Financing Agreement

(Health Project)

between

REPUBLIC OF KOSOVO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated JANUARY 15, 2015
CREDIT NUMBER 5442-XK

FINANCING AGREEMENT

AGREEMENT dated JANUARY 15, 2015, entered into between the REPUBLIC OF KOSOVO ("Recipient") and the 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 credit in an amount equivalent to sixteen million, five hundred thousand Special Drawing Rights (SDR 16,500,000) (variously, "Credit" and "Financing"), to assist in financing the project described in Schedule I 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).

2.05. The interest charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are April 15 and October 15 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Euro.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through the MoH 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 Additional Condition of Effectiveness consists of the following:

(a) The Recipient has, in accordance with Section I.A.1 of Schedule 2 to this Agreement, established a PCU and recruited staff with qualifications and experience under terms of reference, and with resources satisfactory to the Association.

(b) The Recipient has prepared and adopted, in form and manner, a Project Operational Manual satisfactory to the Association.

4.02. The Effectiveness Deadline is the date a hundred and twenty (120) days after the date of this Agreement.

4.03. 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 (20) years after the date of this Agreement.
ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Minister of Finance.

5.02. The Recipient’s Address is:

Ministry of Finance
Mother Teresa Street
10000 Pristina
Republic of Kosovo

Facsimile:

+381-38-213-113

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:

INDEVAS 248423 (MCI) 1-202-477-6391
Washington, D.C.
AGREED at PRISTINA, R. KOSOVO, as of the day and year first above written.

REPUBLIC OF KOSOVO

By

[Signature]

Authorized Representative

Name: H.E. AVDULLAH HOTI
Title: MINISTER OF FINANCE

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: ELLEN GOLDSTEIN
Title: COUNTRY DIRECTOR
SCHEDULE 1

Project Description

The objective of the Project is to contribute to improving financial protection from health spending for the poor and quality of care for priority maternal and child health and non-communicable disease services.

The Project consists of the following parts:

Part A. Improving Financial Protection and Quality of Care

1. Provision of support to improve financial protection against health care costs including:

   (a) finalizing the preparation of the policy documents, by-laws and the operational system design for health sector reforms;

   (b) building the capacity of MoH staff and staff in other health sector institutions to implement the health sector reforms;

   (c) providing support for investments in information systems including the relevant software to support health sector reforms;

   (d) developing and implementing an outpatient drug benefit scheme to reimburse insured individuals for the costs of drugs; and

   (e) designing and implementing communication activities to inform the public and health sector stakeholders about their rights and responsibilities and gather feedback on the health sector reforms.

2. Provision of support to improve the quality of health care and service delivery through inter alia:

   (a) building the capacity of staff in various health sector institutions to carry out their responsibilities, including on the management of Performance Agreements, purchasing of equipment and development of a maintenance system for equipment health facilities;

   (b) supporting strategic purchasing of primary care services through the: (i) development and finalization of the by-laws to implement the Performance Agreements; (ii) development of a Capitation Performance Payments Manual; and (iii) strengthening the capacity of MoH, Participating Municipalities and Primary Healthcare Institutions to implement the Capitation Payments scheme; and
(c) provision of support for investments in information systems, including the E-health Development Framework, National Institute of Public Health information system and the E-prescription system to improve the quality of health care.


Part B. Strengthening Primary Care

Improving access to quality primary care services in participating municipalities through financing of Capitation Payments.

Part C. Project Management

Provision of support to strengthen the capacity of MoH to carry out the technical and administrative management of the Project, including conducting audits, purchasing of equipment, and financing of Operating Costs.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Project Coordination Unit

(a) The Recipient shall implement the Project through MoH, and establish within MoH and thereafter maintain at all times during the implementation of the Project, a PCU with functions, staffing and resources satisfactory to the Association for the purpose of ensuring prompt and efficient overall coordination, day-to-day implementation of, and communication relating to, Project activities and results. To this end, the Recipient through MoH, shall appoint staff (including, inter alia, a Project coordinator, a procurement specialist and a financial management specialist).

(b) The PCU shall be responsible for: (i) day-to-day implementation of the Project including procurement, financial management monitoring and reporting on the use of the Project funds; (ii) ensuring compliance with environmental and social safeguards; (iii) preparing the proposed Annual Work Plans and Budgets for onward transmission to the Project Steering Committee (henceforth “PSC”) and the Senior Management Committee (henceforth “SMC”); (iv) monitoring key performance indicators; (v) preparing brief semi-annual progress reports, (vi) liaising with the Participating Municipalities on issues related to Project implementation, in accordance with the Capitation Performance Payments Manual, and (vii) acting as the secretariat to both the PSC and the SMC in connection with Project implementation matters.

2. Project Steering Committee

(a) The Recipient shall not later than sixty (60) days after the effectiveness of the Project, set up and maintain throughout implementation of the Project, a PSC with a composition of staff, mandate, terms of reference and resources satisfactory to the Association. Without limitation upon the generality of the foregoing, the PSC shall be chaired by the Minister of Health or his designee, and shall include, inter alia the representatives of MoF and MoLG, two representatives of the Participating Municipalities on an annual rotating basis, and other relevant stakeholders recommended by MoH.
(b) The PSC shall meet at least biannually and shall be responsible for providing oversight on Project implementation, including, *inter alia*: (i) providing strategic and policy guidance on matters relating to the Project; (ii) approving Annual Work Plans and Budgets and submit the said Annual Work Plans and Budgets to the Association no later than November 15, of each year; (iii) facilitating coordination of Project activities and ensuring synergies with other projects and programs in the sector, making recommendations for removal of any obstacles to the implementation of the Project; and (iv) reviewing progress made towards achieving the Project's objective.

3. **Senior Management Committee**

   (a) The Recipient shall maintain throughout implementation of the Project, the SMC, with the composition comprising among others, directors of the relevant departments in the MoH, with terms of reference and resources satisfactory to the Association.

   (b) The SMC shall be chaired by the Minister of Health or his designee and meet on a monthly basis and be responsible for regular monitoring of progress on Project implementation, including, *inter alia*: (i) coordinating Project activities with those of other donors in the health sector; (ii) reviewing and validating the draft Annual Work Plans and Budgets; (iii) addressing obstacles that may arise during Project implementation; and (iv) reviewing progress made towards achieving the Project's objective.

B. **Project Implementation Arrangements**

1. **Project Operational Manual**

Without limitation to the provisions of Article V of the General Conditions, the Recipient shall ensure that:

   (a) the Project is carried out in accordance with the Project Operational Manual; and

   (b) the Project Operational Manual or any part thereof is not amended, waived, suspended or abrogated without the Association’s prior written concurrence, and in case of any inconsistency between the provisions of the Project Operational Manual and those of this Agreement, the provisions of this Agreement shall prevail.

2. **Memorandum of Understanding and Performance Agreements**
In implementing Part B of the Project, the Recipient shall:

(a) not later than sixty (60) days after the effectiveness of the Project, ensure that MoH enters into a Memorandum of Understanding (henceforth MoU) with MoF, satisfactory to the Association, to outline the obligation of each agency with respect to the Capitation Payments scheme;

(b) ensure that MoH enters into an agreement (“Performance Agreement”) with each Participating Municipality, satisfactory to the Association, setting forth *inter alia*:

(i) the obligations of the Participating Municipalities to:
   
   (A) collect performance data from Primary Healthcare Institutions, prepare an aggregate report on the performance of all the Primary Healthcare Institutions and report findings to agreed monitoring bodies;

   (B) maintain adequate records to reflect in accordance with sound accounting practices, the resources, operations and expenditures;

   (C) enable the Association and the Recipient to inspect its facilities, operations and any records and documents relevant to the Primary Healthcare Institutions and prepare and furnish to the Association and Recipient, all such information as either shall reasonably request relating to the Performance Agreement; and

(ii) the obligations of MoH to:

   (A) assess each Participating Municipality’s achievement of the agreed Performance Targets as a prerequisite for triggering Capitation Payments, in accordance with the criteria set forth in the Capitation Performance Payments Manual, which shall *inter alia* include calculation of the Capitation Payments in accordance with the agreed performance scoring formula;

   (B) carry out its activities under the Performance Agreement with due diligence and efficiency and in accordance with public health, environmental and social and administrative standards and practices acceptable to the Association and in accordance with the Capitation Performance Payments Manual; and
exercise its rights and carry out its obligations under each Performance Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing;

carry out through MoH on an annual basis, Independent Technical Audits; provide reports of Independent Technical Audits to the Association, and promptly implement any recommendations resulting from the Association's review of said reports as the Association may request from time to time; and

not abrogate, amend, suspend, terminate, waive or otherwise fail to enforce the Capitation Performance Payments Manual and MoU or any provisions thereof without the Association's prior approval in writing; and in case of any conflict between the terms of the Capitation Performance Payments Manual or MoU and those of this Agreement, the terms of this Agreement shall prevail.

3. Annual Work Plan and Budget

(a) The Recipient shall, through MoH, prepare and furnish to the Association not later than November 15 of each Fiscal Year during the implementation of the Project, an Annual Work Plan and Budget containing all activities proposed to be included in the Project during the following Fiscal Year and a proposed financing plan for expenditures required for such activities, setting forth the proposed amounts and sources of financing;

(b) Each such proposed Annual Work Plan and Budget shall specify any training activities that may be required under the Project, including: (i) the type of training; (ii) the purpose of the training; (iii) the personnel to be trained; (iv) the institution or individual who will conduct the training; (v) the location and duration of the training; and (vi) the cost of the training;

(c) The Recipient shall afford the Association a reasonable opportunity to exchange views with the Recipient on each such proposed Annual Work Plan and Budget, and shall thereafter ensure that the Project is implemented with due diligence during said following Fiscal Year, in accordance with such Annual Work Plan and Budget as shall have been approved by the Association; and
(d) The Recipient shall not make or allow to be made any change to the approved Annual Work Plan and Budget without the Association’s written prior approval.

C. 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 monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. 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.

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. The Recipient, through MoH, shall prepare and furnish to the Association 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 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. 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

1. Goods and Non-consulting Services. All goods and non-consulting 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Non-consulting Services**

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

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

**C. Particular Methods of Procurement of Consultants’ Services**

1. **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.

2. **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) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants’ Qualifications; (e) Single-source Selection of consulting firms; (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

**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 Financing 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 Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services Training and Operating costs for the Project, including audits</td>
<td>8,411,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Capitation Payments under Part B of the Project</td>
<td>8,089,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>16,500,000</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:

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed €300,000 equivalent, may be made for payments under Category (1) made prior to this date but on or after January 10, 2014, for Eligible Expenditures;
(b) under Category 2, unless the Recipient through the MoH has: (i) prepared and adopted a Capitation Performance Payments Manual satisfactory to the Association; and (ii) entered into a Performance Agreement, satisfactory to the Association with the respective Participating Municipality; and

(c) if, at any time, the Association determines that any portion of the amounts disbursed by the Recipient under Category (2) was made for expenditures which are not eligible under the Capitation Payments Performance Manual, the Recipient shall promptly refund any such amount to the Association as the Association shall specify by notice to the Recipient.

2. The Closing Date is October 30, 2019.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15:</td>
<td></td>
</tr>
<tr>
<td>commencing on October 15, 2019, to and including, April 15, 2029</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing October 15, 2029, to and including, April 15, 2039</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the 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


2. "Annual Work Plan and Budget" means the work plan and budget prepared annually by the Recipient and approved by the Association in accordance with Section I.D.1 of Schedule 2 to this Agreement; and "Annual Work Plans and Budgets" means more than one Annual Work Plan and Budget.

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

4. "Capitation Payments" means payments to be made from the proceeds of this Financing to the Recipient for incremental expenditures required to improve access to and quality of, primary care services; such payments being transferred to Participating Municipalities through the Specific Health Grant to Municipalities mechanism calculated as an annual average per capita amount initially determined to be the equivalent of two Euros and forty cents (€2.40), based on the average cost of delivering health services and disbursed based on reported and verified Performance Results in accordance with the provisions of the Capitation Performance Payments Manual.

5. "Capitation Performance Payments Manual" means the document to be prepared by the Recipient through the MoH in accordance with the provisions of Part A (2) (b) (ii) of the Project in Schedule 1 to this Agreement, setting out detailed administrative guidelines including fiduciary controls, planning, budgeting and monitoring to be followed in the carrying out of Part B of the Project and the model Performance Agreement, as the same may be amended from time to time with the prior agreement of the Association.


8. “E-prescription system” means an information system for enables the electronic generation, transmission and filling of medical prescriptions, as well as for monitoring of drug prescription and dispensing.

9. “Fiscal Year” or “FY” means the Recipient’s fiscal year commencing on January 1 and ending on December 31 of the same year.


11. “Independent Technical Audit” means an assessment to be conducted by an entity external to the Recipient and to be engaged on terms and conditions satisfactory to the Association, which assessment shall include: (i) the number of beneficiaries in Participating Municipalities receiving primary health services; (ii) the achievement of the Performance Targets; and (iii) whether Capitation Payments transferred to Participating Municipalities were calculated correctly and in accordance with the provisions of the Capitation Payments Performance Manual.

12. “MoF” means the Recipient’s Ministry of Finance or its legal successor thereto.

13. “MoH” means the Recipient’s Ministry of Health or its legal successor thereto.


15. “MoU” means the Memorandum of Understanding between MoF and MoH referred to in Section 1.B.2 (a) of Schedule 2 to this Agreement, outlining the obligations of each party in connection with the Capitation Payments scheme.

16. “Municipality” means a basic unit of local government established in accordance with the law on Local Self Government, Law No. 03/L-040.

17. “National Institute of Public Health” means a central institution of the MoH responsible for organizing, supervising and implementing the public health policies of MoH throughout the territory of the Recipient in accordance with the law on public health, Law No. 02/L-078.

18. “Operating Costs” means the PCU’s reasonable incremental expenses arising under the Project, and based on the Annual Work Plan and Budget, and consisting of expenditures for translation, interpretation, equipment maintenance and operations, travel costs (including transportation, fuel, lodging and per diem), communication and insurance costs, office administration costs, advertising expenses, administrative support staff but excluding the salaries of the Recipient’s civil servants.
19. "Participating Municipality" means a municipality that has entered into a Performance Agreement with MoH in accordance with Section 1.B.2 (b) of Schedule 2 to this Agreement.

20. "Project Coordination Unit" or "PCU" means the Recipient's unit to be established for the Project pursuant to Section I.A.1 of Schedule 2 to this Agreement.

21. "Project Steering Committee" or "PSC" means the Recipient's Committee referred to in Section I.A.2 of Schedule 2 to this Agreement.

22. "Performance Agreement" means an agreement satisfactory to the Association to be entered between MoH and a Participating Municipality for implementing Capitation Payments pursuant to Section I. B.2 (b) of Schedule 2 to this Agreement.

23. "Performance Targets" means specific goals for the achievement of Performance Indicators agreed from time to time in the Performance Agreement.

24. "Performance Indicators" means a list of results indicators for Part B of the Project selected from the list of indicators set forth in the Capitation Payments Performance Manual, which shall be included in each Performance Agreement.

25. "Primary Healthcare Institutions" means entities responsible for organizing, providing and implementing public health care services at the municipal level in accordance with Article 17 of the Republic of Kosovo Law on Health (Law No. 04/L-125).


27. "Procurement Plan" means the Recipient's procurement plan for the Project, dated March 6, 2014 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

28. "Project Operational Manual" means the manual, including all appendices and schedules thereto, satisfactory to the Association and adopted by the Recipient, which sets forth the policies and procedures that apply to the carrying out of the Project, including, inter alia: (a) rules, methods, guidelines and procedures; (b) the implementation arrangements and staffing requirements; (c) the estimated implementation schedule; (d) the procedures for accessing, disbursing and accounting for funds under the Project; (e) the procedures for Project monitoring, supervision and evaluation, including the format and content of the Project.
Reports; and (f) the procedures for procurement and financial management, referred to in Section 1.B.1 of Schedule 2 to this Agreement.

29. "Senior Management Committee" or "SMC" means the committee referred to in Section 1.A.3 of Schedule 2 to this Agreement.

30. "Specific Health Grants to Municipalities" means the mechanism for providing grants allocated by the Recipient to municipalities for the delivery of primary health care services pursuant to the Law on Local Government Finance, Law No. 03/L-049.

31. "Training" means the reasonable costs associated with the training, workshop and study tour participation of personnel involved in Project activities, as specified in the Annual Work Plan and Budget, said costs to consist of travel and subsistence for training, workshop and study tour participants, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course, workshop or study tour preparation and implementation (but excluding costs of consulting services).
Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

"Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

2. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

3. The Appendix is modified by inserting a new paragraph 32 with the following definition of “Interest Charge”, and renumbering the remaining paragraphs accordingly:

“32. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”

4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02 (a).
ANNEX

NATIONAL COMPETITIVE BIDDING – MODIFICATIONS

The procedures to be followed for procurement of goods/works and non-consulting services using National Competitive Bidding shall be those of “Open Procedure” method as set forth in the Law No. 03/L-241, dated September 30, 2010 of the Republic of Kosovo with the following clarifications:

1. **Participation by foreign bidders**

   Foreign bidders shall not be precluded from bidding. Foreign bidders shall not be required to form a joint venture or to sub-contract part of the supply of goods, works and services as a condition for submitting bids or the award of the contract.

2. **Registration**

   Bidding shall not be restricted to pre-registered firms. 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. **Advertising**

   Invitations to bid shall be advertised in a national newspaper of wide circulation in the national language(s) or official gazette provided that it is of a wide circulation or on a widely used website or electronic portal with free national and international access allowing a minimum of thirty (30) days for the preparation and submission of bids.

4. **Pre-qualification**

   (a) Pre-qualification shall be used only for large, complex and/or specialized works; (b) where used, prequalification criteria shall be on a “pass/fail” basis; and (c) minimum experience, technical and financial requirements shall be explicitly stated in pre-qualification documents acceptable to the Association.

5. **Participation by Government-owned enterprises**

   Government-owned enterprises in Kosovo 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 Recipient (as this
term is defined in the Procurement Guidelines). Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

6. **Bidding Documents**

Procuring entities shall use the appropriate standard bidding documents acceptable to the Association.

7. **Bid Opening and Bid Evaluation**

(a) Bids shall be submitted in a single envelope and shall be opened in public immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid, discounts (if any) and existence of bid security shall be read aloud and recorded in the minutes of the public bid opening; a copy of the minutes shall be promptly provided to all bidders, and to the Association with respect to contracts subject to prior review.

(b) Evaluation of bids shall be made through post-qualification in strict adherence to the monetarily quantifiable criteria declared in the bidding document. Qualification criteria shall be on a “pass/fail” basis.

(c) Contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform the contract in accordance with pre-defined and pre-disclosed evaluation criteria and no negotiation as to the price or substance shall take place.

(d) An extension of bid validity, if justified by exceptional circumstances, may be requested in writing from all bidders before the expiration date and for a minimum period required to complete the evaluation or award a contract, but not to exceed thirty (30) days. No further extensions shall be requested without the prior concurrence of the Association.

8. **Price Adjustment**

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

9. **Rejection of Bids**

All bids shall not be rejected (even if less than two (2) responsive bids are received), the procurement process shall not be cancelled and new bids solicited without the Association’s prior concurrence.

10. **Securities**
A bid security shall be required and it shall not exceed three percent (3%) of the estimated cost of the contract and performance security not more than ten percent (10%) of the contract price. No advance payment shall be made to contractors without a suitable advance payment security.

11. **Award of Contract**

Within two weeks from the Association’s no-objection to the award recommendation for contracts subject to prior review and within two weeks from the Recipient’s decision for contracts subject to post review, the contracting authority shall publish the following information on contract award on a free and open access website or on another means of publication acceptable to the Association: (i) name of each bidder who submitted a bid; (ii) bid prices as read out at bid opening; (iii) name and evaluated price of each bid that was evaluated; (iv) name of bidders whose bids were rejected and the reasons for their rejection; and (v) name of the winning bidder, final contract price and duration and summary scope of the contract awarded.

12. **Right to inspect and audit**

In accordance with paragraph 1.16(c) of the Procurement Guidelines, each bidding document and contract financed from the proceeds of the Credit shall provide that: (i) the bidders, suppliers, contractors and their subcontractors, agents, personnel, consultants, service providers or suppliers, shall permit the Association, at its request, to inspect their accounts, records and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Association; and (ii) the deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to obstructive practice as defined in paragraph 1.16(a)(v) of the Procurement Guidelines.

13. **Fraud & Corruption**

Each bidding document and contract financed from the proceeds of the Credit shall include provisions on matters pertaining to fraud and corruption as defined in paragraph 1.16(a) of the Procurement Guidelines. The World Bank will sanction a firm or individual, at any time, in accordance with prevailing Association sanctions procedures, including by publicly declaring such firm or individual ineligible, either indefinitely or for a stated period of time: (i) to be awarded a World Bank-financed contract; and (ii) to be a nominated sub-contractor, consultant, supplier or service provider of an otherwise eligible firm being awarded a World Bank-financed contract.