CONFORMED COPY

GRANT NUMBER H341-KOS

Financing Agreement

(Financial Sector Technical Assistance Project)

between

UNITED NATIONS INTERIM ADMINISTRATION MISSION IN KOSOVO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 14, 2007
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 one million three hundred thousand Special Drawing Rights (SDR 1,300,000) (“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 March 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 - EFFECTIVENESS; TERMINATION

4.01 The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

4.02 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 years after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Special Representative of the Secretary General of the United Nations Interim Administration Mission in Kosovo.

5.02. 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

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:
INDEVA2S 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/ Haki Shatri

Authorized Representative

UNITED NATIONS INTERIM ADMINISTRATION MISSION IN KOSOVO

By /s/ Paul Acda

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ranjit Nayak

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to enhance the stability and development of Kosovo’s financial system by supporting stronger prudential regulation and supervision by CBAK for banks and non bank financial institutions, supporting the institutional strengthening of CBAK, and strengthening the banking and microfinance industry through capacity building.

The Project consists of the following parts:

Part A

1. Strengthening CBAK’s long term institutional and financial capacity and sustainability, through the provision of goods, technical assistance and training, including the preparation of a medium term development strategy for CBAK; and

2. Improving banking sector regulation and supervision, especially of off-site supervision, and developing or improving the regulatory and supervisory framework for insurance activities and intermediaries and for other non bank financial institutions under the purview of CBAK, through technical assistance and training.

Part B

Strengthening the microfinance industry of Kosovo to achieve sustainability and expand outreach through the provision of technical assistance and training, primarily through training of microfinance institutions with an emphasis on the smaller ones and those transforming into deposit-taking institutions.

Part C

Enhancing the capacity of the Kosovo Bankers’ Association to provide adequate training to local banks through the provision of technical assistance and training.
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 CBAK.

2. The Recipient shall ensure that a Project Management Team (“PMT”) is established in CBAK by January 1, 2008, under terms of reference satisfactory to the Association and composed of one representative from each beneficiary agency: CBAK, AMIK, and the KBA.

3. The Recipient shall ensure that the PMT is provided with adequate resources, staff and facilities. The PMT shall have responsibility for the day-to-day management and supervision of the Project.

4. The Recipient shall ensure that the PMT retains a qualified procurement officer dedicated to the Project by January 1, 2008.

5. The Recipient shall ensure that the PMT meets on a quarterly basis and also on an ad hoc basis as needed during Project implementation.

B. 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

The Recipient shall ensure that CBAK 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 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.
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 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 (6) 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. All goods, equipment, and non-consultant technical 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 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 and the Consultant Guidelines, as the case may be.
B. Particular Methods of Procurement of Goods

1. **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 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 Shopping and procedures further indicated in the Procurement Guidelines.

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Consulting services to cost US$100,000 equivalent or more shall each 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. Consulting services to cost less than US$100,000 equivalent each may be procured through Consultants’ Qualifications method. The consulting contract for project audit may be selected through Least Cost Selection method. Individual consultants will be selected in accordance with Section V of the Consultants Guidelines. The Single Source method may be used for certain consulting assignments with prior approval of the Association in accordance with paras. 3.9 through 3.13 of the Consultants Guidelines.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Consultants’ Qualifications</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Single source</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods, consultants services and training under Part A</td>
<td>955,000</td>
<td>100%</td>
</tr>
<tr>
<td>2. Consultants services and training under Part B</td>
<td>155,000</td>
<td>100%</td>
</tr>
<tr>
<td>3. Consultants services and training under Part C</td>
<td>145,000</td>
<td>100%</td>
</tr>
<tr>
<td>4. Training for PMT and project auditing</td>
<td>45,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,300,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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.

2. The Closing Date is June 30, 2010.
APPENDIX

Section I. Definitions


2. “AMIK” means the Association of Microfinance Institutions of Kosovo.

3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

4. “CBAK” means the Central Banking Authority of Kosovo established under UNMIK Regulation No. 2006/47, as amended.


6. “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.

7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).

8. “KBA” means the Kosovo Bankers’ Association.


11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 6, 2007 and referred to in 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.

12. “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.