GRANT NUMBER TF0A1779

Grant Agreement
(Local and Regional Competitiveness in Tourism Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
(Recipient)

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
acting as Administrator of the European Commission for the European Union
Instrument for Pre-Accession Trust Fund

Dated January 14, 2016
GRANT AGREEMENT

AGREEMENT dated January 1, 2016, entered into between the Recipient and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank"), acting as Administrator of the European Commission for the European Union Instrument for Pre-Accession Trust Fund (EC IPA TF) funds provided by the European Commission ("Donor").

WHEREAS the World Bank, according with the terms of the Administration Agreement signed with the European Commission on December 28, 2015, shall carry out Component 1 of the Project, the Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions


1.02. 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.

Article II
The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient, through the PIU, shall carry out Components 2, 3 and 4 of the Project in accordance with: (i) the provisions of Article II of the Standard Conditions; and (ii) the Project Operations Manual and the Grants Manual, both adopted and acceptable to the World Bank.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank 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 III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to fifteen million seven hundred and sixty thousand Euro (EUR 15,760,000) ("Grant") to assist in financing the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donor to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donor under the abovementioned trust fund, and the Recipient's right to withdraw the Grant proceeds is subject to the availability of such funds.

Article IV
Effectiveness; Termination

4.01. The following events are specified as additional conditions to the effectiveness of this Agreement:

(a) The PIU has been staffed with professionals in numbers and with experience and terms of reference acceptable to the World Bank; and

(b) The Project Operations Manual has been adopted by the Recipient in a manner acceptable to the World Bank.

Article V
Recipient's Representative; Addresses

5.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Finance.

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

Ministry of Finance
Dame Gruev 12
1000 Skopje

Facsimile:
5.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391

AGREED at ____________, __________, as of the day and year first above written.

RECIPIENT

By

Authorized Representative
Name: ZORAN STAVERESKI
Title: DEPUTY PRIME MINISTER AND MINISTER OF FINANCE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
acting as Administrator of the EC IPA Trust Fund

By

Authorized Representative
Name: ELLEN GOLDSTEIN
Title: COUNTRY DIRECTOR, ECCU4
SOUTHEAST EUROPE
SCHEDULE 1
Project Description

The objectives of the Project are to: (i) to enhance the contribution of tourism to local economic development; and (ii) improve the capacity of the Recipient’s government and public entities to foster tourism growth and facilitate destination management.

The Project consists of the following parts:

Component 1: Technical assistance for tourism development (Bank-executed).

Provision of technical assistance to (i) improve the capacity of public and private stakeholders in supporting tourism development at the national level in a number of areas, including, inter alia, institutional coordination, data usage, and business environment; and (ii) support the Recipient-executed activities under Components 2, 3 and 4 of the Project.

Component 2: Strengthening destination management and enabling environment

2.1 Strengthening the Recipient’s institutional capacity and coordination at the central government level through, inter alia: (i) carrying out of training in public-private dialogue and tourism development; (ii) supplying software systems and equipment to implement improvements in data- and information-gathering; and (iii) provision of technical assistance.

2.2 Developing destination management capacity of key stakeholders (including, inter alia, tour operators, municipalities, centers for regional development, NGOs, skills development institutions, national parks authorities) in selected locations within the Recipient’s territory, through the provision of technical assistance, training, equipment and software systems, all in accordance with the relevant criteria set forth in the Project Operations Manual.

Component 3: Investment in tourism-related infrastructure and linkages at destinations

3.1 Provision of technical assistance and financing to selected infrastructure Subprojects that are aimed to improve the physical condition, access and marketing of touristic local attractions, cultural and natural heritage sites.

3.2 Provision of financing to selected non-infrastructure Subprojects (relating to, inter alia, promotional activities, capacity building and technological innovation in connection with tourism products and services) aimed to enhance tourism service-delivery and benefit local economies.
Component 4: Strengthening project management

Improving the institutional capacity of the PIU through the provision of consultant services, training, goods, and operating costs associated with the implementation, monitoring and evaluation of the Recipient-executed activities under Components 2, 3 and 4 of the Project.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional and Implementation Arrangements

1. Throughout the duration of the Project, the Recipient shall maintain the PIU with a composition, adequate staff and resources, functions and responsibilities (including the responsibility to manage, coordinate, monitor and evaluate the implementation of the Project) satisfactory to the World Bank.

B. Subprojects

1. Sub-projects under Component 3 of the Project shall be selected, appraised, implemented and evaluated in accordance with the principles, procedures and requirements set forth in this Agreement, the Project Operations Manual, the Grants Manual, the Procurement and Consultants Guidelines, the Anti-Corruption Guidelines, the ESMF and the RPF (including any related safeguards documents as needed).

2. Without limitations to the provisions of paragraph B.1 of this Section, the Recipient, through the PIU, shall enter into a separate agreement with a Beneficiary, as applicable, responsible for carrying out a Subproject, under terms and conditions acceptable to the World Bank (the “Sub-grant Agreement”), which shall provide, inter alia, the Beneficiary’s obligations to carry out the implementation, management and maintenance of the Subproject in accordance with the terms and requirements of this Agreement, the Project Operations Manual, the Grants Manual, the Procurement and Consultants Guidelines, the Anti-Corruption Guidelines, the ESMF and the RPF (including any related safeguards documents as needed) and the Recipient’s obligation, through the PIU, to transfer parts of the proceeds of the Grant to the Beneficiary for the implementation of any Subproject.

3. Without limitation to the provisions of paragraphs B.1 and B.2 of this Section, the Recipient, through the PIU, shall be entitled to suspend in whole or in part the portion of the Grant allocated to finance a given Subproject in case the Beneficiary has failed to comply with any of its obligations under the corresponding Sub-grant Agreement and/or terminate the Sub-grant Agreement (as the case may be).
C. Safeguards

1. The Recipient, through the PIU, shall carry out the Project in accordance with the ESMF and the RPF and shall not amend, suspend, abrogate, repeal or waive any provisions of the ESMF and the RPF without the prior approval of the World Bank.

2. The Recipient shall ensure that all measures necessary for the carrying out of an environmental and social screening, as provided in the ESMF, shall be taken by the PIU in a timely manner for any Subprojects, and shall cause the PIU to include adequate information on the carrying out of such measures as part of the reporting requirements outlined in the Project Operations Manual.

3. For purposes of carrying out and prior to the commencement of any activity under any Subproject, the Recipient, through the PIU, shall or shall cause a Beneficiary under the pertinent Sub-grant Agreement, as applicable, to: (a) submit to the World Bank for its prior approval: (i) the proposed site for said works and, where required by the ESMF and/or RPF, the related site-specific environmental management plan, or any other applicable environmental due diligence document defined in ESMF, and/or resettlement plan (as applicable), said site-specific plans, documents and checklist to be in form and substance satisfactory to the World Bank; and (ii) the proposed contract for said activities to ensure that the provisions of said site-specific plans and checklist are adequately included in said contract; and (b) ensure that such activities are carried out in accordance with the ESMF, the RPF, and any site-specific environmental management plan, and/or resettlement plan (as applicable), and in a manner acceptable to the World Bank.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”).

E. Donor Visibility and Visit

1. The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor support for the Project.

2. 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 Donor to visit any part of the Recipient’s territory for purposes related to the Project.
Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. 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 the indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar semester, 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.

2. 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 six (6) months after the Closing Date.

B. Financial Management; Financial Reports; Audits

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

2. 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.

3. The Recipient shall have its Financial Statements for the Project audited 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 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.

Section III. Procurement

A. General

1. Procurement and Consultant Guidelines. All goods, works, non-consulting services and consultants’ 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:

   (a) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July
2014) ("Procurement Guidelines") in the case of goods, works and non-consulting services, and Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) ("Consultant Guidelines") in the case of consultants’ services; and

(b) the provisions of this Section III, 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 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

2. Definitions. The capitalized terms used below in 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 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, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding, subject to the additional procedures set forth in the Annex to Schedule 2 of this Agreement.

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the additional provisions set forth in the Annex to Schedule 2 of this Agreement; (b) Shopping; (c) Direct Contracting; and (d) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the World Bank.

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 assignments 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) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the World Bank; (g) Selection of Individual Consultants; and (h) Single-source procedures for the Selection of Individual Consultants.

D. 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.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of 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 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 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:
### Amount of the Grant Allocated

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in Euro)</th>
<th>Percentage of Expenditures to be Financed (exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, operating costs, training, non-consulting services, and consultants’ services under Components 2 and 4 of the Project</td>
<td>2,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Subprojects under Component 3 of the Project</td>
<td>13,260,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>15,760,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

3. For the purposes of this table:

   (a) the term “Operating Costs” means the incremental expenses incurred on account of Project implementation, management, monitoring and evaluation, including dissemination of Project related information and publications, office rent and utilities, insurance, maintenance and repair of office equipment and vehicles, local travel, costs and field trip expenses (including per diem), communication, translation and interpretation, bank charges, salaries of the PIU staff, and other miscellaneous costs directly associated with the Project, all based on periodic budgets acceptable to the World Bank; and

   (b) the term “Training” means the costs incurred for any training conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consultants’ services), all based on periodic budgets acceptable to the World Bank.

### 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; or

(b) under Category 2 of the Project, until and unless, the Recipient, through the PIU, shall have adopted the Grants Manual in a manner acceptable to the WorldBank.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2019.
ANNEX TO
SCHEDULE 2

Additional Provisions for National Competitive Bidding

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Procurement Guidelines, the following criteria shall be followed in procurement under National Competitive Bidding procedures:

(a) Generalities

Bidding shall be conducted using “Open Procedures.” Furthermore, restricted procedure shall not be used without the express consent of the Bank and is subject to the following conditions:

- the contracting authority shall invite all the candidates that meet the selection criteria; and
- no maximum number of selected candidates shall apply.

(b) 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.
- Foreign bidders not from the territory of the Recipient shall not be precluded from bidding. If a registration process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register.

(c) Advertising, time for submission of bids

- Invitations to bid shall be advertised in at least one widely circulated national daily newspaper. Invitations could be also advertised on the web sites of the Public Procurement Bureau and of the Cabinet of Deputy Prime Minister for Economic Affairs of the Recipient.
- Time allowed for the preparation and submission of bids shall not be less than thirty (30) days from the time of the invitation to bid or the date of availability of bidding documents, whichever is later.
(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 (1) widely circulated national daily newspaper. Invitations could be also published on the web sites of the Public Procurement Bureau and of the Cabinet of Deputy Prime Minister for Economic Affairs of the Recipient.
- Time allowed for the preparation and submission of bids shall not be less than thirty (30) days from the time of the invitation to bid or the date of availability of bidding documents, whichever is later.
- Minimum experience, and technical and financial requirements, shall be explicitly stated in the pre-qualification documents.

(e)  *Participation of 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 acceptable to the Bank for procurement of goods and works.

(g)  *Bid Opening, Bid Evaluation and Contract Award*

- 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.
- No bids shall be rejected at the bid opening except for late bids and bids shall not be evaluated as part of bid opening process.
- The economic, financial and technical capacity of the bidders cannot be guaranteed by another entity, except joint venture and observing those criteria set up in the bidding documents.
- Evaluation of bids shall be made in strict adherence to the quantifiable criteria declared in the bidding documents and evaluation criteria other than price shall be quantified in monetary terms.
- Bids not substantially responsive shall be rejected.
- Extensions of bid validity will be allowed once only for not more than thirty (30) days. No further extensions shall be requested without the prior approval of the Bank.
- Contracts shall be awarded to the qualified bidder having submitted the lowest-evaluated and substantially responsive bid. No negotiation shall take place.
(h) **Rejection of all bids**

All bids shall not be rejected and a new procurement process starts without the Bank's prior concurrence.

(i) **Price Adjustment**

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

(j) **Securities**

- Bid security and performance security should follow the generally accepted practice used in the local market.
- Alternative methods such as bid securing declaration may be acceptable, in which case the Recipient may require bidders to sign a declaration accepting that if they withdraw or modify their bids during the period of validity or they are awarded the contract and they fail to sign the contract or to submit a performance security before the deadline defined in the bidding documents, the bidder will be suspended for bidding in any contract with the implementing unit.
- 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 Bank.

(k) **Right to inspect and audit**

Each contract financed from the proceeds of the Loan 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.

(l) **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 World Bank Group.
APPENDIX

Definitions

1. "Beneficiary" means any recipient of a Sub-grant under Component 3 of the Project, including but not limited to, municipalities and other public entities responsible for cultural heritage and tourism infrastructure in the Recipient’s territory, NGOs, chambers of commerce, business associations, Region Development Centers (as defined in Recipient’s Law No. 63/2007 dated May 15, 2007), training and educational service providers, private micro and small sized enterprises, which will be directly carrying procurement activities in connection with a Subproject, each such beneficiary selected in accordance with the criteria and procedures set forth in the Project Operations Manual and the Grants Manual.

2. "ESMF" means the Environmental and Social Management Framework, satisfactory to the World Bank, dated December 1, 2015, adopted by the Recipient and consisting of a Subproject screening mechanism, and a set of mitigation, monitoring, and institutional measures (including measures for chance finding of cultural property and protection of natural habitats), required for the Project and aimed to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement said measures, including the measures and information required for the preparation of any site-specific environmental and social management plans.

3. "Grants Manual" means the manual referred to in Section 1.B.1 of Schedule 2 to this Agreement, attached as an annex to the Project Operations Manual, and setting forth the detailed procedures for the selection and implementation of Subprojects under Component 3 of the Project, including, inter alia: (i) the application process; (ii) adequate procedures and controls relating to eligibility, evaluation, procurement and flow of funds arrangements; (iii) the procedures for carrying out environmental and social screening; (iv) the procedures for carrying out any works; (v) the criteria for selecting a Beneficiary; and (vi) the guidelines for complaints handleings, as such manual may be amended from time to time with the agreement of the World Bank.

4. "PIU" means the Project Implementation Unit established within the Cabinet of the Deputy Prime Minister for Economic Affairs.

5. "Project Operations Manual" means the manual to be adopted by the Recipient pursuant to Section 4.01(b) of this Agreement and setting forth the operational requirements, criteria, institutional arrangements and operational procedures for the implementation of the Project, including, inter alia, procurement, financial management, disbursement, accounting, audit, monitoring and evaluation.
arrangements, as said manual may be amended from time to time with the agreement of the World Bank.

6. “RPF” means the Resettlement Policy Framework, satisfactory to the World Bank, dated December 1, 2015, adopted by the Recipient and setting forth, inter alia: (i) the legal basis and screening process for land acquisition, resettlement and land use in connection with works and construction activities to be carried out under the Project; (ii) the resettlement principles and entitlements of Project affected people based on different categories of impact; (iii) the procedures for valuation, compensation and other assistance provided to the affected people, including the grievance process; and (iv) the responsibilities, procedures and requirements for the development and implementation of any site-specific resettlement plan.

7. “Sub-grant” means a grant made or proposed to be made by the Recipient, through PIU, to a Beneficiary to finance, in whole or in part, the carrying out of an activity under Component 3 of the Project.

8. “Sub-grant Agreement” means the agreement satisfactory to the World Bank to be entered into between the Recipient, through the PIU, and a Beneficiary, such agreement to provide, inter alia, for the responsibility of the Beneficiary in the implementation of Subprojects under Component 3 of the Project.