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Report Number: ICRR0023014

1. Project Data

Project ID	Project Name
P154263	Local and Regional Competitiveness
Country	**Practice Area(Lead)**
North Macedonia	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
TF-A1779	31-Dec-2019	13,988,853.53
Bank Approval Date	**Closing Date (Actual)**	
12-Jan-2016	30-Sep-2021	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	17,217,800.00	17,217,800.00
Revised Commitment	17,793,040.00	13,080,231.15
Actual	13,988,853.53	13,988,853.53

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Grant Agreement, the project development objective of the Republic of North Macedonia Local and Regional Competitiveness Project was to enhance the contribution of tourism to local economic development and improve the capacity of the government and public entities to foster tourism growth and facilitate destination management.

This ICR review parses the project development objective into:

1. To enhance the contribution of tourism to local economic development.
2. To improve the capacity of the government and public entities to foster tourism growth and facilitate destination management.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

Yes

d. Components

The project had four components, the first of which was to be executed by the Word Bank, and the second, third, and fourth of which were to be executed by the Recipient, the Government of North Macedonia.

1. Technical Assistance for Tourism Development (Euro [EUR] 1.25 million estimated at appraisal, EUR 1.25 million disbursed by closing) supported technical assistance for: (a) improved institutional coordination among central government agencies, between central and regional and local agencies, and among local agencies; (b) review of the draft National Development Strategy – this activity was stopped due to the COVID-19 pandemic; (c) statistical (data) capacity building for evidence-based policy-making – this activity was stopped due to the COVID-19 pandemic; (d) analysis and advice to improve the business environment (industry standards, licensing, accreditation, SME regulations); and (e) technical advice for the Recipient-executed project components (preparation of Grant Manual).

2. Strengthening Destination Management and the Enabling Environment (EUR 1.18 million estimated at appraisal, EUR 0.29 million disbursed by closing) aimed to: (a) improve central government capacity, coordination, and policy through training in public-private dialogue and tourism development, the supply of equipment and software for data- and information-gathering, and the provision of technical assistance to implement business environment reforms – this activity was suspended either due to the unpreparedness of the state institutions or due to the COVID-19 pandemic; and (b) develop the capacity for destination management of key stakeholders (national park authorities, centers for regional development, municipalities, tour operators, skills development institutions, non-governmental organizations) in selected locations through the provision of technical assistance, training, equipment, and software. (The U.N. World Tourism Organization defines destination management as the coordinated management of all elements that make up a tourist destination – attractions, amenities, accessibility, human resources, image, and price).

3. Investment in Tourism-Related Infrastructure and Linkages at Destinations (EUR 13.26 million estimated at appraisal, EUR 9.93 million disbursed by closing) (Government contribution – EUR 3.18 million estimated at appraisal, EUR 3.87 million disbursed by closing) (Beneficiaries' Contribution – EUR 2.73 million of estimated at appraisal, EUR 2.11 million disbursed by closing) would: (a) provide financing and technical assistance for selected infrastructure sub-projects – submitted by regional development centers, municipalities, and other public entities – that improve the physical condition of tourist attractions, the access to natural and cultural heritage sites, and the promotion and branding of destinations and sites; and (b) provide financing and technical assistance for selected tourism service-delivery and local impact (linkages and innovation grants) sub-projects – submitted by business associations, training and educational service providers, civil society organizations, destination management organizations, and micro and small private enterprises in selected destinations – that improve the access to information and services, service quality, and linkages and innovation, including new products and services in the tourism value chain.

4. Strengthening Project Management (EUR 1.32 million estimated at appraisal, EUR 1.81 million disbursed by closing) would support the Project Implementation Unit, established within the implementing agency of the project, the Cabinet of the Deputy Prime Minister of Economic Affairs, with consulting services, training, equipment, and the financing of operating costs for the implementation, monitoring, and evaluation of the Recipient-executed activities of the project.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. The project was estimated at appraisal to cost EUR 23.9 million. The actual project cost was EUR 20 million.

Financing. The project was financed by grant and counterpart funds.

- Grant Financing. A grant of EUR 15.76 million was provided to the Government of the Republic of North Macedonia by the IBRD, acting as the administrator of the European Commission (the donor) for the European Union Instrument for Pre-Accession Trust Fund. The amount of EUR 12.04 million was disbursed by closing. A grant of EUR 1.25 million and EUR 0.99 million was allocated to the World Bank from the same trust, the latter to cover the trust fund management fee. The amount of EUR 1.96 million was disbursed.
- Counterpart Financing. The planned national contribution was EUR 3.18 million. The actual national contribution was EUR 3.87 million by closing consisting of EUR 2.99 million from the national government and EUR 0.88 million from municipal governments. The planned beneficiaries' contribution was EUR 2.73 million. According to the *Borrower Comments on the ICR* (pages 10-12), the actual beneficiaries' contribution was EUR 2.11 million by closing consisting of EUR 1.92 million from SMEs and EUR 0.20 million from associations.

Dates. The project was approved on January 12, 2016, became effective on July 28, 2016, and closed on September 30, 2021, a year and nine months after the original closing date of December 31, 2019. The project was restructured four times. The first restructuring on February 16, 2017 changed the legal covenants and the disbursement arrangements (to allow personal income taxes to be financed by the grant proceeds). The second restructuring on October 31, 2019 revised the results framework and changed the loan closing date from December 31, 2019, to December 31, 2020. The third restructuring on December 23, 2020 changed the closing date from December 31, 2020, to June 30, 2021. The fourth restructuring on June 29, 2021 changed the closing date from June 30, 2021, to December 31, 2021. The third and fourth restructuring extended the closing date to allow for the completion of some infrastructure and tourism service-delivery and local impact sub-projects that were delayed because of activity and mobility restrictions and logistical problems prompted by the COVID-19 pandemic.

Split Evaluation. The four restructurings did not change the project development objective or any of the project components. However, one of the three original outcome indicators was revised (the sole outcome indicator for the second objective to improve the capacity of the government and public entities to foster tourism growth and facilitate destination management) – "Reforms implemented that were identified through a consultative public-private dialogue destination management process" (with a target of 9 reforms) became "Destination Management partnerships formed" (with a target of 3 partnerships). Moreover, one new output indicator was added (also to the second objective) – "Destination development plans agreed" (with a target of 3 plans). Because of these changes to the results framework, this ICR Review will conduct a split evaluation of the project.

3. Relevance of Objectives

Rationale

Binding Development Constraints. The project development objectives were relevant to the binding constraints to tourism development, as cited in the *Former Yugoslav Republic of Macedonia Systematic Country Diagnostic - Seizing a Brighter Future for All.* The tourism industry accounted for 6.7 percent of GDP in 2016, employed about 44,000 (6.1 percent of total employed), and contributed 5.4 percent of total goods and services exports. Although the industry had grown impressively recently (foreign tourists exceeded domestic tourists in 2011 and grew 95 percent since), North Macedonia lagged behind the global competition - total tourists remained less than one million, the country ranked 89th in the World Economic Forum *Travel and Tourism Competitiveness Report 2017*, and foreign direct investment of US$230 million in 2006-16 went into low-valued-added construction and accommodation. The barriers to higher-value-added investment included: a shortage of qualified labor and the skills; poor capabilities of domestic firms; difficulty and cost of financing; inefficient bureaucracies; and a lack of competition in general. The document recommended a four-part strategy: (a) address the quality of activities, experiences, attractions, accommodation, and access; (b) establish private sector development initiatives for each market segment; (c) make domestic firms more competitive by providing firms with tools to improve their delivery capacity; and (d) improve the industry with a forward-looking strategy for more effective destination management.

Country Priorities. The project development objectives were aligned with the country's development priorities. The Government Strategic Priorities, 2014-18 focused on eight "pillars" to achieve growth, competitiveness, and human capital development. The project objectives were aligned with the first of these pillars - "Improving the Living Standards of Citizens" - which would be achieved by, among others, supporting tourism development.

Bank Group Strategy. The project development objectives were consistent with the Bank Group country strategy in North Macedonia at the time of appraisal and closing. The *Country Partnership Strategy for the Former Yugoslav Republic of Macedonia for the Period FY2015-FY2018* committed Bank Group support to development priorities in two pillars - "Growth and Competitiveness," and "Skills and Inclusion." This project would advance competitiveness in four sectors - manufacturing, agribusiness, trade logistics, and tourism - and focus on the regional and local competitiveness dimension. The *Country Partnership Framework for the Republic of North Macedonia 2019-2023* committed Bank Group support for three focus areas - "Export-Led Growth: Improve the Environment for a Competitive Private Sector," "Inclusive Growth: Expand Skills and Opportunities for the Most Vulnerable," and "Sustainable Growth: Enhance Sustainability and Resilience to Shocks." This project would enhance the contribution of tourism to local economic development and improve the capacity of public entities to foster tourism growth and destination management.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To enhance the contribution of tourism to local economic development

Rationale

Theory of Change. The lack of an overall policy vision and limited public sector capacity in tourism development are binding constraints to exploiting a country's natural and cultural tourism endowments for economic growth. Technical assistance to design a national tourism strategy, improve data-based policymaking, and strengthen the institutional capacity of national and local agencies should provide the foundation for tourism development. Moreover, reforming the business environment for tourism, including through public-private dialogue, and enhancing the capacity of the private sector, particularly for destination management, should further enhance the contribution of tourism to local economic development.

Outputs. The project achieved five of six outputs defined for the objective to enhance the contribution of tourism to local economic development.

- The number of private enterprises that benefitted from activities funded through the project's grants was 602 by closing, exceeding the target of 100. According to the ICR, that the number of direct enterprises (grant beneficiaries) and indirect enterprises (suppliers, sub-contractors, service providers) that financially benefitted from activities funded through the project's sub-grants was greater than expected was due to their value-chain linkages with direct sub-grants beneficiaries.
- The proportion of private enterprises that benefitted from activities funded through the project's grants that were owned or managed by a woman was 20 percent by closing, exceeding the target of 15 percent.
- The number of private stakeholders that participated in project-supported capacity-building activities (including training, and supplier development) was 1,161 by closing, exceeding the target of 300. According to the ICR, the result reflected the fact that capacity-building activities created business linkages with spillover effects.
- The number of overnight visits by tourists in beneficiary destinations increased by only 0.6 percent by closing, failing to achieve the target of 12 percent. According to the ICR, the COVID-19 pandemic severely affected the result. The market remained far from its state in 2019, with some geographic

areas (Skopje and Ohrid, for example) recovering faster than others. The results were also affected by the suspension of activities under the second project component, Strengthening Destination Management and the Enabling Environment.

- The number of tour packages offered by local and foreign tour operators that included the project-supported destinations as new tour offerings was 147 by closing, exceeding the target of 30. According to the ICR, the achievement reflected creativity of the sub-projects applicants and of the tourism sector overall, as the sub-grant beneficiaries developed new products and services, including hot-air balloon flying, e-bike riding, tandem jumping, stand-up board paddling, diving, and adventure trail hiking.
- The proportion of grant beneficiaries who considered the project-supported activities to have been subjected to consultation and reflected their views was 81.9 percent by closing, achieving the target of 80 percent. According to the ICR, the value at closing represents the average of two surveys that were conducted to measure the result of this indicator.

Outcomes. The project achieved the objective to enhance the contribution of tourism to local economic development. The project defined the following two outcome indicators, the targets of which were achieved.

- Additional private investment generated by tourism-related activities at beneficiary destinations reached US$10.02 million at closing, achieving the target of US$10 million.
- Tourism-related jobs in beneficiary destinations increased by 6.87 percent by closing, achieving the target of 7.0 percent.

Rating
Substantial

OBJECTIVE 1 REVISION 1

Revised Objective
To enhance the contribution of tourism to local economic development

Revised Rationale
Theory of Change. The theory of change remained essentially the same. Because of a lack of progress, the Bank cancelled some activities planned for the first and second project components: (a) the preparation of the National Tourism Strategy; (b) statistical capacity building for evidence-based policymaking; and (c) central level work for destination management (see Section 2.D). However, these did not change the objective or the results chain.

Outputs. The outputs remained the same.

Outcomes. The outcomes remained the same.

Revised Rating

Substantial

OBJECTIVE 2

Objective

To improve the capacity of the government and public entities to foster tourism growth and facilitate destination management.

Rationale

Theory of Change. Weak tourism-related infrastructure and poor tourism services are binding constraints to exploiting a country's natural and cultural tourism endowments for economic growth. Providing financing and technical assistance to regional development centers, local municipalities, and other public entities for tourism infrastructure projects would foster tourism growth. In addition, providing financing and technical assistance to private destination management organizations would improve tourism services. Leveraging such financing and technical assistance with counterpart contributions from the beneficiary public and private entities would raise the investments at destination management and tourism development.

Outputs. The project achieved one but failed to achieve the other of two output indicators defined for the objective to improve the capacity of the government and public entities to foster tourism growth and facilitate destination management.

- The number of public and private stakeholders trained in destination management and development was 206, three months ahead of closing, exceeding the target of 200. According to the ICR, no additional stakeholders were trained after March 2021 as the activities of the second project component, Strengthening Destination Management and the Enabling Environment, were stopped.
- The proportion of local residents who were satisfied with tourism development in the destinations that benefitted from the project activities was 41.7 percent by closing, failing to achieve the target of 70 percent. According to the ICR, the value at closing represents the average of two surveys that were conducted to measure the result of this indicator, the first early in project implementation in 2016, and the second in end-2020 (when three infrastructure sub-projects were completed). A third survey planned for the time of project closing was never conducted. The output was severely affected when the activities of the second project component, Strengthening Destination Management and the Enabling Environment, were stopped

Outcomes. The project failed to achieve the objective to improve the capacity of the government and public entities to foster tourism growth and facilitate destination management. The project defined the following outcome indicator, the target of which was not achieved.

- The number of reforms implemented that were identified through a consultative public-private dialogue destination management process was one by May 2019, failing to achieve the target of nine.

Rating

Negligible

OBJECTIVE 2 REVISION 1

Revised Objective

To improve the capacity of the government and public entities to foster tourism growth and facilitate destination management.

Revised Rationale

Theory of Change. The theory of change remained the same.

Outputs. The project failed to achieve the additional output indicator defined for the objective to improve the capacity of the government and public entities to foster tourism growth and facilitate destination management. The project added the following output indicator to the original two output indicators at the second restructuring in October 2019. However, the achievement was zero by project closing.

- No destination development plans were agreed upon, failing to achieve the target of three. Three destination development plans were actually discussed and were being finalized when the activities of the second project component, Strengthening Destination Management and the Enabling Environment, were stopped.

Outcomes. The project failed to achieve the objective to improve the capacity of the government and public entities to foster tourism growth and facilitate destination management. The project revised the outcome indicator to measure the objective at the second restructuring in October 2019. However, the achievement was zero by project closing.

- The number of destination management partnerships formed was zero by closing, failing to achieve the target of three. Three partnerships were actually created but they were never formalized because the underlying activities in the second project component, Strengthening Destination Management and the Enabling Environment, were stopped as agreed upon among the Bank, the Government, and the European Union following the supervision mission in February-March 2020.

Revised Rating

Negligible

OVERALL EFFICACY

Rationale

The degree of achievement of the objective to enhance the contribution of tourism to local economic development is rated as substantial. The degree of achievement of the objective to improve the capacity of the government and public entities to foster tourism growth and facilitate destination management is rated as negligible. The overall efficacy is rated as modest.

Overall Efficacy Rating	**Primary Reason**
Modest	Low achievement

OVERALL EFFICACY REVISION 1

Overall Efficacy Revision 1 Rationale

The degree of achievement of the objective to enhance the contribution of tourism to local economic development is rated as substantial. The degree of achievement of the objective to improve the capacity of the government and public entities to foster tourism growth and facilitate destination management is rated as negligible. The overall efficacy is rated as modest.

Overall Efficacy Revision 1 Rating	**Primary Reason**
Modest	Low achievement

5. Efficiency

Economic Efficiency. The ICR did not calculate an economic rate of return or a financial rate of return for the project, and neither did the Project Appraisal Document. The ICR (pages 18-19 and 44-46) argued that the economic efficiency of the project was substantial based on the following indicators.

- At a cost of US$10 million in grant funds, the project generated US$15 million in private sector investments, two-thirds (US$10 million) of which had been realized and one-third (US$5 million) of which will be delivered over time as the tourism industry recovers from the slump caused by the COVID-19 pandemic.
- The ex-ante calculation at appraisal – that a typical eligible pipeline sub-project was expected to have an internal rate of return of 8.7 percent or net present value of Macedonian denar (MKD) 44 million (EUR 715,000 equivalent) – remained valid. The conclusion was based on an analysis of each investment proposal that was submitted to regional development centers and municipalities for financing under the third project component.
- Based on feasibility studies, the representative “Development of Pelagonija (Region) as Adventure Travel Destination Project" is estimated to generate EUR 2.4 million in economic value for the domestic economy over ten years from 2015 to 2025.
- Positive developments in the tourism sector in 2021, in contrast to the severe downturn in 2020, reinforce these projections: (a) the number of tourists in January-November 2021 increased by 52 percent from the same period in 2020 – foreign tourists by 146 percent, and domestic tourists by 20 percent; and (b) the number of nights spent by tourists increased by 37 percent - foreign tourists by 165 percent, and domestic tourists by 15 percent.

Operational Efficiency. The project disbursed 78.6 percent of the grant financing. The closing was delayed by 21 months, 19 months (March 2020 - September 2021) during which the COVID-19 pandemic remained rife (the World Health Organization declared COVID-19 a pandemic on March 11, 2020). The health and economic crisis slowed down the implementation of activities under the third project component and caused the cancellation of some activities under the first two project components – the preparation of the tourism strategy, statistics capacity-building, training, and destination management organizational work.

Efficiency. The efficiency of the project is rated modest. The project lacked a formal ex-post cost-benefit analysis to judge economic efficiency, although the ICR offers some arguments in favor of a substantial rating. Under 80 percent of the grant funds were disbursed. Several project activities were cancelled or stopped, and project completion was delayed by about two years, albeit the COVID-19 pandemic was an extenuating factor.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The split rating for the outcome of the project is calculated as follows. The outcome ratings both before and after restructuring are moderately unsatisfactory due to modest efficacy and efficiency ratings. When a split rating is implemented per Bank guidance, the project's overall outcome does not change. It is moderately unsatisfactory.

	Original Objectives	Revised Objectives After the Second Restructuring
Relevance of Objectives	Substantial	
Efficacy:	Modest	Modest
Objective 1: To enhance the contribution of tourism to local economic development	Substantial	Substantial
Objective 2: To improve the capacity of the government and public entities to foster tourism growth and facilitate destination management	Negligible	Negligible
Efficiency	Modest	
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory
Numerical Value of Outcome	3	3
Disbursement (US$ million)	6.12	7.88

Share of Disbursement (percent of total)	44	56
Weighted Value of Outcome	1.32	1.68
Final Outcome	3 = Moderately Unsatisfactory	

a. Outcome Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

Macroeconomic Risk. After it recovered to a 4.0 percent growth in 2021 following the COVID-19 recession of -6.1 percent in 2020, the economy will likely slow down to a 2.7 percent growth in 2022 and an average 3.1 percent in 2022-23. The war in Ukraine (with its destructive spillovers), high inflation worldwide (from rising energy and food prices and lingering supply-demand imbalances), a slowdown in China (from COVID-19 lockdowns and a deepening real estate crisis), and disinflationary monetary policy by major central banks (which will tighten financial conditions and might induce debt distress in developing economies) have slashed down the global growth forecast to 2.9 percent in 2022 after the 5.7 percent rebound in 2021. For North Macedonia, the risk is that the global slowdown in general and the war in Ukraine in particular, as well as the lingering effects of the COVID-19 pandemic, will reduce external demand, hamper mobility, raise energy costs, delay investments, and contract activity in economic sectors, especially tourism which is partly dependent on foreign visitors.

Institutional Capacity Risk. The choice of the Cabinet of the Deputy Prime Minister for Economic Affairs as the implementing agency for this project precluded the choice instead of a line ministry or a sectoral agency most related to tourism development. It also missed the opportunity to directly develop the institutional capacity of that line ministry or sectoral agency during the life of this project in areas including policymaking, program development, and project implementation for tourism development, destination management, and business environment reform. Moreover, the model for sustaining development management organizations was not finalized by the closing date of this project. These gaps in institutional development will negatively impact the sustainability of the project outcomes.

8. Assessment of Bank Performance

a. Quality-at-Entry

Analytical Foundations. The design of the project was underpinned by analytical work produced by the Bank. *Unlocking Macedonia's Competitiveness Potential: A Sectoral Assessment of the Constraints and Opportunities in Automotive, Apparel, Agribusiness, and Logistic Services* (2012) focused on the export sectors and sectors with strong employment and growth potential - agribusiness, automotive, apparel, trade logistics, and tourism. *From World Heritage to World Destination: Policy Options to Increase the*

Competitiveness of the Tourism Sector in fYR Macedonia (2012) identified the challenges, priorities, and strategic directions for the tourism sector to make a key contribution to local economic development.

Linkages to Other Operations. This project succeeded earlier Bank operations supporting North Macedonia's competitiveness agenda. The First (P126308) (2012-13) and Second (P130847) (2014) Programmatic Competitiveness Development Policy Operations aimed to support the competitiveness agenda by strengthening policies and institutions that attracted foreign direct investment and developed high value-added manufacturing. The Skills Development and Innovation Support Project (P128387) (2014-21) aimed to to improve transparency of resource allocation and promote accountability in higher education, enhance the relevance of secondary technical vocational education, and support innovation capacity. The Macedonia Competitive Industries and Innovation Support Program (2013-16) aimed to provide seed funding to help identify future operations in four sectors - manufacturing, agribusiness, trade logistics and tourism.

Donor Collaboration. The Bank collaborated in the design of this project with the European Union, whose Instrument for Pre-Accession Trust Fund financed the operation. This and other projects competitiveness and innovation projects previously assisted by the European Union were important to help accelerate North Macedonia's accession to the European Union (North Macedonia submitted its membership application in 2004. Negotiations for accession officially began in July 2022).

Operational Risks and Mitigation Measures. The Bank considered the overall risk to the project as moderate, although it rated political and governance risk, fiduciary risk, and stakeholder risk as substantial.

- Political and governance risk was related to unstable political processes and changes in the level and consistency of support to the implementing agency and beneficiary public agencies. To mitigate this risk, the Bank recommended: (a) strong dialogue about the tourism competitiveness agenda with government institutions, the private sector, civil society, and the EU Delegation to North Macedonia to maintain broad-based support for reforms; (b) substantial technical assistance for inter-agency coordination and public-private dialogue. During implementation, frequent changes among government counterparts to the dialogue derailed the ability of key institutions to effectively deliver support for the planned outputs for the first and second project components, according to the ICR, indicating that the mitigation measures were less effective than envisioned.
- Stakeholder risk pertained to weak coordination and limited implementation capacity. To mitigate this risk, the project design included: (a) the creation of a Steering Committee for oversight of project implementation; (b) the establishment of a Project Implementation Unit at the Cabinet of the Deputy Minister of Economic Affairs; and (c) technical assistance from the first project component as well as from the German Technical Cooperation Agency for the preparation of sub-project proposals for the third project component. During implementation, delays in securing approvals and obtaining signatures for project activities affected progress with the project, according to the ICR, indicating that the mitigation measures were less effective than envisioned.
- Fiduciary risks would be mitigated by: (a) the appointment of qualified staff - Financial Management Officer and Procurement Officer - in the Project Implementation Unit; (b) training of the project staff, including in beneficiary agencies, in Bank financial management practices and Bank procurement guidelines; (c) the preparation and implementation of a Project Operations

Manual and a Grants Manual detailing internal controls; and (d) close Bank monitoring of project implementation, budget availability, and fiduciary performance.

Shortcomings at Design. There were several deficiencies at design

- The project design was not simple and many project activities were either too ambitious or not well-defined. State institutions were unprepared for the central level capacity, coordination, and policy work for destination management (Project component 2.A), according to the *Borrower Comments on the ICR* (page 12). The concept of "destination management process" was not altogether clear and there was a disparity between the expectations of the Government and that of the Bank about the associated activity (Project component 2.B), also according to the *Borrower Comments on the ICR* (page 14).
- The project implementation timetable was too optimistic and did not account for the length of time to implement infrastructure sub-projects, the permit requirements for cultural heritage sites, and the implementation capacity of the Cabinet.
- The Steering Committee was not conversant nor engaged in the technical aspects of the project, and a counterpart Technical Committee drawn from line ministries would have filled the gap.
- The project did not provide for the appointment of a Monitoring and Evaluation Officer at the Project Implementation Unit at the outset.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision
The advisory role of the Delegation of the EU will consist of receiving semi-annual progress reports from the Steering Committee and holding consultations with the Steering Committee at those times.

Supervision. The Bank conducted 17 supervision missions over the six-year duration of the project and filed 10 Implementation Status and Results Reports (ISRs). The Bank also posted 12 Aide Memoires in the Operations Portal for 12 of the implementation support missions. According to the ICR (pages 28-29), the quality of supervision was high, as the Bank: (a) provided support to solving problems as they emerged; (b) involved staff both from headquarters and from the region, including staff in financial management, procurement, and environmental management; (c) fielded experts in specialized consultants in areas covered by the project; and (d) communicated frequently with the Government, notably bi-weekly with the Project Implementation Unit during the first year of project implementation. Importantly, during the peak of the COVID-19 pandemic, the Bank hired a local firm to support the supervision, as well as the monitoring, of the infrastructure sub-projects under the third project component.

Adaptation. The Bank restructured the project four times (see Section 2.E). Apart from the revision in the disbursement arrangement in the first restructuring, and in some results indicators in the second restructuring, the notable decision made in three restructurings was to extend the project closing by a cumulative one year and nine months. The Bank also jointly decided with the Government to cancel some activities under the first and second project components, for which there was a lack of material progress despite the extensions (see Section 4).

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The Project Appraisal Document defined three outcome indicators and eight output indicators to measure the achievement of the project objectives. The methodologies to measure the indicators were not spelled out until the first quarter of 2019, and the exercise required the active effort of a Bank M&E expert. Altogether, the indicators were relevant to measure progress toward the achievement of the project objectives. Moreover, the indicators were well defined and measurable (Annex 6 of the ICR defines each of the indicators clearly and describes the methods for data collection, including the use of surveys for at least two of the indicators).

The second restructuring of October 2019 added an output indicator for the first objective to enhance the contribution of tourism to local economic development and revised the outcome indicator for the objective to improve the capacity of the government and public entities to foster tourism growth and facilitate destination management (see Section 2.E).

The grant agreement called for the Project Implementation Unit at the Cabinet of the Deputy Minister for Economic Affairs to be responsible for M&E.

b. M&E Implementation
Although M&E was rated moderately satisfactory in the last ISR of June 2021, the ICR (page 25) cites many problems with M&E implementation.

- M&E arrangements were not in place until 2018 (the second year of project implementation).
- The first M&E specialist at the Project Implementation Unit worked for a few months and then resigned. A new M&E specialist was hired in July 2018 but was also assigned as external communications officer. Following the restructuring of the project in June 2021, the employment contract of the M&E specialist was not renewed and another staff member at the Project Implementation Unit was tasked to collect the final dataset for the project.
- The Cabinet of the Deputy Minister for Economic Affairs focused on project activities and fund disbursements, and did not devote enough attention to M&E.

- The data for two outcome indicators – "Additional private investment generated in tourism-related activities at beneficiary destinations" and "Increase in tourism-related jobs in beneficiary destinations" – were not correctly reported until 2020.
- As much as it disrupted the project activities, the COVID-19 pandemic hampered the conduct of M&E. Field visits slowed down as did activities to verify the collected data and information. Thereafter, it was difficult to restart these tasks.

The ICR credits the Bank with helping the Project Implementation Unit rectify its M&E problems.

c. M&E Utilization

The M&E data was helpful in the restructurings of 2019, 2020, and 2021 and also useful for the preparation of the ICR.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

Environmental Safeguards. The project was classified as an Environmental Assessment Category "B" at appraisal and triggered safeguard policies OP/BP 4.01 - Environmental Assessment, OP/BP 4.04 - Natural Habitats, and OP/BP 4.11 - Physical Cultural Resources. The major environmental issues were: (a) the risks and impacts for civil works, including, emissions of dust; emissions of noise, occupational health and safety issues, and community health and safety issues (traffic disturbances, generation of hazardous waste, storage and management of materials); (b) the potential impact on the biodiversity and nature in protected areas (a significant share of tourism in North Macedonia occurs in nature-protected areas); and (c) the potential impact on cultural heritage sites (North Macedonia is a rich cultural heritage area).

The Government prepared an Environmental and Social Management Framework to govern the screening, mitigation, monitoring, and institutional measures to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels. All project activities were screened under Environmental and Social Management Framework and site-specific Environmental and Social Management Plans or Environmental and Social Management Checklists were prepared, together with stand-alone or integrated Cultural Heritage Management Plans (when applicable), for all sub-projects classified as Category B activities. More than 371 sub-projects were screened for environmental and social safeguards and 62 grant agreements were signed. Environmental and Social Management Plans or Environmental and Social Management Checklists were finalized for 43 of the proposed sub-projects (although 5 of these sub-projects were dropped).

The ICR (pages 26-27) rated the compliance with environmental safeguards as moderately satisfactory (although the ISRs, much less the last ISR, did not at all rate the compliance with environmental safeguards, nor that with overall safeguards).

Social Safeguards. The project triggered the OP/BP 4.12 - Involuntary Settlement because of the infrastructure grants to the local governments. The Government prepared a Precautionary Resettlement Policy Framework to govern potential land acquisitions. Proposed sub-projects would be screened by the municipality; the Project Implementation Unit would review whether the sub-projects triggered OP/BP 4.12; and based on that review, would prepare an abbreviated Resettlement Action Plan. During project implementation, however, no municipality engaged in land acquisition, and, thus, no sub-project triggered the social safeguards policy.

The project had a working grievance redress mechanism at the central and local levels. The majority of grievances received at the central level pertained to proposed tourism grants for private entities, while some pertained to proposed infrastructure sub-projects. The Project Implementation Unit had committees that reviewed the grievances and prepared the record for every case. There were no grievances filed for any of the sub-projects that were finally implemented.

b. Fiduciary Compliance

Financial Management. The project complied with all financial management covenants: (a) satisfactory financial management arrangements were in place; (b) quarterly reports were prepared and submitted in a timely manner to the Bank; (c) project and entity audit reports were prepared and submitted in a timely manner; and (d) management letter prepared by the auditors did not find any major weaknesses and deficiencies with financial management. Financial management was rated moderately satisfactory through the middle of project implementation, and satisfactory after that (including in the last ISR of June 2021).

Procurement. The procurement plan was updated regularly throughout project implementation. Contracts were executed according to plan and within the contract cost. Except for few conflict-of-interest cases, which the Bank reviewed, there were no major issues with procurement. Although several complaints were filed, but they were all addressed and resolved without a need to change the procurement evaluation committee’s initial decision. Procurement was rated moderately satisfactory throughout project implementation (including in the last ISR of June 2021).

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Substantial	Modest	M&E was hampered by implementation problems.
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the ICR (pages 29-30), with some adaptation.

Complex project design with inter-dependent project activities, diverse infrastructure types, and numerous implementing entities with varying capacities may make project implementation difficult. The design of this project was overly complicated. Many project activities were finely interlinked - some activities could not be initiated without other activities being completed, some could not even be precisely defined without the products and results of other activities being delivered. In particular, the activities under the second project component were dependent on activities under the first project component. Many activities required collaboration between the government and various sets of private stakeholders, but consensus-building typically takes time and effort. Infrastructure sub-projects could be proposed by regional development centers, municipalities, and other public entities. Tourism services and linkage and innovation sub-projects could be submitted by business associations, training and educational service providers, civil society organizations, destination management organizations, and micro and small private enterprises. The sub-project beneficiaries had limited capacities in various aspects of project design, implementation, and supervision. Clearly defined and streamlined project activities, focused investments, and selective sub-project beneficiaries would have made for a project that was easier to implement and complete.

The choice of a political body rather than a line ministry or a sector agency may complicate project implementation and may not create institutional development gains via the project experience. In this project, the Cabinet of the Deputy Minister for Economic Affairs was selected as the implementing agency by the Government and the Bank. The performance of the implementing agency was cramped by several challenges owing to the political focus of the Cabinet, according to the ICR. There were four Deputy Prime Ministers for Economic Affairs over the six-year life of the project. Each election cycle (there was a presidential election in 2019 and parliamentary elections in 2016 and 2020) stalled project activities. The staff was limited as well, causing delays in decision-making. Overall, clearances required for project activities were delayed. While the ICR admits that the project experience was valuable to the Cabinet of the Deputy Minister for Economic Affairs, greater institutional development gains would have been realized with the selection of a line ministry or sectoral agency as the project implementing agency.

Tourism infrastructure sub-projects designed for local sites, requiring regulatory clearances and permits, and involving local agencies of varying capacities would require a longer time period to implement. The original four-year implementation timeline was not sufficient for the class of sub-projects planned for this operation. Infrastructure sub-projects in selected tourism destinations would take time to design, contract for, and construct. Moreover, it would take time to secure permits for sub-projects in cultural heritage sites, considering both the nature of cultural tourism and the cumbersome processes that tied up the regulatory system. In practice, for several cases, it took more than a year to obtain permits for sub-projects in cultural heritage sites. Disruptions caused by the COVID-19 pandemic would aggravate the problem once the sub-projects slipped into 2020. The ICR also faults the restructurings for the short time periods by which the project was extended at each restructuring.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

Consistency with Guidelines. The ICR is consistent with OPCS guidelines on ICRs for investment operations.

Conciseness. The account of the project's performance is well informed and concisely presented.

Results Orientation. The efficacy assessment is outcome-oriented and based on the degree of achievement of the targets for the output and outcome indicators. The assessment is also informed by the progress or the lack of progress with the project activities.

Quality of Evidence. The ICR presents ample evidence to support its assessment of the Bank's performance at project design and during project implementation.

Quality of Analysis. The assessment of the efficacy of the program is candid.

Lessons. The ICR draws lessons that would be valuable to future tourism development projects.

Shortcomings. The ICR lacked a few details, including the amount of grant funds disbursed by project component, the status of the beneficiaries’ contribution, and a summary list of project activities cancelled or stopped.

a. Quality of ICR Rating

Substantial