financing 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 Association.
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 Association.
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 Association.
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 Association.
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 Association.
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 Association.

**Section II. Availability of Financing Proceeds**

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the

Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocation	Amount of the Financing Allocated expressed in SDR
Single Withdrawal Tranche	4,300,000
<b>TOTAL AMOUNT</b>	4,300,000

**C. Withdrawal Tranche Release Condition.**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association 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 Financing Amounts.** Except as the Association may otherwise agree:

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

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

**F. Closing Date.** The Closing Date is December 31, 2011.



**SCHEDULE 2****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the IDA Credit repayable (expressed as a percentage)*</b>
On each April 15 and October 15:	
commencing October 15, 2020 to and including April 15, 2030	5%

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

## 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 Association or the Bank has financed or agreed to finance, or which the Association or the 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:

<b>Group</b>	<b>Sub-group</b>	<b>Description of Item</b>
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)

Group	Sub-group	Description of Item
971		Gold, non-monetary (excluding gold ores and concentrates)

- (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 Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
2. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
  3. “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 Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
  4. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

## **Section II. Modifications to the General Conditions**

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. The following terms and definitions set forth in the Appendix 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 Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing 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 Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

(a) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8 (c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”