February 27, 2020

His Excellency
Mr. Besnik Bislimi
Minister of Finance and Transfers
Ministry of Finance and Transfers
Main Government Building, 11th floor
Mother Teresa Street
10000 Pristina
Republic of Kosovo

Re: Republic of Kosovo: Credit 5508-XK
   Energy Efficiency and Renewable Energy Project
   First Amendment to the Financing Agreement

Excellency:

We refer to the Financing Agreement between the Republic of Kosovo ("Recipient") and the International Development Association ("Association"), dated January 15, 2015 ("Financing Agreement") on the Energy Efficiency and Renewable Energy Project ("Project"). Please note that the capitalized terms used in this letter ("Amendment Letter") and not defined herein have the meaning ascribed to them in the Financing Agreement.

We also refer to the letter from the Recipient dated December 3, 2019, requesting certain amendments to the Financing Agreement and the Performance Monitoring Indicators, in accordance with Section II.A of Schedule 2 to the Financing Agreement. In furtherance of the Recipient’s request, the Association recognizes that the Recipient, through its Energy Efficiency Law (Law No. 06/L-079), has established the Kosovo Energy Efficiency Fund to promote, support, and implement energy efficiency measures.

We are pleased to inform you that after careful consideration of the modifications proposed by the Recipient, the Association agrees to the said requests. Consequently, the Financing Agreement is hereby amended as follows:

1. Section 3.01 is hereby amended in its entirety to read as follows:

   The Recipient, through Ministry of Economy, Employment, Trade, Industry, Entrepreneurship and Strategic Investments (MEETIESI), declares its commitment to the objectives of the Project. To this end, the Recipient, through MEETIESI, shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall cause the Kosovo Energy Efficiency Fund ("KEEF") to carry out specifically Part 1 (b) of the Project, in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
2. Part 3 of Schedule 1 to the Financing Agreement is hereby amended to read as follows:

"Part 3. Project Implementation Support"

(a) Establishing a Project Implementation Unit within KEEA ("KEEA PIU") and recruiting staff for KEEA PIU to carry out procurement, financial management and monitoring and evaluation of the Project, with terms of reference acceptable to the Association.

(b) Providing training to KEEA PIU staff on effective Project implementation, particularly capacity building on fiduciary aspects of the Project, and sustainability of Project activities and goals.

(c) (i) Establishing, and recruiting staff for, KEEF.

(ii) Providing training to, and capacity building of, KEEF staff on effective Project implementation, particularly the fiduciary aspects of the Project, and sustainability of Project activities and goals.

(iii) Developing and implementing: (A) a KEEF management information system ("MIS") integrated with the financial MIS; and (B) detailed internal KEEF regulations related to fiduciary, staffing plan/human resources and other relevant aspects of Project implementation, all in line with KEEF regulations."

3. Section I.A(1) of Schedule 2 to the Financing Agreement is hereby amended to read in its entirety as follows:

"Section I. Implementation Arrangements"

A. Institutional Arrangements

1. KEEA Project Implementation Unit and KEEF

(a) The Recipient, through MEETIESI, shall:

(i) cause KEEA and KEEF to implement respective parts of the Project; and

(ii) to this end, for the purpose of implementing the respective parts of the Project (A) cause KEEA to establish and, thereafter, operate and maintain at all times during the implementation of the Project a PIU, under the management of KEEA, and (B) cause KEEF to fully establish itself and, thereafter, maintain operations, all in a manner acceptable to the Association for the satisfactory implementation of the Project;
(iii) cause KEEA, KEEA PIU, and KEEF, respectively, with functions and responsibilities satisfactory to the Association, including ensuring prompt and efficient overall coordination with the various line ministries, municipalities and other beneficiaries on the day-to-day implementation of, and communication relating to, Project activities and results.

(b) To this end, the Recipient, through MEETIESI, shall appoint, and/or cause the relevant parties to appoint, procurement specialists, financial management specialists and other staff in each the KEEA PIU and KEEF, on an as-needed basis, with resources, qualifications, experience and under terms of reference satisfactory to the Association.”

4. Section I.A(3), Section I.A(4), and Section I.A(5) are hereby added to Schedule 2 of the Financing Agreement to read in their entirety as follows:

   “3. KEEF Board of Directors. The Recipient shall cause KEEF to maintain throughout the implementation of the Project, a Board of Directors (“BoD”) within KEEF with functions, as set forth in the Energy Efficiency Law, and as shall be satisfactory to the Association.

4. By no later than September 30 of each year of Project implementation, or such other date agreed to by the Association, the Recipient shall submit to the Association and BoD for review and approval, an annual investment plan for the implementation of Part 1 (b) of the Project, that includes an estimate of the annual investment and expenditure requirements and proposed sources of financing for each Project activity and/or Subproject.

5. Without prejudice to Section 5.03 of the General Conditions, the Recipient shall provide or cause to be provided, as promptly as needed, the balance of funds necessary to finance the eligible expenditures for Subprojects under Part 1 (b) of the Project.”

5. Section I.B is hereby added under Schedule 2 to the Financing Agreement to read in its entirety as follows (and the succeeding sub-sections under Section I are renumbered accordingly):

   “B. Subsidiary Agreement.

   1. To facilitate the carrying out of Part 1 (b) of the Project, the Recipient shall make the proceeds of the Financing available to the KEEF under a subsidiary agreement (“Subsidiary Agreement”) between the Recipient and the KEEF, under terms and conditions approved by the Association, which shall include, inter alia, the obligation of KEEF to:

   (a) carry out Part 1 (b) the Project in accordance with the Operational Manual and the provisions of the Anti-Corruption Guidelines, including, inter alia, detailed
criteria and procedures for the carrying out of subproject selections, audits, designs, procurement and the related technical and administrative oversight, and all institutional, including fiduciary, measures approved by the BoD and acceptable by the Association, that have been identified as part of an action plan for KEEF;

(b) in furtherance of Section I.A (4) of this Agreement, prepare and submit to the Recipient an annual investment plan for the implementation of Part 1 (b) of the Project, that includes an estimate of the annual investment and expenditure requirements and proposed sources of financing for each Project activity and/or Subproject;

(c) provide promptly as needed, any additional resources within its control required for the purpose of implementing the Project;

(d) procure the goods, works, consultants’ services and non-consulting services to be financed out of the Credit in accordance with the provisions of this Agreement;

(e) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with the Project Indicators, the progress of the Project and the achievement of its objectives;

(f) (i) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Project; (ii) at the Association’s or the Recipient’s request, have such financial statements audited by independent auditors acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; and (iii) make such financial statements publicly available in a timely fashion and in a manner acceptable to the Association;

(g) enable the Recipient and the Association to inspect the Project, its operation and relevant records and documents; and

(h) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of
the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions."

6. The renumbered Section I.C. “Other Arrangements,” subsection 1 of Schedule 2 to the Financing Agreement is hereby amended to read in its entirety as follows:

"Project Operations Manuals

Without limitation to the provisions of Article V of the General Conditions, the Recipient, through MEETIESI, shall ensure, and cause KEEA and KEEF to ensure, that:

(a) the Project is carried out in accordance with:

(i) a KEEA Project Operations Manual, which shall, set forth the responsibilities to be carried out by KEEA PIU for the overall Project and, specifically, for the implementation of Parts 1 (a), 1 (c), 1 (d), 2 and 3 of the Project; and

(ii) a KEEF Project Operations Manual, which shall be prepared and adopted by KEEF no later than ninety (90) days from the countersignature date of this letter, in form and substance satisfactory to the Association, setting forth the responsibilities of to be carried out by KEEF for the implementation of Part 1(b) of the Project; and

(b) the KEEA Project Operations Manual and the KEEF Project Operations Manual, or any parts thereof, are not amended, waived, suspended or abrogated without the Association’s prior written concurrence, and in case of any inconsistency between the provisions of the respective Project Operations Manual and those of this Agreement, the provisions of this Agreement shall prevail."

7. Section I.C.3, Municipal Government Subprojects, of Schedule 2 to the Financing Agreement is hereby amended to read in its entirety as follows:

“In implementing Part 1 (b) of the Project, the Recipient, through MEETIESI, shall ensure and cause KEEA PIU and KEEF, as the case may be, to:

(a) issue a letter of invitation to all the municipalities and provide them with information about the municipal Subprojects and request them to apply and indicate the buildings to be renovated and rehabilitated to promote more efficient energy use;

(b) select the municipalities (Participating Municipalities) and the Subprojects to be financed by the Financing in accordance with eligibility criteria set forth in the KEEF Project Operations Manual which shall, inter alia, include the following requirements:"
(i) the municipal Subproject selected to generate energy savings which meet the Agreed Levels of Indoor Comfort;

(ii) the buildings proposed by the Participating Municipality should:

A. be fully owned by the municipality, and structurally sound and have not had energy efficient renovations in the last ten (10) years and be at least five (5) years old;

B. not be candidates for office moves, closure or privatization; and

C. not be used for security or defense purposes e.g. police or prisons.

c) enter into an agreement (Municipal Agreement) with the Participating Municipality consistent with the model Municipal Agreement set forth in the KEEF Operations Manual, and including the following requirements:

(i) the obligation of the Recipient to provide part of the financing required to implement the Municipal Subproject to the Participating Municipality;

(ii) rights adequate to protect the interests of the Recipient and those of the Association, including the right to:

(A) suspend or terminate the right of the Participating Municipality (PM) to use the proceeds of the financing all or any part of the amount of financing then withdrawn, upon the Participating Municipality’s failure to perform any of its obligations under the applicable contract; and

(B) require each Participating Municipality to: (1) carry out the Municipal Subproject with due diligence and efficiency and environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines; (2) provide, promptly as needed, the resources required for the purpose; (3) procure the goods, works and services to be financed out of the financing in accordance with the provisions of the KEEF Project Operations Manual; (4) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress on the renovations of the buildings and the achievement of the objectives of the investments; (5) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the
Municipal Subproject; (6) at the Association’s or the Recipient’s request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; (7) enable the Recipient and the Association to inspect the records of the PM, its operation and any relevant records and documents; and (8) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing;

(d) exercise its rights under each Municipal Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Municipal Agreement in connection with the municipalities or any of its provisions and in case of any inconsistency between the provisions of the Municipal Agreement and the provision of this Agreement, the provisions of this Agreement shall prevail.

8. A new Section I.C.4 is added in Schedule 2 to the Financing Agreement to read as follows:

“Institutional Action Plan

The Recipient shall:

(a) cause KEEF to implement the Project in accordance with the Institutional Action Plan; and

(b) shall not make or allow to be made any change to such plan without Bank’s written prior approval.”

9. Section III, Procurement, of Schedule 2 to the Financing Agreement is hereby amended to read in its entirety as follows:

“Section III. Procurement

A. Procurement Regulations

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing, and for which the procurement process starts on or after the date of the countersignature of this Amendment Letter, and which is carried out by the Recipient through KEEF, shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for IPF Borrowers,” dated July 2016, revised November 2017 and August 2018, and the provisions of the Recipient’s Procurement Plan
for the Project, dated January 22, 2020, provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement of the Association.

B. Procurement Guidelines and Consultant Services

1. General

(a) **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Financing, and for which the procurement process started before the date of the countersignature of this Amendment letter and/or is carried out by the Recipient through MEETIESI/KEEA, 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.

(b) **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing, and for which the procurement process started before the date of the countersignature of this Agreement letter and/or is carried out by the Recipient through MEETIESI/KEEA, 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.

(c) **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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

2. Particular Methods of Procurement of Goods, Works and Non-consulting Services

(a) **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(b) **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) Limited International Bidding; (b) National Competitive Bidding, subject to the following additional provisions set forth in the Annex; (c) Shopping and (d) Direct Contracting.
3. **Particular Methods of Procurement of Consultants' Services**

(a) **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.

(b) **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Least Cost Selection; (c) Selection based on Consultants' Qualifications; (d) Single-source Selection of consulting firms; (e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (f) Single-source procedures for the Selection of Individual Consultants.

4. **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."
10. The table under Section IV.A.2 in Schedule 2 to the Financing Agreement is hereby amended to read as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Subprojects under Part 1 (a) of the Project</td>
<td>13,465,254</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Subprojects under Part 1 (b) of the Project</td>
<td>3,694,746</td>
<td>35%</td>
</tr>
<tr>
<td>(3) Goods, consultant services, and non-consulting services under Parts 1 (c), and 1 (d) procured by KEEA, and Part 2 of the Project</td>
<td>2,489,560</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Goods, consultant services, and non-consulting services under Parts 3 (a) and 3 (b) of the Project</td>
<td>410,440</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Operating Costs</td>
<td>40,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>20,100,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

11. Section IV.B.2 in Schedule 2 to the Financing Agreement is hereby amended to read as follows:

“2. The Closing Date is December 30, 2022.”

12. The Appendix to the Financing Agreement is hereby amended as follows:

(a) The following definitions are hereby added and placed in alphabetical order (as a result, the remaining definitions are renumbered to maintain alphabetical order):

“Anti-Corruption Guidelines’ means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

‘Energy Efficiency Law’ or ‘EE Law’ means Law No. 06/L-079, approved by the Assembly of the Recipient on November 7, 2018.
‘Energy Service Agreements’ or ‘ESA’ means an agreement entered into between KEEF and eligible beneficiary PMs and referred to in Section I.C.3(c)(iii) of Schedule 2 to this Financing Agreement.

‘Institutional Action Plan’ means the plan referred to in Section I.C.4 of Schedule 2 to this Agreement, dated December 19, 2019, agreed between the Association and the Recipient, which includes, inter alia, measures to ensure: (a) fiduciary aspects of the Project are satisfactory; and (b) KEEF’s capacity to carry out Project activities covering staffing recruitment, accounting and financial management, procurement, technical, and legal aspects of the Project implementation.

‘KEEF Board of Directors’ or ‘BoD’ means the main governance body responsible for the overall oversight of KEEF, established pursuant to the Energy Efficiency Law.

‘KEEF Project Operations Manual’ means the manual to be prepared, and adopted by KEEF, and accepted by the Recipient, including all appendices and schedules thereto, satisfactory to the Association, which sets forth the policies and procedures that apply to the carrying out the Parts of the Project by KEEF, including, inter alia: (a) rules, methods, guidelines and procedures; (b) the implementation arrangements and staffing requirements for KEEF; (c) the estimated implementation schedule for the respective Parts of the Project; (d) the procedures for the subproject cycle (identification to commissioning); (e) model MOU, model Municipal Agreement, and model ESA for renovation of buildings in municipalities; (f) the procedures for accessing, disbursing and accounting for funds under the Project; (g) the procedures for Project monitoring, supervision and evaluation, including the format and content of the Project Reports to be submitted by KEEF; and (h) the procedures for financial management and procurement, referred to in Section II.B and Section III, respectively, of Schedule 2 to this Agreement.

‘Kosovo Energy Efficiency Fund’ or ‘KEEF’ means the entity, also referred to as “Project Implementing Entity” in the Project Agreement, that is legally established through provisions under the EE Law, or any legal successor or successors thereto.”

(b) The definition for “Project Implementation Unit” is hereby amended to read in its entirety as follows and placed in alphabetical order (as a result, the remaining definitions are renumbered to maintain alphabetical order):

“KEEA Project Implementation Unit’ or ‘KEEA PIU’ means the unit established within KEEA for the implementation of the Project pursuant to Section I.A.1 of Schedule 2 to this Agreement.”

(c) The definition for “Project Operations Manual” is hereby amended to read in its entirety as follows and placed in alphabetical order (as a result, the remaining definitions are renumbered to maintain alphabetical order):
"KEEA Project Operations Manual" means the manual to be prepared, and adopted by the Recipient, including all appendices and schedules thereto, satisfactory to the Association, which sets forth the policies and procedures that apply to the carrying out the Parts of the Project by KEEA, including, inter alia: (a) rules, methods, guidelines and procedures; (b) the implementation arrangements and staffing requirements for KEEA; (c) the estimated implementation schedule for the respective Parts of the Project; (d) the procedures for the subproject cycle (identification to commissioning); (e) model MOU, model Municipal Agreement, and model ESA for renovation of buildings in municipalities; (f) the procedures for accessing, disbursing and accounting for funds under the Project; (g) the procedures for Project monitoring, supervision and evaluation, including the format and content of the Project Reports to be submitted by KEEA; and (h) the procedures for financial management and procurement, referred to in Section II.B and Section III, respectively, of Schedule 2 to this Agreement."

This Amendment Letter shall be executed in two (2) counterparts, each of which shall be an original. Please confirm your agreement to the foregoing amendment by signing and dating the confirmation on the enclosed copy of this Amendment Letter and returning it to us. The provisions set forth in this Amendment Letter shall become effective as of the date of your countersignature, upon receipt by the Association of:

(a) one countersigned original of this Amendment Letter;

(b) the executed Subsidiary Agreement between the Recipient and KEEF; and

(c) a fully-executed Grant Agreement (TF0B1487) between the Recipient and the Association for purposes of additional financing for the Project from the EU Instrument for Pre-Accession Trust Fund; with all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this amendment letter) have been fulfilled.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

[Signature]

By

Linda van Gelder
Director, Western Balkans
Europe and Central Asia Region

12
AGREED:

REPUBLIC OF KOSOVO

By: [Signature] (Authorized Representative)

Name: H.E. BESNIK BISHINI

Title: MINISTER OF FINANCE AND TRANSFERS

Date: February 27, 2020