Ms. Nermin Mahmuti  
Executive Director  
Community Development Fund  
Sejdi Kryeziu Street no.16  
Peyton Place  
10 000 Prishtina  
Kosovo

Re: Kosovo Social Inclusion and Local Development Project (State and Peace Building Trust Fund Grant No. TF098559)

Dear Madam,

In response to the request for financial assistance made on behalf of Community Development Fund ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank"), acting as administrator of grant funds provided by the State and Peace Building Trust Fund, proposes to extend to the Recipient for the benefit of Kosovo ("Member Country"), a grant in an amount not to exceed Four Million Nine Hundred and Two Thousand Seven Hundred Sixty Two United States Dollars (US$4,902,762) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project"). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective on the date specified by the World Bank in accordance with Section 4 of the Annex to this Agreement; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within sixty (60) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.
Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Anthony Gaeta
Acting Country Director and Regional Coordinator
for Southeast Europe
Europe and Central Asia Region

AGREED:
COMMUNITY DEVELOPMENT FUND

By __________________________
Authorized Representative

Name: Ms. Nermin Mahmuti
Title: Executive Director
Date: February 2, 2011

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement. The following terms shall have the meanings assigned to them below:

(a) “SME” shall mean small and micro enterprises which are registered enterprises with more than two (2) but less than twenty (20) employees.

(b) “Sub-Grants” shall mean the financing provided for priority economic and social infrastructure investments under Component A of the Project, and the business start-up or expansion grants under Component B of the Project.

(c) “Operating Manual” means the Recipient’s manual for the Project (including any schedules and annexes thereto) setting out the procedures to be followed by the Recipient in implementing the Project including, inter alia, the criteria for selection of recipients of Sub-Grants, the process for making and supervising Sub-Grants and measures to ensure compliance with the World Bank Group’s environment and social safeguard policies.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to improve the quality and availability of basic community infrastructure and support small and micro-enterprise development in a way that promotes social inclusion. The Project consists of the following parts:

(a) **Component A - Community Investment Grants:** This component will provide financing for priority economic and social infrastructure investments that are identified in a participatory and socially inclusive manner, and included in a local development strategy and plan.

(b) **Component B - SME Support:** This component will provide support to SMEs to enable them to increase and/or stabilize revenues and generate local employment opportunities in the following ways:

(i) **Matching grants:** Business start-up and expansion grants will be made available to complement savings and other funds already mobilized by (would be) entrepreneurs.

(ii) **Training:** Beneficiaries will be required to take a minimum training of one-week on basic business skills; and depending of the level of education and experience, further training in entrepreneurship may be required.

(iii) **Technical Assistance:** Regular monitoring of the SMEs and provision of technical assistance to the SMEs.
(c) **Component C – Capacity Building and Project Management:** This component shall support capacity building for community project committees to plan, manage, operate, supervise and maintain investments, as well as to improve the quality and availability of local service provision. At the local government level, this component will focus on enhancing the understanding of municipal authorities of their potential role in facilitating and supporting community-based initiatives. This component will also finance capacity building for the Recipient in SME development and cover all operating costs related to Project implementation.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out and implement the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in the Appendix to this Agreement; (c) the Operating Manual; and (d) this Article 2. The Recipient shall not amend, abrogate or waive the Operating Manual without the written consent of the World Bank. The Recipient shall make the Sub-grants in accordance with the guidelines, criteria, and procedures acceptable to the World Bank, and ensure that the Project and the Sub-grants are at all times carried out in compliance with the social and environmental safeguard policies of the World Bank Group, including, without limitation, as specified in the Operating Manual.

2.03. **Donor Visit.** For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the donors to visit any part of the Member Country’s territory for purposes related to the Project.

2.04. **Project Monitoring, Reporting and Evaluation.**

(a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than three (3) months after the Closing Date.

2.05. **Financial Management.**

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited annually in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.
2.06. **Procurement**

(a) **General.** All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods and works;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Works**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and works for those contracts specified in the Procurement Plan: (A) National Competitive Bidding, subject to modifications and additions set forth in Annex 1 to Article II; (C) Shopping; (D) Direct Contracting; (E) Community Participation in Procurement, according to clause 3.17 of Procurement Guidelines and as described further in the Operational Manual.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Least Cost Selection; (B) Selection based on Consultants’ Qualifications; (C) Single-source Selection; (D) Selection of Individual Consultants; and (H) Sole Source Procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.
Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“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 USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All goods, works, consultant services, Sub-Grants, Training and Operating Costs needed to achieve the project objectives</td>
<td>4,902,672</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>4,902,672</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section 3, the following terms shall have the meanings assigned to them below:
(a) “Operating Costs” means the expenses incurred by the Recipient for the incremental expenses, based on annual budgets approved by the World Bank, on account of Project implementation, management and monitoring, including for office space rental, utilities, and supplies, communications, building and equipment maintenance, advertising expenses, travel and supervision, salaries and statutory contributions of contractual and temporary staff.
(b) “Sub-Grants” shall have the meaning assigned to it in Section 1.02(b).
(c) “Training” means the expenses incurred by the Recipient in connection with carrying out training and training-related activities under the Project including travel costs and per diem for trainers and trainees, trainers’ fees, workshops, rental of training facilities, preparation and reproduction of training materials and other activities incidental to the preparation and implementation of training activities.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the Effective Date of this Agreement by the Recipient, except that withdrawals up to an aggregate amount not to exceed Twenty Four Thousand Five Hundred and Three United States Dollars ($24,503) equivalent may be made for payments made prior to this date but on or after September 29, 2010, for Eligible Expenditures.
3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is thirty six (36) months after the Effective Date.

**Article IV**

**Effectiveness; Termination**

4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the Operating Manual, in form and substance acceptable to the World Bank, has been finalized and adopted by the Recipient.

4.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 4.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

4.03. **Termination for Failure to Become Effective.** This Agreement and all obligations of the Parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

**Article V**

**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Executive Director of the Recipient.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

| Community Development Fund |
| Sejdi Kryeziu Street no.16 |
| Peyton Place |
| 10 000 Prishtina |
| Kosovo |

Facsimile: 381 38 277679

5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is: International Development Association

| 1818 H Street, N.W. |
| Washington, D.C. 20433 |
| United States of America |

Cable: INDEVAS
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391
APPENDIX
Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“…(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“… (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”
“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”
Annex 1 to Article II
National Competitive Bidding: Additional Provisions

A. Generalities
Open procedure shall be the default method of procurement. Procurement procedures, including methods and prior review processes cannot be changed without express consent from the World Bank.

B. Registration

1. Bidding shall not be restricted to pre-registered firms;
2. 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; and
3. Bidders not from the territory of Kosovo shall not be precluded from bidding. If a registration process is required, any bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register.

C. Advertising

Invitations to bid shall be advertised in at least one widely circulated Albanian-language daily newspaper and in at least one widely circulated Serbian-language daily newspaper available over the territory of Kosovo allowing a minimum of 30 days for the preparation and submission of bids.

D. Pre-qualification

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one widely circulated daily newspaper available over the territory of Kosovo a minimum of 30 days prior to the deadline for the submission of pre-qualification applications. Minimum experience, and technical and financial requirements, shall be explicitly stated in the pre-qualification documents, which shall be determined on a “pass/fail” method, not through the use of a merit point system. When pre-qualification is not used, the qualifications of the bidder recommended for contract award shall be assessed by post-qualification, applying minimum experience, technical and financial requirements, which shall be explicitly stated in the bidding documents.

E. Participation by Publicly-owned enterprises

Publicly-owned enterprises 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 contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

F. Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of works, acceptable to the Association. ECA Regional Sample Bidding Documents, modified as acceptable by the Association, shall be used.
G. **Bid Opening and Bid Evaluation**

1. Bids shall be submitted in a single envelope containing the bidder’s qualification information, technical and price bids, which shall be opened simultaneously at the public bid opening;
2. Bids shall be opened in public, immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid and any discounts offered shall be read aloud and recorded in the minutes of the public bid opening;
3. Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents. No merit point system will be used;
4. Extensions of bid validity will be allowed once only for not more than 30 days. No further extensions shall be requested without the prior approval of the Association; and
5. Contracts shall be awarded to the qualified bidder having submitted the lowest-evaluated, substantially responsive bid and no negotiation shall take place.

H. **Price Adjustment**

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

I. **Rejection of Bids**

1. All bids shall not be rejected and new bids solicited without the Association’s prior concurrence.
2. When the number of bids received is less than three, re-bidding shall not be carried out without the Association’s prior concurrence.

J. **Securities**

Bid security shall not exceed 3 percent of the estimated cost of the contract and performance security not more than 10 percent of this cost. No advance payment shall be made to contractors without a suitable advance payment security. These securities shall be included in the bidding documents in a text and format acceptable to the Association.

K. **Confidentiality**

The process of bid evaluation shall be confidential until the publication of contract award has been issued.

L. **Standards and Technical Specifications**

The Borrower shall specify internationally accepted standards whenever possible. Where such international standards are unavailable or are inappropriate, national standards may be specified.

M. **Right to inspect and audit**

Each contract financed from the proceeds of a Grant/Credit shall provide that the suppliers, contractors and subcontractors shall permit the Bank, at its request, to inspect their accounts and records relating to the procurement and performance of the contract and to have said accounts and records audited by auditors appointed by the Bank. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.
O. Fraud & Corruption
The Bank shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Bank, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices in competing for, or in executing, a contract financed by the Bank.