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Report No:  
PP1574

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED TRUST FUND GRANT  
IN THE AMOUNT EUR 18 MILLION

FINANCED BY THE EUROPEAN UNION INSTRUMENT FOR PRE-ACCESSION II

TO THE

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

FOR A

LOCAL AND REGIONAL COMPETITIVENESS PROJECT

January 12, 2016

Trade and Competitiveness Global Practice  
Europe and Central Asia Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective: October 20, 2015)

Currency Unit = EUR  
EUR 1 = USD 1.1381

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

APST	Agency for Promotion and Support of Tourism
BEEPS	Business Environment and Enterprise Performance Survey
B2B	Business to Business
CCE	Community and Citizen Engagement
CDPMEA	Cabinet of Deputy Prime Minister for Economic Affairs
CIIP	Competitive Industries and Innovation Program
CPS	Country Partnership Strategy
DMO	Destination Management Organization
DIU	Democratic Union for Integration
EC	European Commission
ECA	Europe and Central Asia
EMP	Environmental Management Plan
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
EU	European Union
EUR	Euro
FY	Fiscal Year
fYR	former Yugoslav Republic
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IRR	Internal Rate of Return
FDI	Foreign Direct Investment
FM	Financial Management
IPA	Instrument for Pre-Accession Assistance
ISP	Implementation Support Plan
LED	Local Economic Development
LRCP	Local and Regional Competitiveness Project
MICE	Meetings, Incentives, Conferences, Exhibitions
MKD	Macedonian Denar
MOE	Ministry of Economy
MOC	Ministry of Culture

MOLSG	Ministry of Local Self Government
NGO	Non-Governmental Organization
NECC	National Entrepreneurship and Competitiveness Council
NPV	Net Present Value
OP/BP	Operational Policy/Bank Procedures
PESR	Public Enterprise for State Roads
PIU	Project Implementation Unit
POM	Project Operations Manual
PPD	Public Private Dialogue
SEE	South East Europe
SME	Small and Medium Enterprise
SORT	Systematic Operations Risk-Rating Tool
TA	Technical Assistance
TBD	To Be Determined
TTL	Task Team Leader
UNESCO	United Nations Education, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VCA	Value Chain Analysis
WBG	World Bank Group
WG	Working Group
WEF	World Economic Forum

Regional Vice President:	Cyril E. Muller
Country Director:	Ellen A. Goldstein
Senior Global Practice Director:	Anabel Gonzalez
Practice Manager (Acting):	Javier Suarez
Task Team Leader(s):	Gordana Popovikj Friedman, Melissa Rekas

**MACEDONIA**  
**Local and Regional Competitiveness Project (P154263)**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>I. STRATEGIC CONTEXT .....</b>	<b>1</b>
A. Country Context.....	1
B. Sectoral and Institutional Context.....	2
C. Higher Level Objectives to which the Project Contributes .....	4
<b>II. PROJECT DEVELOPMENT OBJECTIVES .....</b>	<b>5</b>
A. PDO.....	5
B. Project Beneficiaries .....	5
C. PDO Level Results Indicators.....	6
<b>III. PROJECT DESCRIPTION .....</b>	<b>6</b>
A. Project Components .....	6
B. Project Financing .....	9
<b>IV. IMPLEMENTATION .....</b>	<b>10</b>
A. Institutional and Implementation Arrangements .....	10
B. Results Monitoring and Evaluation .....	11
C. Sustainability.....	11
<b>V. KEY RISKS.....</b>	<b>11</b>
A. Systematic Operations Risk- Rating Tool (SORT) Summary Table .....	11
B. Overall Risk Rating and Explanation of Key Risks.....	12
<b>VI. APPRAISAL SUMMARY .....</b>	<b>12</b>
A. Economic Analysis .....	12
B. Technical.....	13
C. Financial Management.....	13
D. Procurement .....	14
E. Social (including Safeguards).....	14
F. Environment (including Safeguards) .....	14
<b>Annex 1: Results Framework and Monitoring .....</b>	<b>16</b>

<b>Annex 2: Detailed Project Description.....</b>	<b>20</b>
<b>Annex 3: Implementation Arrangements .....</b>	<b>43</b>
<b>Annex 4: Implementation Support Plan .....</b>	<b>59</b>
<b>Annex 5: Systematic Operations Risk- Rating Tool (SORT).....</b>	<b>61</b>
<b>Annex 6: Economic and Financial Analysis .....</b>	<b>65</b>

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## PAD DATA SHEET

*Macedonia, former Yugoslav Republic of  
Local and Regional Competitiveness Project (P154263)*

### PROJECT APPRAISAL DOCUMENT

*EUROPE AND CENTRAL ASIA*

*0000009370*

Report No.: PP1574

Basic Information			
Project ID P154263	EA Category B - Partial Assessment	Team Leader(s) Gordana Popovikj Friedman, Melissa Rekas	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 13-Jan-2016	Project Implementation End Date 31-Dec-2019		
Expected Effectiveness Date 15-Feb-2016	Expected Closing Date 31-Dec-2019		
Joint IFC No			
Practice Manager/Manager Paloma Anos Casero	Senior Global Practice Director Anabel Gonzalez	Country Director Ellen A. Goldstein	Regional Vice President Cyril E Muller
Approval Authority			
Approval Authority RVP Decision			
Recipient: Former Yugoslav Republic of Macedonia			
Responsible Agency: Cabinet of the Deputy Prime Minister for Economic Affairs			
Contact: Telephone No.:	Romela Popovic 38923118022	Title: Email:	Head of Cabinet Romela.Popovic@gs.gov.mk

<b>Project Financing Data(in USD Million)</b>										
<input type="checkbox"/>	Loan	<input type="checkbox"/>	IDA Grant	<input type="checkbox"/>	Guarantee					
<input type="checkbox"/>	Credit	<input checked="" type="checkbox"/>	Grant	<input type="checkbox"/>	Other					
Total Project Cost:		26.08			Total Bank Financing:		0.00			
Financing Gap:		0.00								
<b>Financing Source</b>					<b>Amount</b>					
Recipient					3.62					
Free-standing TFs for ECA CU4 Country Unit					19.36					
Local Sources of Borrowing Country					3.11					
Total					26.08					
<b>Expected Disbursements (in USD Million)</b>										
Fiscal Year	2016	2017	2018	2019	2020	0000	0000	0000	0000	0000
Annual	0.85	3.75	4.90	6.70	3.16	0.00	0.00	0.00	0.00	0.00
Cumulative	0.85	4.60	9.50	16.20	19.36	0.00	0.00	0.00	0.00	0.00
<b>Institutional Data</b>										
<b>Practice Area (Lead)</b>										
Trade & Competitiveness										
<b>Contributing Practice Areas</b>										
Education, Gender, Jobs, Social, Urban, Rural and Resilience Global Practice										
<b>Cross Cutting Topics</b>										
<input type="checkbox"/>	Climate Change									
<input type="checkbox"/>	Fragile, Conflict & Violence									
<input checked="" type="checkbox"/>	Gender									
<input checked="" type="checkbox"/>	Jobs									
<input type="checkbox"/>	Public Private Partnership									
<b>Sectors / Climate Change</b>										
Sector (Maximum 5 and total % must equal 100)										
Major Sector				Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %	
Industry and trade				General industry and trade sector		80				
Public Administration, Law, and Justice				Public administration-Industry and trade		10				

Education	Vocational training	10		
Total		100		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
<b>Themes</b>				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Financial and private sector development	Infrastructure services for private sector development	30		
Financial and private sector development	Micro, Small and Medium Enterprise support	20		
Trade and integration	Regional integration	20		
Urban development	Cultural Heritage	20		
Human development	Education for the knowledge economy	10		
Total		100		
<b>Proposed Development Objective(s)</b>				
The Project Development Objective (PDO) is 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.				
<b>Components</b>				
<b>Component Name</b>		<b>Cost (USD Millions)</b>		
Component 1: Technical assistance for tourism development (Bank Executed)		1.42		
Component 2: Strengthening destination management and enabling environment (Recipient Executed)		1.35		
Component 3: Investment in tourism-related infrastructure and linkages at destinations (Recipient Executed)		21.81		
Component 4: Strengthening project management (Recipient Executed)		1.50		
<b>Systematic Operations Risk- Rating Tool (SORT)</b>				
<b>Risk Category</b>			<b>Rating</b>	
1. Political and Governance			Substantial	
2. Macroeconomic			Moderate	
3. Sector Strategies and Policies			Moderate	
4. Technical Design of Project or Program			Moderate	
5. Institutional Capacity for Implementation and Sustainability			Moderate	



6. Fiduciary	Substantial		
7. Environment and Social	Moderate		
8. Stakeholders	Substantial		
9. Other			
<b>OVERALL</b>	Moderate		
<b>Compliance</b>			
<b>Policy</b>			
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]	
Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]	
Have these been approved by Bank management?	Yes [ ]	No [ ]	
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]	
<b>Safeguard Policies Triggered by the Project</b>			
	<b>Yes</b>	<b>No</b>	
Environmental Assessment OP/BP 4.01	<b>X</b>		
Natural Habitats OP/BP 4.04	<b>X</b>		
Forests OP/BP 4.36		<b>X</b>	
Pest Management OP 4.09		<b>X</b>	
Physical Cultural Resources OP/BP 4.11	<b>X</b>		
Indigenous Peoples OP/BP 4.10		<b>X</b>	
Involuntary Resettlement OP/BP 4.12	<b>X</b>		
Safety of Dams OP/BP 4.37		<b>X</b>	
Projects on International Waterways OP/BP 7.50		<b>X</b>	
Projects in Disputed Areas OP/BP 7.60		<b>X</b>	
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
<b>Description of Covenant</b>			
<b>Conditions</b>			
<b>Source Of Fund</b>	<b>Name</b>		<b>Type</b>
F7U4	Project Implementation Unit		Effectiveness

<b>Description of Condition</b>				
The PIU has been staffed with professionals in numbers and with experience and terms of reference acceptable to the World Bank.				
<b>Source Of Fund</b>	<b>Name</b>			<b>Type</b>
F7U4	Project Operations Manual			Effectiveness
<b>Description of Condition</b>				
The Project Operations Manual has been adopted by the Recipient in a manner acceptable to the World Bank.				
<b>Source Of Fund</b>	<b>Name</b>			<b>Type</b>
F7U4	Grant Manual			Disbursement
<b>Description of Condition</b>				
As a condition of disbursement for Component 3, the Recipient, through the PIU, shall have adopted the Grants Manual in a manner acceptable to the World Bank.				
<b>Team Composition</b>				
<b>Bank Staff</b>				
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>
Gordana Popovikj Friedman	Team Leader (ADM Responsible)	Private Sector Development Specialist		GTCDR
Melissa Rekas	Team Leader	Senior Private Sector Development Specialist		GTCDR
Antonia G. Viyachka	Procurement Specialist	Procurement Specialist	Procurement	GGODR
Anneliese Viorela Voinea	Financial Management Specialist	Financial Management Analyst		GGODR
Ahmed A. R. Eiweida	Peer Reviewer	Lead Urban Specialist		GSURR
Antonio Cristian D'Amelj	Counsel	Senior Counsel	Legal	LEGLE
Arabela Sena Arahamian	Peer Reviewer	Senior Operations Officer		GTCDR
Bekim Imeri	Safeguards Specialist	Senior Social Development Specialist	Social Safeguards Specialist	GSURR
Bojana Naceva	Team Member	Senior Education Specialist		GEDDR
Cveta Peruseska-Joncevska	Team Member	Executive Assistant		ECCMK

Daria Goldstein	Counsel	Lead Counsel		LEGCF
Djamilya Salieva	Team Member	Program Assistant		GTCDR
Hannah R. Messerli	Peer Reviewer	Senior Private Sector Development Specialist	Tourism Specialist	GTCDR
Hermione Louise Tara Nevill	Team Member	Operations Officer		GTCDR
Ivana Ivicic	Safeguards Specialist	Consultant		GENDR
Jasna Mestnik	Team Member	Finance Officer	Finance Officer	WFALA
Jimena Garrote	Counsel	Senior Counsel		LEGLE
John Gabriel Goddard	Team Member	Senior Economist		GTCDR
John Gerard Perrottet	Peer Reviewer	Senior Industry Specialist		GTCDR
Natasa Vetma	Safeguards Specialist	Senior Environmental Specialist	Environmental Specialist	GENDR
Shaun Mann	Peer Reviewer	Senior Investment Policy Officer		GTCDR
Tatiana Segal	Team Member	Senior Operations Officer	Trust Fund Management Specialist	GTCDR
Tatyana Shadrunkova	Team Member	Senior Operations Officer	Urban/Rural/Cultural Heritage Specialist	GSURR

**Extended Team**

Name	Title	Office Phone	Location
Iryna Bilotserkivska	Consultant		
Todor Milchevski	Consultant		

**Locations**

Country	First Administrative Division	Location	Planned	Actual	Comments

**Consultants (Will be disclosed in the Monthly Operational Summary)**

Consultants Required ?	Consultants will be required
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## I. STRATEGIC CONTEXT

**1. The Delegation of the European Union (EU) in FYR Macedonia, in partnership with the Government of FYR Macedonia, has selected the World Bank to manage the implementation of the EUR 18,000,000 (US\$20,486,672 equivalent)<sup>1</sup> Local and Regional Competitiveness Project (LRCP), with a focus on tourism development.** The proposed LRCP will be a four-year project, funded from the EU's Instrument for Pre-accession Assistance (IPA) II Program. LRCP aims 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. Improving socio-economic development by fostering growth and job creation is a priority objective of the Government, the Delegation of the EU, and the World Bank Group's (WBG) Country Partnership Strategy for FYR Macedonia.

### A. Country Context

**2. FYR Macedonia is an upper middle-income country that has made great strides in achieving macro-fiscal stability over the last decade; however, more efforts are needed to generate and sustain economic growth that creates jobs and improve living standards for all.** Following strong economic growth during the period 2002–2008 averaging 4.3 percent, average GDP growth has declined to 2.1 percent per year since 2009. Real GDP growth would need to accelerate to around 4.5 percent for FYR Macedonia to converge to the living standards of the new EU member states within the next 20 years.

**3. Accession to the EU remains the anchor of the government's reform agenda.** FYR Macedonia became an EU Candidate country in 2005, and since 2009 the EC has been recommending opening accession negotiations. However, the decision continues to be postponed in part due to the name dispute with Greece. The EC has an active program of assistance to FYR Macedonia, including IPA funding, the largest source of concessional funds in the country.

**4. The main drivers of growth since 2009 have been industry (particularly manufacturing), trade, transport, and accommodation services.** Growth in manufacturing has been driven by foreign direct investment (FDI), which averaged 4.2 percent of GDP per year in 2006-2014, most of which has been greenfield. FDI has contributed to the increased diversification of FYR Macedonia's export basket in terms of products and destinations and the increased technological intensity of its exports. The contributions of agriculture, information and communication, and the public sector to GDP growth declined in 2009-2014.

**5. Unemployment remains high, although it has declined** from a high of 38 percent in 2004 to 28 percent in 2014. In fact, FYR Macedonia is the only SEE6 country where unemployment declined in the post-crisis period. Still, at 28 percent in 2014, its unemployment rate is the second highest among SEE6 countries. Youth unemployment remains at 53.1 percent in 2014, the second highest in the SEE6 region and significantly above the EU average of 23.6 percent. In addition, gender inequalities remain and female labor force participation (for women aged 15-64) remains low at 51 percent, well below the regional average of 62 percent.

**6. Economic growth seems not to have translated into significant poverty reduction in FYR Macedonia before 2008, but poverty seems to have declined somewhat in recent years.**

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<sup>1</sup> This will be supplemented by government and beneficiary contributions.

Under a new method for measuring poverty in FYR Macedonia<sup>2</sup>, poverty declined slightly from 27.0 percent in 2010 to 24.2 percent in 2013. Still, around 40 percent of the Macedonian population is considered to be severely materially deprived. This is more than double the average of the new EU member states and more than four times higher than the EU-28 average.

**7. As a small, open economy FYR Macedonia needs to rely on further growth in exports and increased competitiveness to answer its long-term growth challenge.** In spite of progress attracting export-oriented FDI, local small and medium companies' capacity to further integrate into international markets is limited by their relatively low managerial, financial, and technical capacity. Continued efforts to improve competitiveness are particularly important given the country's exchange rate peg to the Euro. Further efforts to boost growth by investing in infrastructure, facilitating business growth and linkages, strengthening the investment climate, supporting innovation, and further developing services (including tourism) will help the country foster sustained private sector-led growth.

**8. Challenges remain with implementation of business regulations affecting investment at the municipal and regional levels** due to uneven capacity at lower levels of administration and lack of experience dealing with foreign companies. While FYR Macedonia has achieved significant progress in the business environment as measured by Doing Business 2016 report (ranked 12<sup>th</sup> out of 189 economies), it is important to ensure that an efficient environment conducive to investment is in place throughout the country. Recent decentralization efforts, particularly of land administration, create opportunities for local authorities to improve the efficiency of the investment process (land privatization, construction permits, business licenses).

**9. Improving labor market performance for competitiveness will require a more skilled and better educated labor force and reductions in barriers to employment.** Lack of skills has been identified as a critical constraint to FYR Macedonia's competitiveness.<sup>3</sup> While access to education has improved, better linking the education system with private sector needs remains a challenge, as companies complain about the quality and availability of skills despite high unemployment. The demand for skills has been moving away from routine, cognitive activities towards "new economy" skills that include non-routine cognitive (critical thinking, problem-solving) and non-cognitive skills (interpersonal skills, teamwork, work ethic, grit).

## **B. Sectoral and Institutional Context**

**13. FYR Macedonia has good tourism potential, but is starting from a relatively low base.** Capital city Skopje and UNESCO-protected Ohrid remain the key tourist destinations in the country, complemented by traditional Balkan village scenes and diverse communities, and ski resorts such as Mavrovo and Popova Sapka. Opportunities for the development of tourism sub-segments that appeal to niche markets and customers have emerged in recent years. These include rural, wine, adventure, cultural and spa tourism. Yet, the total contribution of travel and tourism to the country's GDP, employment, and total capital investment in 2014 was relatively small (5.2 percent, 4.7 percent, and 2.2 percent, respectively) in comparison with other countries

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<sup>2</sup> FYR Macedonia has recently adopted a new way of measuring poverty, as the share of the population at-risk-of poverty through the income-based Survey of Income and Living Conditions (SILC), also used in the EU. This indicator, called population at-risk-of-poverty, is measured at 60 percent of median equalized income, same as in countries in the European Union. Data based on this methodology is available starting from 2010.

<sup>3</sup> World Bank. May 2012. *Unlocking Macedonia's Competitiveness Potential: A Sectoral Assessment of the Constraints and Opportunities in Automotive, Apparel, Agribusiness, and Logistic Services.*

in the region.<sup>4</sup> By contrast, in 2014, tourism's total contribution to GDP in Bulgaria was 13.1 percent, and in Albania it was 21 percent. Growth in fYR Macedonia is, however, steadily increasing with direct GDP contributions from tourism increasing by 30 percent from 2010.

**14. The number of tourists in fYR Macedonia has been steadily increasing, but there has been limited market profiling carried out.** The total number of registered tourists (foreign and domestic) in 2014 was 735,650 (25.5 percent increase from 2010). This growth has been driven through intensive advertising activities, subsidies in tour and hotel operations, and the increasing fare and carrier competitiveness brought about by recent airport takeovers.

**15. There are three markets identified in national and regional strategic documents:** (1) domestic tourism (around 40 percent of the total) is the most developed in terms of product, but has been declining in absolute terms over the last 30 years as competition in neighboring countries increases; (2) regional tourism is the most significant foreign market in terms of overall volume and number of overnights for fYR Macedonia, with 23 percent of the total tourist numbers coming from Turkey, Bulgaria, Serbia and Greece, as has been the case for decades; and (3) international tourism (Western Europe and American) is the most significant in terms of per capita spend. Most international tourists arrive as part of tour groups, with a small minority of typically higher-spending independent tourists. Most incoming tour agencies offer packages of up to eight countries as part of a "Balkan tour" of 5 to 18 days, which tend to focus on the countries' cultural attractions and experiences, with limited nature-based activities.

**16. Most products and services in the tourism sector are provided by local small and medium enterprises (SMEs),** with a few exceptions in the form of internationally-branded business hotels such as the Holiday Inn, Best Western, Ibis, and a Marriott under development. The Government plans to provide incentives to attract foreign investment in hotels and resorts.

**17. The sector faces a series of challenges in order to fully realize its potential. The key challenges include the following:** (i) the enabling environment: business environment, tourism policy and enabling conditions (standards, licensing, ease of access to finance and knowledge, etc.), air access; (ii) the offer: positioning, visitor information, product development, site management, standards; and (iii) development/shared value: data collection, linkages, and private sector engagement.

**18. These challenges have been well articulated in a number of diagnostics over the years, and various international organizations (including USAID, UNIDO, Swisscontact, and GIZ) are very active in the sector.** LRCP will focus on addressing a series of macro-level issues that are as yet not fully addressed under existing programs, together with destination-level interventions. This approach will complement the work already being done by the Government and other donors to ensure a comprehensive approach is being applied to the sector.

**19. Importance of the tourism sector is emphasized in national and regional strategies, yet there is a need for better dialogue and public sector coordination in implementation.** The sector's policy framework comprises the National Tourism Strategy 2009-2015 (and its thematic sub strategies); the Law and Strategy for Regional Development 2009-2019; the Programs for Regional Development 2010-2015 for each of the eight planning regions; and the Program of the Government of fYR Macedonia for the period 2014-2018. The

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<sup>4</sup> World Travel & Tourism Council Economic Impact 2015

Government, through the Ministry of Economy, plans to develop a new National Tourism Strategy for 2016 onward.

**20. The key public sector entities with a mandate to facilitate tourism development include:** The Cabinet of the Deputy Prime Minister for Economic Affairs (CDPMEA), based in the General Secretariat of the Government, serves as the main coordination and delivery body responsible for strategy and program implementation in key economic sectors, including tourism. The Ministry of Economy, through its Department of Tourism, is the principal institution responsible for tourism policy and strategic planning. The Agency for Promotion and Support of Tourism (APST) is in charge of promoting the country as a tourist destination. The roles, mandates, coordination and flow of knowledge among these entities and the municipalities and regional development centers could be further strengthened.

**21. There is also a need for stronger dialogue between the public and private sectors.** The National Entrepreneurship and Competitiveness Council (NECC) is a public-private body chaired by the DPMEA, and its tourism subcommittee includes representation of private Chambers of Economy, Chambers of Tourism, hotel associations, and other private sector players. International chambers of commerce, which include both foreign and Macedonian companies as members, are not actively represented in NECC. There are opportunities to strengthen the cooperation to improve data collection, strategic planning and policy-making at the national level, and to improve destination management and attractiveness at the local level.

**22. LRCP is based on a holistic approach to tourism development and destination management.** Multiple interventions that tackle the needs of a destination are most effective when delivered in an integrated way, addressing issues ranging from policy to planning, security, access, infrastructure, and marketing. Because tourism is both produced and consumed at a local or 'destination' level, the best results are usually obtained through targeted, integrated interventions at a local level that are oriented to particular market requirements, integrated into thematic (e.g. cultural) or spatial frameworks (e.g. clusters, corridors or circuits) and supported by wider sector reforms. The present project takes this approach, drawing from experience in WBG's Tourism Global Solutions Group.

### **C. Higher Level Objectives to which the Project Contributes**

**23. LCRP contributes to the WBG's twin goals on several fronts.** LRCP will contribute to reducing poverty and promoting shared prosperity by helping communities and destinations to upgrade their tourism assets and related infrastructure, develop skills, stimulate tourism-related jobs and enterprises, and increase value chain linkages in at and around destinations. Improvements in strategy development, public-private dialogue, institutional coordination, and policy at the local, regional, and central levels will provide a more robust framework to support sector development and sustain these results over time.

**24. LRCP is aligned with the WBG's engagement in FYR Macedonia. It complements current and completed WBG's lending and technical assistance activities<sup>5</sup> aimed at**

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<sup>5</sup>The World Bank-financed investment operations which LRCP complements and builds on includes: the ongoing *Skills Development and Innovation Support Program*, *Municipal Services Improvement Project* (which also has a TF window for rural development funded by the EU through IPA), *Road Upgrading and Development Project*, *National and Regional Roads Rehabilitation*, and the completed *Business Environment Reform and Institution Strengthening Project* and the *Community Development and Culture Project*

**improving competitiveness, including in the tourism sector.** By focusing on strategic aspects of local economic development and tourism, LRCP will support both themes in the WBG Country Partnership Strategy for the period FY2015-2018 (CPS): (a) Growth and Competitiveness, through sustained private sector-led growth; and (b) Skills and Inclusion, through better jobs and efficient public services. The project will benefit from the FYR Macedonia Competitive Industries and Innovation Support Program (CIIP), which is funded by a grant from a multi-donor trust fund. CIIP is being leveraged to initiate and inform key activities under the project, to enable faster implementation of activities upon project effectiveness.

**25. LRCP will contribute to the EU accession agenda, which is a cross-cutting theme in the CPS and is consistent with the new EU Assistance Country Strategy Paper for 2014-20.** Improving socio-economic development by fostering economic growth and creating jobs is a priority objective of the Government and the EU. LRCP will contribute to the accession agenda by supporting investments for FYR Macedonia's income convergence with the EU; promoting better economic governance; providing technical assistance for the development of institutions and improvements in the legal framework; and ensuring the effective use of IPA II funds.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

**24. The Project Development Objective (PDO)** is 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.

### B. Project Beneficiaries

**25. LRCP will support the growth and development of the tourism sector at the central, regional, and local levels.** The project will work directly with public, not-for-profit, and private entities, and is designed to deliver financial, economic and social benefits to local communities and the private sector. The direct beneficiaries of the project will be:

- a. *Central government entities and public-private platforms that play a role in sector strategy and policy*, including CDPMEA, Ministry of Economy, and APST. Other entities (e.g. other ministries, the National Entrepreneurship and Competitiveness Council, and the business community) will also benefit from improved coordination.
- b. *Regional and local stakeholders that play a role in destination management*, including relevant municipalities, Centers for Regional Development, private sector associations, educational institutions, and others.
- c. *Regional and local stakeholders and enterprises that carry out projects to improve destination competitiveness and the tourism offering.* The project will provide grant funding (with contributions required from beneficiaries) for infrastructure, linkages and innovation investments. Public, not-for-profit, and private entities may benefit.

**26. As the objective of LRCP is to substantially raise the attractiveness of the participating destinations and thus increase economic activity at these destinations, the indirect benefits will be manifold.** The project will benefit enterprises operating in the tourism sector and enterprises in their value chains, as well as individuals seeking jobs in such enterprises, training courses, and other development opportunities. This may include tour



operators and guides; lodging and dining establishments; enterprises and individuals managing attractions; local businesses supplying these businesses; local entrepreneurs engaged in handicrafts and souvenirs; transportation services; and others. A stakeholder analysis will be carried out for each destination to ensure that all relevant entities are included as appropriate.

**27. LRCP is gender-informed, including gender analysis and monitoring:** The 2014 gender analysis completed during the preparation of the CPS pointed that gender inequalities remain in access to economic opportunities in FYR Macedonia, largely linked to differences across ethnic groups and a gender gap in labor market participation of 26 percentage points in 2012, with a higher rate in men (51 percent among women). Although female-managed businesses are as productive as male-managed businesses and success rates do not differ, fewer women are entrepreneurs. LRCP will stimulate entrepreneurship, training and employment opportunities for women and men alike. Selected results will be monitored by gender.

**28. LRCP engages citizens along several dimensions.** During project preparation, the team consulted with municipalities, Centers for Regional Development, tour operators, and other private sector representatives. During implementation, engagement will continue through public-private dialogue mechanisms instituted as part of destination management, and through periodic surveys of the recipients of LRCP's grants and residents in the beneficiary destinations.

### C. PDO Level Results Indicators

**29. This project will support the following key results:** (i) Additional private sector investment generated in tourism-related activities at beneficiary destinations, (ii) number of tourism-related jobs created at beneficiary destinations; and (iii) reforms implemented that were identified through a consultative PPD destination management process. The first two indicators will measure the local economic impact of tourism, while the third will measure capacity. The Results Framework is presented in Annex 1.

## III. PROJECT DESCRIPTION

### A. Project Components

**30. LRCP is a four-year investment operation that will be financed with a grant from the European Union,** using funds from IPA II earmarked to competitiveness and innovation in FYR Macedonia. LCRP will be managed as a Hybrid Trust Fund and will consist of four components, one executed by the Bank and three components by the Government of FYR Macedonia. The activities in the Bank Executed component will fund technical and advisory assistance to sector-level policies and measures that would improve the enabling environment for the activities under the recipient-executed components.

**31. LRCP will provide investment funding and capacity building to support sector growth, investment in destinations and specific destination prosperity.** At the central government level, the project will enhance the business environment, private-public dialogue, and strategic planning for the sector (Component 2.1). At the regional and local levels, the project will support selected tourism destinations in the country through a combination of technical assistance to improve destination management (Component 2.2), infrastructure investments (Component 3.1), and investments in linkages and innovation (Component 3.2).

**26. Two circuits and one corridor comprising a total of 10 destinations have been identified as having the most potential for FYR Macedonia.** Following a literature review of the key strategies that govern the tourism sector, it was evident that although a number of

destinations (or clusters of destinations) had been identified as ‘strategic’ for the sector, defining how they link together or could be developed for the market was missing. The project team (led by members of the Working Group) therefore scored and prioritized the destinations using a set of five criteria,<sup>6</sup> and identified the selection of ten destinations that scored over 60 percent. The team consulted with the private sector in order to: (i) validate and verify their commercial viability, and (ii) define their organization into circuits or corridors as per the reality of how they are packaged and used. This process resulted in the definition of two circuits and one corridor.

**27. The destinations included in the focus of the project are mostly multiple-use.** They can be visited for a variety of products rather than identifying with just one specific product or theme. The product themes which most prominently stand out within these destinations are reflective of those identified in the National Tourism Strategy: (i) rural tourism (cultural facilities, but mostly nature, leisure, traditional activities, skiing, hiking, biking); (ii) lake tourism (around the 3 natural lakes, combined with cultural, rural and nature); (iii) nature tourism (mountain, hiking, biking, paragliding); (iv) cultural tourism (heritage resources, historical sites, religious, archeological, nature); (v) wine tourism (some cultural facilities, leisure, nature, rural).

**32. Component 1: Technical assistance for tourism development (Bank Executed).**  
**Amount: EUR 1,250,000 (US\$1,422,686).** This component will improve the capacity of institutions and business environment in support of tourism development at the national level, through advisory services, analytical assistance, and policy advice. Areas of focus are derived directly from diagnostic work that highlights key challenges. This component includes technical assistance for the following activities:

- a. *Improve institutional coordination*, including assistance to implement recommendations for strengthening the horizontal and vertical institutional coordination mechanisms and results among the institutions at the central level, from the central to the regional and local levels and among the units at the local level.<sup>7</sup>
- b. *Review and advise on the draft National Tourism Strategy* for the period 2016 onward (currently under preparation), its action plan, and its environmental and social impacts.
- c. *Improve the availability and use of data to inform policy-making*, including assistance to support the Government as it implements recommendations on the current state of data collection in the sector and its use for evidence-based policy-making.<sup>8</sup>
- d. *Improve the business environment*, including funding selected analysis and advice on measures specific to tourism, particularly in the areas of industry standards, licensing, accreditation, and the regulatory burden on micro and small enterprises.
- e. *Support and just-in time technical advice to the implementation of the activities under the Recipient Executed components*, including the World Bank’s implementation support to the project’s activities. This includes, among other things, development of the Grant Manual (rulebooks) of the financing instruments under Component 3.

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<sup>6</sup> The criteria was based on the circuit’s strategic significance for the development of tourism, will have strong market demand, and deliver significant regional development and other impacts in line with national development goals LCRP objectives.

<sup>7</sup> A functional review of key institutions and agencies with tourism-related mandates will be implemented with support from the Macedonia Competitive Industries and Innovation Support Program grant (MCIISP).

<sup>8</sup> In pipeline to be supported by MCIISP.

**33. Component 2: Strengthening destination management and enabling environment (Recipient Executed). Amount: EUR 1,181,950 (US\$1,345,235).** This component will support implementation of activities to enhance tourism development at the central government level and at the destination level. It will include the following:

- a. *Sub-component 2.1: Central level capacity, coordination, and policy:* LRCP will support Recipient-executed activities to implement recommendations from Component 1, including but not limited to: (i) training in public-private dialogue and tourism development; (ii) systems and equipment to implement improvements in data- and information-gathering, its linkages with policy-making; and (iii) technical assistance to implement business environment reforms (including selected equipment, e.g. IT).
- b. *Sub-component 2.2: Destination Management:* LRCP will build destination management capacity in the destinations participating in the project, in order to more effectively manage tourism development and provide greater impacts for local people. This component will provide support through technical assistance and limited equipment or service provision. Destination management will be improved through an approach centered on public-private dialogue (PPD) with key stakeholders (including tourism businesses and tour operators, municipalities, centers for regional development, NGOs, local service or skills development institutions, and others) in the destination.

**34. Component 3: Investment in tourism-related infrastructure and linkages at destinations (Recipient Executed). Amount: EUR 16,436,471 (US\$18,707,144)** (with beneficiaries' contributions of an additional approximately EUR 2,278,454<sup>9</sup>). This component will support key investments that will make an impact on increasing the attractiveness of the selected destinations through upgraded product offerings and linkages with local economies to capture a greater share of economic benefits. The component will provide funds for investment in infrastructure and non-infrastructure activities (training, publications, upgrading of supplier capabilities, etc.) in the destinations participating in LRCP. There will be an open call for applications in destinations comprising the circuits/corridor. Components 3.1 and 3.2 shall be considered as an integrated set of measures that will improve the attractiveness of a limited number of touristic destinations through a smart combination of "soft" and "hard" measures. Sub-project proposals must demonstrate how the proposed activity: (i) meets the needs of the circuit/corridor; (ii) has positive economic and financial returns; (iii) will attract further private sector investment and business development; and (iv) will be sustainable over time. Integrated with the destination management activities from Component 2, the package of interventions will facilitate the realization of impacts such as job creation, attraction of new tourists, increased overnights and spending per tourist, increase in revenue and tax generated from tourism related activities, and opportunities for participation by rural, poor, and marginalized communities.

**35. Sub-component 3.1: Infrastructure investments: This sub-component will finance infrastructure sub-projects and related technical assistance that are critical for unlocking the potential** of the destinations by upgrading the quality of attractions, sites, and overall visitor experience. The investments will be informed directly by the circuit/corridor needs assessment

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<sup>9</sup> Assuming 10% co-financing by public and non-profit entities and 50% co-financing from private enterprises, and the funds under component 3.2 evenly split between non-profit entities and private enterprises.

and development plans to be developed with support from CIIP. Eligible activities for infrastructure sub-projects will include interventions to improve physical condition of attractions, access to cultural and natural heritage sites, and related TA such as promotion and branding of destinations and sites, etc. The national contribution to LRCP will be applied to these grants.

**36. The selection of infrastructure sub-projects will be conducted through a competitive and transparent process.** Applications may be submitted by municipalities, regional development centers, or other public entities, with 10 percent of co-financing. The eligibility criteria will include incentives for multi-municipality sub-projects. Further detail is provided in Annex 2. Detailed procedures, eligibility criteria, and responsibilities will be described in the Grant Manual that will form part of the Project Operations Manual (POM).

**37. Sub-component 3.2: Grants for enhanced tourism service-delivery and local economic impact (linkages and innovation grants).** This sub-component will finance sub-projects for qualified organizational entities (e.g. business associations, training and educational service providers, civil society organizations, and Destination Management Organizations (DMOs) at the selected destinations to improve access to information and services, and improve service quality, linkages and innovation in the destinations. Activities could include technical assistance and capacity-building (e.g. design and implementation of local supplier linkages programs, modules for competency based skills training); technical and financial support (e.g. for tourism innovation competitions at schools or associations); soft infrastructure (e.g. equipment, ICT, training materials); and promotional activities (recruitment drives, marketing of local products, business-to-business (B2B) integration, branding and marketing activities) among others.

**38.** This sub-component will also co-finance innovation by micro and small private enterprises in the selected destinations to develop new or improved products and services in the tourism value chain; conduct marketing or business development; pursue training; purchase minor equipment; and undertake renovation of existing facilities, among others. Grants to private enterprises will require a matching contribution of 50-60 percent in cash. The grants will increase the capacity of the private sector to generate increased economic benefits from tourism activities at the destinations. More detail is provided in Annex 2.

**39. Component 4: Strengthening project management (Recipient Executed). Amount: EUR 1,318,050 (US\$1,500,137).** This component will support the capacity of the Project Implementation Unit (PIU) to ensure that all Recipient Executed activities under LRCP are effectively implemented. It will finance technical expertise (consultants), training, equipment, operating costs, and equipment associated with implementation, monitoring and evaluation of project activities. Staff and consultants of the PIU will be trained, as necessary, in tourism development and destination management, and in the concepts, policies and activities supported under LRCP. PIU staff will also provide training to beneficiary municipalities/public entities in tourism development, cultural heritage, regional development, and related areas.

## **B. Project Financing**

**40. LRCP will be financed with a contribution of EUR 18 million from EU's IPA II for 2014-2020.** The World Bank will manage the contribution under an indirect management modality, through a Hybrid Trust Fund, in accordance with the Framework Agreement between the WBG and the EC. The Government will contribute EUR 3,176,471 to the cost of LRCP. Beneficiaries' contributions are not included in the financing table. The WBG's administrative fee amounts to EUR 990,000 (5.5 percent).

**Table 1: Project Cost and Financing (EUR)**

<b>Project Components</b>	<b>Grant (EU) Financing</b>	<b>National Contribution</b>	<b>Beneficiaries' Contributions (approx.)</b>
1: TA for Tourism Competitiveness (Bank Executed)	1,250,000	N/A	N/A
2: Destination Management and Enabling Environment (Recipient Executed)	1,181,950	0	0
3: Investments in Infrastructure and Linkages (Recipient Executed)	13,260,000	3,176,471	2,728,454
4: Project Management (Recipient Executed)	1,318,050	0	0
<b>Total Project Cost: EUR 22,914,925</b>	<b>17,010,000</b>	<b>3,176,471</b>	<b>2,728,454</b>
Trust Fund Fees	990,000		
Total EU Grant	<b>18,000,000</b>		

#### IV. IMPLEMENTATION

##### A. Institutional and Implementation Arrangements

**41. The implementing agency will be CDPMEA.** A Project Implementation Unit (PIU) will be established within CDPMEA, as per Decision of the Council of Ministers from November 2014. The PIU will oversee and coordinate all of the implementation, results monitoring, reporting, fiduciary functions, and safeguards of the Recipient Executed components, in close collaboration with the line ministries and public agencies. Selection of sub-projects for financing will be managed by the PIU, according to evaluation criteria and methodology documented in the Project Operations Manual (POM). Proposals for infrastructure investments and selected linkages and innovation sub-projects, will be subject to review and no-objection by the World Bank, considering factors such as amount, complexity of activities, and capacity of the recipient. Capacity will be strengthened in the CDPMEA and the PIU on the Bank procedures and requirements for investment projects and trust fund management, through periodic training delivered by World Bank staff. Capacity-building will also be provided to the relevant public agencies and all beneficiaries of grants for sub-projects, in terms of their understanding of Bank fiduciary and safeguards procedures.

**42. Visibility and local awareness of the European Union's funding contribution to LRCP will be promoted** in accordance with a Visibility Note to be incorporated into the POM.

**43. A Project Steering Committee will be established with participation of representatives of the CDPMEA and public entities with a mandate related to project activities.**<sup>10</sup> The Steering Committee will have responsibility for monitoring project implementation by CDPMEA and recommending measures to enhance results and sustainability, if any. The composition of the Steering Committee will be similar to the Working Group during

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<sup>10</sup> The Steering Committee may include: the General Secretariat, Secretariat for Economic Affairs, Ministry of Finance, Ministry of Economy, Ministry of Local Self Government, Ministry of Environment and Physical Planning, Ministry of Culture, and Agency for the Promotion and Support of Tourism. MoE and MoC have prior experience implementing Bank projects through the Business Environment Reform and Institutional Strengthening and the Community Development and Culture Project.

project preparation, with a representative the CDPMEA and the relevant ministries and other public entities. The Delegation of the EU will have an advisory role to the Steering Committee.<sup>11</sup>

## B. Results Monitoring and Evaluation

**44. Monitoring of progress on indicators and evaluation of results during implementation will be in accordance with the agreed LRCP results framework and based on published data, surveys, field visits and mission reports.** The PIU will prepare quarterly reports with data for the Results Framework (see Annex 1), to be reviewed and discussed with the WBG and CDPMEA. The Results Framework data will be captured in Implementation Status and Results reports that the World Bank will prepare semi-annually. Implementation support provided by the World Bank team will also enhance results monitoring and evaluation. Thus, progress against objectives will be assessed on an ongoing basis. In addition, a mid-term review will be held approximately 2 years into the project. Within six months of LRCP closing, the World Bank will complete and disclose an Implementation Completion and Results Report. In addition to project monitoring, **LRCP will also enhance the government’s ability to conduct evidence-based policy-making in tourism**, through its work on sector-specific data gathering, monitoring, and institutional coordination.

## C. Sustainability

**45. LRCP has been designed to provide investments into activities that will strengthen the basis for a more competitive tourism sector at the destination level**, through stronger destination infrastructure, services and capacity for public-private cooperation. The project activities will improve the enabling conditions for further development of these destinations on a market basis. LRCP aims to achieve this through its combination of investment, capacity-building, coordination and regulation strengthening. The development of destination management capacity will help to ensure sustainability. Through investments, LRCP will provide public goods to serve the sector and stimulate private investment in products and services for visitors, which will promote jobs and shared prosperity at and across the destinations.

## V. KEY RISKS

### A. Systematic Operations Risk- Rating Tool (SORT) Summary Table

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial

<sup>11</sup> 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.

7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	N/A
<b>OVERALL</b>	Moderate

## B. Overall Risk Rating and Explanation of Key Risks

**28. The overall risk rating for LRCP is Moderate.** The main risks rated as substantial are: (i) political and governance risks relate to unstable political processes, governance concerns and possible changes in the level and consistency of support to the implementing agency and beneficiary public agencies; (ii) stakeholder risks related to weak coordination and limited implementation capacity, and (iii) fiduciary risks before mitigation measures are implemented.

**29. Mitigation measures with regard to the substantial risks:** Mitigation measures for political and governance risks include strong communications with the institutions, private sector, parliamentary committees, civil society, EU Delegation, etc. to maintain a broad-based platform of support for tourism sector development. LRCP will provide substantial technical assistance on inter-agency coordination, and WBG will maintain a strong dialogue on tourism competitiveness and development with all levels of government. The risks related to institutional capacity and stakeholder coordination will be mitigated through establishment of a PIU with qualified staff and close cooperation with the Steering Committee for project implementation.

**30. The Bank will closely monitor the budget available for the project activities and, if needed, liaise with the relevant decision makers in order to avoid bottlenecks** in implementation. The decentralized infrastructure investments would require increased monitoring and enhanced controls over the use of funds. Clear monitoring procedures and reporting lines between the PIU and beneficiaries will be established. A POM and Grant Manual detailing the internal controls framework will be prepared. The Bank will monitor the quality and timeliness of the project quarterly Interim un-audited Financial Reports (IFRs) and audited annual project financial statements and follow-up on any findings as needed.

**31. Environmental and social risks will be moderated both by the exclusion of Category A activities and by the amount of funding available per project,** which will largely limit the infrastructure works to rehabilitation of existing infrastructure or small scale new infrastructure. Other risk-limiting decisions include the exclusion of sites within designated “Special Tourism Development Zones”, and exclusion of projects involving pest management and projects that could produce significant and/or lasting negative impacts to sensitive habitats and fragile ecosystems. The Environmental and Social Management Framework (ESMF) provides guidance for sub-project screening and impact assessment and management.

## VI. APPRAISAL SUMMARY

### A. Economic Analysis

**32. The economic analysis (Annex 6) supports the feasibility and economic benefits of LRCP and sub-projects.** Public investment in tourism-related infrastructure and services in the destinations is expected to significantly increase, and will stimulate private investment and job creation. LRCP’s support is expected to translate into a more dynamic market, with increased

demand for products, including higher tourist arrivals, occupancy rates, and more revenue. Increased demand for tourism-related activities is expected to increase private investment to take advantage of the new opportunities, and job creation for individuals engaged in providing tourism and related services. Economic analysis of project proposals for the types of sub-projects which are likely to be eligible for support under LRCP show positive economic/financial returns. Sample projects showed an IRR of 8.7 percent, NPV of MKD 44 million (EUR 716 thousand) using a discount rate of 6 percent, and local economic benefits of up to EUR 2.4 million per year.

**33. The results of a value chain analysis<sup>12</sup> reveal that there is opportunity to develop new tourism activity in FYR Macedonia, particularly the availability of excursions.** The price and quality of existing activities, such as visits to cultural heritage sites, could also be increased, and the information could be better relayed to tourists and tour agencies. The feasibility studies and pipeline project proposals, gathered from municipalities and regional development centers during project preparation, indicate that projects in several categories that will be funded under the grants in Component 3 are financially viable.

## **B. Technical**

**34. The technical design of LRCP has been informed by recent WBG analytical and investment work on competitiveness in FYR Macedonia, and by lessons learned from the WBG's Sustainable Tourism Solutions Group.** The analytical basis of LRCP includes assessments of the country's trade and sectoral competitiveness, through two policy notes completed in May 2012<sup>13</sup> which point out to the need to invest in innovation and upgrading of the export basket. A value chain analysis identified the challenges, priorities and strategic directions for the sector, and additional technical support was provided through the CIIP trust fund. This project is also informed by the Programmatic Competitiveness Development Policy Operations in 2012-2014, aimed at strengthening the competitiveness of FYR Macedonia's economy by incentivizing productive investment and technology, and establishing enabling conditions to progressively increase labor market flexibility and innovation capacity. LRCP complements several World Bank-funded investment operations in FYR Macedonia: Municipal Services Improvement Project, Skills Development and Innovation Support Project, and Roads Upgrading Project.

## **C. Financial Management**

**35. An assessment of the financial management (FM) arrangements of the project was carried out in terms of staffing, budgeting, accounting, internal controls, flow of funds, financial reporting and external audit.** The assessment concluded that the overall residual FM risk of the project is substantial. After the agreed mitigation measures are implemented, the FM risk would decrease to moderate. The FM arrangements are assessed as acceptable subject to two conditions being fulfilled by Grant effectiveness: (i) recruitment of a full-time qualified FM Specialist and (ii) preparation of an acceptable FM manual, as a section of the POM, respectively (iii) preparation of an acceptable Grant Manual as an annex to the POM as a condition for disbursement under Component 3. The FM arrangements proposed for the project will require

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<sup>12</sup>“From World Heritage to World Destination: Policy Options to Increase the Competitiveness of the Tourism Sector in FYR Macedonia”, World Bank, 2012 (supported by grant from Cultural Heritage and Tourism MDTF)

<sup>13</sup>“Making Exports a Catalyst for Economic Growth: An Assessment of FYR Macedonia's Trade Competitiveness”, and “Unlocking Macedonia's Competitiveness Potential: A Sectoral Assessment of the Constraints and Opportunities in Automotive, Apparel, Agribusiness, and Logistics Services.”



adequate staffing and budgeting capacity, a robust internal control framework with enhanced controls over the eligibility of beneficiaries, projects and expenses, flow of funds, accounting and reporting for the grants envisaged under Component 3, quarterly cash-based reporting on the use of Grant funds as per prescribed formats, and annual project audits in line with agreed TOR.

#### **D. Procurement**

**36. The PIU under CDPMEA will have the overall responsibility for procurement activities under the Recipient Executed components.** A qualified Procurement Specialist will be hired in the PIU, responsible for overall management and coordination of procurement under the project. Details with regard to procurement arrangements are provided in Annex 3, and they will be further elaborated in the final POM. The Bank's procurement framework will remain the default procurement mechanism for the operation.

**37. Given the nature of the project and in accordance with the details of its components, complex procurement is not envisaged.** All goods, works, non-consulting, and consulting services required for the project and indicated for financing from the Grant proceeds shall be procured in accordance with the World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by the World Bank Borrowers" Dated January 2011, Revised July 2014 and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by the World Bank Borrower" dated January 2011, Revised July 2014; and the provisions stipulated in the Grant Agreement. Commercial practices may be used for matching grants received by private enterprises. **A summary Procurement Plan** has been prepared. After the Project is approved, the procurement plan will be published on the CDPMEA's website and the Bank's external website.

#### **E. Social (including Safeguards)**

**38. LRCP will contribute to development and improvement of the tourism product offer in selected destinations, as defined by the destination development plans.** The sub-component for infrastructure investment (3.1) will finance improvements of tourism-related infrastructure, such as improvement of access roads, landscaping and public parking, sign-posting that could potentially affect private land or non-private land in use by physical persons or legal entities. OP/BP 4.12 has been triggered as a precaution, and thus a Resettlement Policy Framework (RPF) was prepared. Potential impacts will be minor. In these particular cases, the public entities (municipalities or agencies) with competency for development or maintenance of infrastructure, will carry out land expropriation in compliance with the RPF. The RPF was prepared by the implementing agency (CDPMEA) and has been publicly disclosed.

**39. Community and Citizens Engagement (CCE) activities are critical for effective decision-making and implementation of investments.** CCE activities are built in the project design. First, the project has a strong focus on public-private dialogue. Second, annual surveys, of project beneficiaries and local residents in the destinations, will be done to solicit feedback from the beneficiaries on the extent to which project-supported activities are subject to consultation, reflect their views, and contribute to satisfaction with tourism development. These surveys will also serve as a tool to monitor and improve project implementation.

#### **F. Environment (including Safeguards)**

**40. LRCP has been classified as Category B project,** meaning some level of adverse impact can be expected as a result of its implementation, but none of them significant, large-

scale or long-term. As a result of this classification, OP 4.01 Environmental Assessment is triggered. Subsequently, CDPMEA prepared Environmental and Social Management Framework (ESMF). The ESMF examines environmental impacts that could come from project activities and outlines the guiding principles of environmental screening, assessment, review, management, and monitoring procedures for all project activities, but focusing on activities/sub-projects that are likely to take place under the Component 3. Selection of sub-projects for funding will follow eligibility criteria and procedures set out in the POM, which the PIU under CDPMEA will be responsible for following. Under the Component 3, only sub-projects assessed as category B or C sub-projects will be found eligible for funding. Category A investments and projects excluded by WBG or EU policies (e.g. alcohol and tobacco production, etc.) will not be eligible for support. Site-specific Environmental and Social Management Plans (ESMPs) are foreseen for Category B sub-projects. Environmental and Social Management Plan Checklists (ESMP Checklists), a simplified version of ESMP, will be used for minor works depending on the complexity and environmental significance of the particular activity. Implementation of these documents is responsibility of the final funds recipient (the applicant) and will be supervised by Independent Environmental Expert (EE) and Supervision Screening Team (SST) under the PIU, and will be reported to CDPMEA and WB as a part of regular reporting activities on the status of the project and/or as defined in environmental due diligence documentation.

**41. OP/BP 4.04 Natural Habitats and OP/BP 4.11 Physical Cultural Resources are triggered** based on the assessment of sub-project themes and needs identified relevant to Component 3. Furthermore, Macedonia bases its tourism attractiveness on rich cultural history and preserved nature, thus it is very likely that sub-projects eligible for funding under the Component 3 would include some kind of works on cultural heritage objects or infrastructure facilitating tourists' needs while visiting protected or sensitive areas. This project will not finance purchase of pesticides, and since agriculture related sub-projects are very unlikely, **OP 4.09 is not triggered**. Although some of the investment projects may take place in the forest areas, these activities will be limited to rehabilitation of existing infrastructure, and no activities impacting forest and wood resources would be found eligible for funding, therefore, **OP/BP 4.36 is not triggered**. For any individual tree removal for the purposes of the project implementation, these should be announced in the project application and obtain approval from the relevant national bodies following the relevant national procedures.

**42. Public consultations and disclosure: OP 17.50 Disclosure Policy is triggered with the** reference to ESMF and ESMPs for all investments, non-investment grants and activities for which TA and financing will be provided. The ESMF, including ESMP and EMP Checklist templates, was disclosed and publically consulted prior to project appraisal. The ESMF in English was disclosed on CDPMEA and APST web pages and at the premises in hard copy for two weeks starting October 19, 2015. Disclosure of versions in Macedonian and Albanian took place on October 22, 2015 following the same procedure. ESMF remained disclosed until November 5, 2015 as required by the WB policy. The public consultation meeting was organized at APST premises on October 30, 2015. During project implementation, the type of environmental due diligence documents for individual sub-projects (works) will be determined based on the ESMF. The beneficiary will prepare the required documents (including EIAs, ESMPs, ESMP Checklists), which will be reviewed by the PIU, disclosed and consulted according to the project's ESMF, prior to approval of the sub-projects under Component 3.

**Annex 1: Results Framework and Monitoring**  
**FYR MACEDONIA: Local and Regional Competitiveness Project**

**PDO and Intermediate Indicators**

**Project Development Objectives**

The PDO is 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.

**These results are at**

**Project Level**

**Project Development Objective Indicators**

Indicator Name	Baseline	Cumulative Target Values (calendar year)			
		2016	2017	2018	2019 (end target)
Additional private investment generated in tourism-related activities at beneficiary destinations (US\$, cumulative)	0	0	1,500,000	4,600,000	10,000,000
Increase in tourism-related jobs in beneficiary destinations (Percentage, cumulative)	0	0	2	5	7
Reforms implemented that were identified through a consultative PPD destination management process (Number, cumulative)	0	0	3	6	9

### Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values			
		2016	2017	2018	2019
Public and private stakeholders trained in destination management and development (Number, cumulative)	0	60	100	150	200
Increase in number of overnights by tourists in beneficiary destinations (Percentage, cumulative)	0	0	2	7	12
New tour packages offered by tour operators (local and foreign) that include the project-supported destinations as a new offering (Number, cumulative)	0	0	10	20	30
Private enterprises that participate in project-supported capacity-building activities (e.g. training, supplier development, others) (Number, cumulative)	0	50	100	200	300
Private enterprises that benefit from activities funded through the project's grants (Number, cumulative)	0	20	40	60	100
Private enterprises that benefit from activities funded through the project's grants, owned or managed by a woman (Percentage)	0	5	10	12	15
Grant beneficiaries who consider that project-supported activities are subject to consultation and reflect their views (Percentage)	0	40	60	70	80
Share of local residents that are satisfied with tourism development in the destinations that benefit from the activities in the project (Percentage)	0 <sup>14</sup>	30	30	50	70

### Indicator Description

#### Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source /	Responsibility for
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<sup>14</sup> There is currently no formalized method of gathering this information.

			Methodology	Data Collection
Additional private investment generated in tourism-related activities at beneficiary destinations	Per Trade & Competitiveness “investment generated” methodology	Annual	Project M&E system, with primary data to be gathered through an annual survey	PIU
Increase in tourism-related jobs in beneficiary destinations (Percentage, cumulative)	Number of jobs includes part-time, temporary, and full time	Annual	Project M&E system, municipalities and centers for regional development; annual survey	PIU
Reforms implemented that were identified through a consultative PPD process (Number, cumulative)	Sets of legal and administrative reforms and measures originated through the destination management PPD platform and implemented, as evidenced and reported by PIU.	Semi-annual	Project M&E system	PIU
<b>Intermediate Results Indicators</b>				
Public and private stakeholders trained in destination management and development (Number, cumulative)	As reported through the PIU’s monitoring of destination management activities	Semi-annual	Project M&E system	PIU
Increase in number of overnights by tourists in beneficiary destinations (Percentage)	As reported by municipalities for registered/licensed accommodation facilities. This includes hotels, motels, campsites, private residences registered as accommodation facilities, etc., and is monitored by municipalities for collection of the local tourist tax. The target is set at a conservative level due to the heterogeneity of trends in overnights among regions.	Annual	Project M&E system and State Statistics Office	PIU
New tour packages offered by tour operators (local and foreign) that include the project-supported destinations as a new offering	As reported through interviews with tourism service providers at the destinations, verified by the PIU and	Annual	Project M&E system	PIU

(Number, cumulative).	supported by an annual survey			
Private enterprises that participate in project-supported capacity-building activities (e.g. training, supplier development, others) (Number, cumulative)	Number of private enterprises that participate in such activities funded by Project grants, as reported in grant progress reports from the beneficiaries, reviewed and approved by the PIU	Semi-annual	Project M&E system	PIU
Private enterprises that benefit from activities funded through the project's grants (Number, cumulative)	Number of enterprises as reported in grant progress reports from the beneficiaries, reviewed and approved by the PIU	Semi-annual	Project M&E system	PIU
Private enterprises that benefit from activities funded through the project's grants, owned or managed by a woman (Percentage)	Percentage of enterprises as reported in grant progress reports from the beneficiaries, reviewed and approved by the PIU	Semi-annual	Project M&E system	PIU
Grant beneficiaries who consider that project-supported activities are subject to consultation and reflect their views (Percentage)	Percentage of grant recipients, as reported through an annual survey of grant beneficiaries	Annual	Project M&E system, annual survey	PIU
Share of local residents that are satisfied with tourism development in the destinations that benefit from the activities in the project (Percentage)	Percentage of local residents in the destinations supported by the project that are satisfied with tourism development in the destination, as reported through an annual survey	Annual	Project M&E system, annual survey	PIU

## Annex 2: Detailed Project Description

### FYR MACEDONIA: Local and Regional Competitiveness Project in Tourism

**1. This annex presents detailed institutional and sector context, as well as proposed selection methodology and eligibility criteria for investments to be made under the project.** The methodology and criteria are especially important given the project's focus on developing tourism destinations that can be self-sustaining in the future.

#### A. Detailed Institutional and Sector Context

##### *Growth and Competitiveness*

**2. FYR Macedonia has potential for increased tourism based on its rich history and cultural and natural diversity.** The country offers impressive archeological and cultural sites side by side with lively urban modernity, natural beauty and opportunities for adventure activities. Capital city Skopje and UNESCO-protected Ohrid (known for its lake, festivals, and Byzantine churches) remain the key tourist sites in the country, complemented by traditional Balkan village scenes, diverse communities in the rural areas, and ski resorts such as Mavrovo and Sapka in the winter. Opportunities for the development of tourism sub-segments include cultural tourism, rural tourism, wine tourism, adventure, and spa tourism.

**3. The contribution of the tourism sector to FYR Macedonia's economy is small, but growing steadily.** The current total contribution of travel and tourism to the country's GDP, employment and total capital investment in 2014 was relatively small (5.2 percent, 4.7 percent and 2.2 percent, respectively) in comparison with other countries in the region.<sup>15</sup> By contrast, tourism's total contribution to GDP in Bulgaria was 13.1 percent, and in Albania it was 21 percent in 2014. Growth in FYR Macedonia is, however, increasing with direct GDP contributions from tourism increasing by 30 percent from 2010. Long term growth predictions for Central and Eastern Europe together with the recent growth in FYR Macedonia itself suggest new opportunities to enhance the performance of the sector, provided it can achieve competitiveness in the marketplace.

**4. Although growing, there are a number of constraints to transformational growth in the sector.** A simplified value chain analysis done in 2012 highlights the main competitiveness constraints that have been identified.<sup>16</sup> These, together with additional barriers identified during project preparation are listed below, in no particular order:

- a. **Positioning within the region:** Endowed with a variety of natural and cultural assets, the tourism offer is, however, relatively similar to other competitors in the region. FYR Macedonia is a small country with few iconic attractions outside of Lake Ohrid. Most international visitors purchase a number of destinations as part of a larger itinerary. This also has an impact on brand identity and awareness.

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<sup>15</sup> World Travel & Tourism Council Economic Impact 2015

<sup>16</sup> Modular Competitiveness Assessment: "From World Heritage to World Destination: Policy Options to Increase the Competitiveness of the Tourism Sector in FYR Macedonia", World Bank, December 2012.

- b. **Product development:** Shaped by local and regional demand, tourism products have been largely unchallenged for the last 40 years, leading to some stagnation and lack of innovation. There have been few attempts to penetrate new and higher-spending markets, causing FYR Macedonia to miss out on key cycles of product development and the opportunity to add value to its offer.
- c. **Site improvement and management:** Consultations with the public and private sector have pointed to the need to invest in improvement of infrastructure at attractions and destinations, specifically to improve access roads and landscaping, mapping and upgrading of cultural buildings, as well as hiking and biking trails, construction or rehabilitation of tourist information kiosks and offices around attractions, and improvement of municipal infrastructure in central historic areas (historic cores).
- d. **Access to skilled human resources:** Weak training of students and management professionals in tourism (in particular in hotel management and customer service), lack of linkages between the schools and private sector and difficult access to international expertise are limiting the quality of business performance and visitor experience.
- e. **Business operation and growth:** The country's overall business climate has improved significantly in recent years (as measured by the Doing Business and Global Competitiveness reports), but sector specific issues remain. Access to finance and licensing burden for micro and small sized enterprises are some of the areas which businesses have pointed as barriers to performance and expansion.
- f. **Private sector engagement:** There have been recent improvement in engagement between the government and private sector at the central level, through a Tourism Committee as well as at the National Entrepreneurship and Competitiveness Council. The engagement and dialogue could be made more effective and inclusive at the local and regional (destination) levels through the municipalities and local business and non-governmental community.
- g. **Service standards and quality assurance:** The quality of accommodation and the level of service could be greatly improved and aligned with international standards and best practices. Businesses report that the application of accommodation rating is not always consistent with the regulations and international standards, leading to weak quality assurance and false expectations of the visitors.
- h. **Linkages with local producers:** Business linkages with local producers and craftsmen could be further developed, especially in souvenirs and excursions. Local hotels have scarce information on local attractions and are as a result widely unable to support diversified tourist spend in the local economy. While the availability of souvenirs and local products in Skopje and Ohrid, as prime tourist destinations, has increased overall, the bulk are reportedly imported from Turkey and China.
- i. **Air access:** The new airport in Skopje and airport terminal upgrades in Skopje and Ohrid have greatly improved the arrivals experience. The entry of low budget carriers with direct flights (subsidized by the government) to new destinations have diversified and



increased the incoming and outgoing tourist traffic. Still, however, a limited number and higher cost of direct flights from major international source markets, compared to other countries in the region, is a severe comparative limitation for the country as a destination by air.

- j. **Visitor information:** The weak availability, distribution and accessibility of information about tourism product offer directly affect destination appeal as well as visitor experience and spend.
- k. **Planning, data and market knowledge:** Up-to-date and robust information on visitor flows and the performance of tourism is necessary for a destination to plan and manage tourism effectively. An understanding of existing and potential markets is vital to competitiveness. Information availability could be considerably improved.

**5. Overall strategic direction for development of the sector recognizes and seeks to address these areas of competitiveness, but should be improved in the new National Strategy currently underway.** Detailed reviews of the National Tourism Development Strategy (NDTS) 2009–2013, the 2011 report on Revision and Implementation of the NDTS, and the Work Program of the Government of the Republic of FYR Macedonia 2011-2015 largely agree on the nature of the issues, but have not been fully effective in providing a means to address them. Reviews conclude that the articulation of strategic priorities needs to be stronger, there is a need for greater stakeholder communication, a requirement for greater market knowledge and realism, a need for clearer articulation of the purpose of certain projects (especially targets in terms of growth, seasonal and spatial spread), and a need to avoid fragmentation by properly linking individual destinations to market-oriented packages and itineraries<sup>17</sup>.

**6. LRCP is focusing on a subset of the competitiveness challenges articulated above, and takes on board the lessons learned from previous strategic frameworks for development of the sector.** The competitiveness challenges to be addressed under this project have been selected because of their importance in the development of the sector (as indicated in the Modular Competitiveness Assessment and in consultation with the private sector) and because they complement work being done on other challenges by Government, international donors, and NGOs including USAID, UNIDO, GIZ and Swisscontact. With a wide group of actors each addressing a few of these challenges, a more integrated solution for the sector will be provided. Competitiveness challenges that have been selected include the following:

- Elements of the business operating environment to be improved (registration, licensing, standards)
- Planning, data and market knowledge to inform all policy decisions
- More effective private sector engagement
- Sector governance
- Destination brand articulated and communicated to visitors at all stages
- Product development through innovation and upgrade of existing tourism offers
- Framework and structures for tourism planning and action at destinations
- Enhanced linkages
- Capacity-building in tourism-specific skill at individual and enterprise levels

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<sup>17</sup> Modular Competitiveness Assessment in tourism (World Bank, December 2012).

These challenges will be addressed either at the sector-wide level – such as the business environment, tourism policy and enabling conditions – or as part of a concerted focus at the destination level – such as visitor information improvements or product development.

### ***Market Demand and segmentation***

**7. The number of tourists in fYR Macedonia has been steadily increasing, but still remains low.** The total number of registered tourists (foreign and domestic) in 2014 was 735,650 (25.5 percent increase from 2010). Of the total in 2014, 23 percent were derived from four neighboring source markets: Turkey, Bulgaria, Serbia and Greece, as has been the case for decades. The remainder are largely derived from Europe, with Croatia, Poland, Italy and Germany seeing the most expansive growth in 2014<sup>18</sup>. By contrast, domestic tourists (representing around 40% of total tourists), have been largely decreasing in absolute terms over the last 30 years as competition in neighboring countries increases. This is also having an impact on already high levels of seasonality. In the absence of more detailed market segmentation, most strategic documents highlight three tourist profiles broadly shaping the industry:

- a. Although declining, **domestic tourism** is still the most developed;
- b. In terms of volume of visitors and number of overnights spent, the **regional market** is still the most important foreign market;
- c. In terms of per capita spending by foreign visitors, the Western European and American markets (**the international market**) are the most significant.

**8. The majority of incoming tour operators (catering to the international market) in fYR Macedonia serve multiple countries, mainly with Balkans tours** that cover up to eight countries varying in length from 5 to 18 days, and tend to focus on the countries' cultural attractions and experiences including some rural tourism offerings. The next most significant segment (according to Tour Operator feedback) is 'soft adventure'<sup>19</sup>. There are few local tour operators focused solely on tourism offerings in fYR Macedonia. Most of their clients are over 50 years and well-traveled, thus the quality of local guides, accommodations, restaurants and public facilities such as lavatories is important. Moreover, local tourism offering is limited to traditional packages most frequently in conjunction with other countries in the region. There is a need and potential to stimulate further engagement of local tourism operators and providers in order to create a more dynamic tourism sector and diversify the product offering to cater to different market segments.

**9. The level of development of fYR Macedonia's tourism sector varies greatly by region.** The Skopje region is the most developed, with contribution to the national GDP of around 44 percent in 2012. There is a positive net migration and the population density in this region is very high (10 times more than the least dense region – Vardar). The situation is similar when it comes to other economic parameters, such as gross value added, gross fixed capital formation etc. Observing the period 2010 – 2014, from the eight statistical regions in fYR Macedonia, only Pelagonia and Polog regions show a decrease in the number of total tourist arrivals, while in all the rest there is a positive incremental trend. Due to the significance of Ohrid as a destination, most of the total arrivals (46 percent) are registered in the Southwest region. In the last 5 years, however, the number of domestic tourists has decreased by almost 5

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<sup>18</sup> Tourism in the Republic of Macedonia, 2010-2014, State Statistical Office of Republic of Macedonia, June 2015

<sup>19</sup> Ohrid will in fact host the annual summit of the Adventure Travel and Tourism Association in May, 2016.

percent, while the foreign arrivals have increased by 62.5 percent. Five regions (Vardar, East, Southeast, Southwest, and Northeast regions) have almost doubled or even exceeded doubling the number of foreign tourists. The trend of the accommodation capacity in all the regions is steady, with the Southwest region covering almost 60 percent of it. Three regions have accommodation capacity of less than three percent compared to the total. Most of the tourists, especially foreign, stay in the cities of Ohrid and Struga in the Ohrid Lake area, and in the city center of Skopje.

### *Value Chain Analysis*<sup>20</sup>

**10. Tourism is often referred to as a destination activity, even though it is actually a global value chain.** Outbound countries attend to tourists’ demand for international distribution services that are delivered by a travel agency or a tour operator, as well as for international transportation such as an international air carrier. Inbound countries can benefit from demand on national distribution (e.g. national tour operator), national transportation not only through national air carriers, but also through ground transportation services. In addition, recipient countries benefit also from accommodation and excursion (table 2).

**Table 2: Global Value Chain in Tourism**

Outbound country		Inbound country			
International distribution	International transport	National distribution	National transport	Accommodation	Excursions
Travel agent	International air carrier	National travel agent	National air carriers	Luxury hotels	Activities
Tour operator	Cruise	National tour operator	Ground transportation services	Large hotels	Local guides
Global distribution systems		Local tour operator		Small hotels	National parks, monuments
Independent		Destination management organization			Retail, Restaurants

*Source:* Christian, M. (2013) “Global Value Chains, Economic Upgrading and Gender in the Tourism Industry” in C. Staritz and J.G. Reis (eds.) *Global Value Chains, Economic Upgrading and Gender: Case Studies of the Horticulture, Tourism, and Call Center Industries*, World Bank.

**11. There are several weaknesses in the Tourism Value Chain in FYR Macedonia.** A Value Chain Analysis undertaken by the WB team in 2012 points to three key areas to be improved in the Macedonian tourism sector<sup>21</sup>. FYR Macedonia has fewer direct flights to its

<sup>20</sup> This section draws from the FYR Macedonia Modular Competitiveness Assessment: From world heritage to world destination: policy options to increase the competitiveness of the tourism sector in FYR Macedonia, World Bank, December 2012.

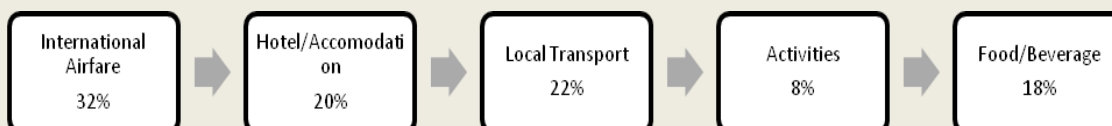
<sup>21</sup>For more details see: FYR Macedonia Modular Competitiveness Assessment: From world heritage to world destination: policy options to increase the competitiveness of the tourism sector in FYR Macedonia, World Bank, December 2012.

largest city, Skopje, than most of its neighbors. Unlike most European capitals, it has limited options for cheaper airfares, with the exception of a recent entrant – Wizzair. There is room to expand the number of “activities” in FYR Macedonia, particularly the availability of excursions. The price and quality of others, such as cultural heritage sites, could also be increased. Lastly, although there is plenty to see and do in FYR Macedonia, the information is not being properly relayed to potential tourists and tour agencies (Box 1).

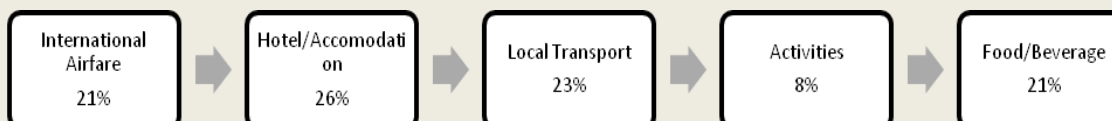
### Box 1: Comparing the Value Chains of FYR Macedonia, Serbia and Bulgaria

**The value chain analysis (VCA) compared FYR Macedonia and two neighboring destinations that attract significantly higher number of visitors.** Besides choosing somewhat similar routes in each country, the case uses costs for two travelers from London. The travelers are coming from London’s Gatwick Airport, staying at 3, 4, or 5 star hotels, renting an economy car for the week, and participating in some locally-operated tours, when available. The share of the costs is presented in the figures below.

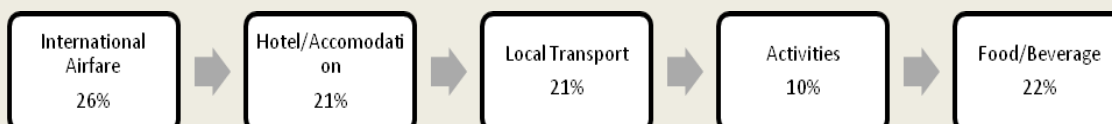
#### Macedonia Tour Value Chain – Total Cost US\$3,324; In-country Cost US\$2,265



#### Serbia Tour Chain – Total Cost US\$3,154; In-country Cost US\$2,488



#### Bulgaria Tour Chain – Total Cost US\$2,854; In-country Cost US\$2,118



**Overall, the VCA indicated that in-country costs are moderately competitive, however, the airfare costs are much higher than in the neighboring countries.** The total cost of a trip to Macedonia is 5% higher than a trip to Serbia and 16% higher than a trip to Bulgaria. In-country costs (everything excluding airfare) are moderately competitive, being lower than in Serbia and only 7% higher than Bulgaria’s. Airfare makes up the largest proportion of Macedonia’s costs at 32%, when compared with Serbia’s 21% and Bulgaria’s 26%.

**Another result of the VCA is the low cost of “activities” proportional to total cost.** “Activities” cover costs such as excursions or entrance fees. For all three countries, the proportion of costs that are “activities” is the lowest of the categories at 8% for FYR Macedonia and Serbia and 10% for Bulgaria. Although this may indicate that the countries are cost-competitive in this category, this is not necessarily beneficial for each country’s tourism sector. The expenses associated with this category

are often paid to local small and medium enterprises, such as tour operators and nurturing their development is most likely to lead to job creation. Also, compared to other categories, income in “activities” is likely to stay in-country. Finally, tourists may associate low costs in this category with low quality as free or very low cost entrances to museums or churches may indicate to tourists that the tourism assets are not worth paying to see.

### *Directions for the Development of the Tourism Sector*

**12. The government and the Agency for Promotion and Support of Tourism (APST) are placing considerable emphasis on the development of alternative types of tourism product to attract market interest.** The approach of working up a number of strong themes, in which FYR Macedonia has comparative advantage, is sound. In this context, new strategies on development of rural tourism, wine tourism, spa tourism and cultural tourism have emerged in recent years, appealing to niche markets and customers and requiring investment in local business and integrated product offering at destinations. For instance, rural tourism in FYR Macedonia has focused more on the physical development side – e.g. creation of biking and hiking trails, visitor centers, heritage sites, museums, rather than on improving the conditions and incentives for entrepreneurship and business development in underdeveloped areas. UNIDO is active in development of the lake and wine tourism cluster in Ohrid and Tikvesh regions, respectively in cooperation with the Ministry of Economy and local stakeholders. USAID is working with the APST on development of adventure tourism in select destinations in the country.

**13. Developing these segments will require further investment in local businesses and better integration of product offerings at the tourism destinations.** Further effort is also required in orienting these themes towards specific target markets and determination of how such products might be sold into the value chain. At the local level, the capacity of municipalities to deliver public services, undertake strategic planning, and effective public-private dialogue and destination management needs to be improved. The interest of APST is to promote entrepreneurship in tourism, particularly in rural and underdeveloped areas in order to diversify the product offer and integrate it in the supply network of tour operators and travel agents in the country and abroad.

**14. A significant portion of tourism growth in the country should be expected to occur through the expansion of existing private sector business and by investment in innovation and upgrading.** This process can be supported through the setting of quality standards and capacity building for business to improve their services and management<sup>22</sup>. Grants and other financial instruments such as those foreseen under his project can have a big impact, as well as by easing regulatory burdens such as licensing or registration.

### *Institutional and Governance Structure*

**15. The Cabinet of the Deputy Prime Minister for Economic Affairs based in the General Secretariat of the Government serves as the main coordination body across line ministries responsible for implementation of the tourism strategy and development programs in the key economic sectors, including tourism.** The Ministry of Economy’s

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<sup>22</sup> *Ibid*

Department of Tourism is mandated to develop and implement policy, regulations, standards, data collection, etc., for the sector. The sector policy framework comprises the National Tourism Strategy 2009-2015 (thematic strategies e.g., rural tourism, spa tourism, etc.); the Law and Strategy for Regional Development 2009-2019; the Programs for Regional Development 2010-2015 for each of the eight regional development centers throughout the country; and the Program of the Government of FYR Macedonia for the period 2014-2018. Parliamentary elections are expected to be held in April 2016, after which a new government will be formed. However, it is expected that tourism will remain a strategically-important sector.

**16. The Agency for Promotion and Support of Tourism (APST) is an agency in charge of promoting the country as a tourist destination.** It provides an example of a government agency that operates through public-private engagement. APST does not report directly to the Ministry of Economy, and in practice there is an overlap of roles and mandates which has led to confusion within the industry. FYR Macedonia has a number of private sector membership organizations in tourism, including Chambers of Economy and of Tourism as well as hotel associations which cooperate, at a varying degree, with APST.

**17. Positive steps have been taken in FYR Macedonia in recent years to establish structures for public-private coordination on the delivery of tourism policy and action at a national level.** The Tourism Committee, headed by the Prime Minister and so ensuring a high political profile and demonstrating that tourism is a high governmental priority, meets regularly, and includes participation of the private sector, non-government organization, and a number of ministries. However, it does not include participation of international chambers of commerce (which also include as members local companies). The engagement and dialogue with the private and non-governmental sectors could be made more effective and inclusive at the local and regional (destination) levels, through the municipalities and local business communities and civil society organizations.

**18. FYR Macedonia has a number of private sector membership organizations in tourism, including Chambers of Economy and of Tourism as well as hotels associations.** At least four or five bodies with a relatively similar function can be identified. This duplication may make the representation of private sector interests rather inefficient. If distinguished separate membership bodies existed in FYR Macedonia for these different elements of tourism, they could work together with the Agency and combine as a single powerful tourism federation or cluster that can represent the sector as a whole.

### *Stakeholder Engagement and Destination Management*

**19. Stakeholder engagement in tourism planning, development and management at a local level is critically important** for the quality of the visitor experience and the success of the tourism sector. It is at the destination level – the city, historic town, resort, rural district and national park – that visitor infrastructure, facilities, information and services need to be effectively managed.

**20. Internationally, the concept of ‘destination management’ has been widely accepted and actively pursued in many places.** It is also recognized that this needs to be driven by destinations themselves – often through Destination Management Organizations (DMOs) who prepare and implement destination management plans that cover the development of the location for tourism, management issues, visitor information, destination marketing, events and other aspects of a successful destination. DMOs should be multi-stakeholder bodies, strongly

involving and supported by local government (municipalities) but with direct engagement of private sector businesses and other local community, cultural and environmental interests.

**21. In FYR Macedonia there is no definition of ‘destination’ or agreed framework for destination management involving the engagement of local authorities in tourism in conjunction with the private sector and national government.** A number of municipalities are actively involved in tourism. Some have tourism departments and officers, which may relate to Local Economic Development departments or units. Ohrid and Skopje have tourism strategies and significant budgets for implementation. However, while the municipalities do liaise with the private sector, neither place appears to have a structured process which formally engages the private sector directly in the development, management and promotion of the destination and provides coordination and support for local businesses. Swisscontact is working on mobilizing the various stakeholders around destination management in a limited number of destinations.

**22. The relationship between central government and municipalities in tourism development, management and promotion is also a matter of concern.** Lack of coordination between different institutions or levels of government from different political background in matters such as transport infrastructure, planning and control of activities is not uncommon and was referred to as detrimental to the quality of infrastructure and the visitor experience. Examples raised were issues relating to road infrastructure and signing and failure to control noise levels from various night-time activities.

### *Transport Infrastructure*

**23. Road construction, rehabilitation and upgrading is the single largest public investment program of the Government in FYR Macedonia.** The World Bank is working with the Ministry of Transport and Communications, and Public Enterprise for State Roads (PESR) on a new transport sector strategy focused on evidence-based policy-making and investment decision-making, and has a large ongoing and planned program of investment in the sector.

**24. Road safety is a major concern.** The National Council for Road Safety, which brings together all national authorities related to road safety, has provided greater visibility to the issue of road safety. There are over 4,000 automobile crashes per year in FYR Macedonia resulting in injuries or deaths of around 7,000 people. While the leading reported cause of these is driver behavior, international experience suggests that accidents could be significantly reduced through improvements in road infrastructure, better traffic signs and road markings and features such as crash barriers.

**25. Limitations of the road network are also a barrier to tourism growth.** In general, tourism needs and opportunities should be taken into account in the prioritization of the extensive road development program outlined in the government’s work program. The need to provide a good level of service for tourists on the various transit roads through the county, including rest areas, catering and accommodation facilities and visitor information, has been recognized in all the strategies and action plans. This is an example of where harmonized central and local policies and actions are important.

## B. Detailed Description of LCRP Activities

### *Technical Assistance to be provided through the Bank Executed Component*

**58. Component 1: Technical assistance for tourism development (Bank Executed).** *Amount: EUR 1,250,000 (US\$1,422,686) will improve the capacity of institutions and business environment in support of tourism development at the national level, through advisory services, analytical assistance, and policy advice. Areas of focus are derived directly from diagnostic work that highlights key challenges. This component includes the following activities:*

- a. *Improve institutional coordination:* LRCP will finance the engagement of specialists to support the government as it implements recommendations from a functional review<sup>23</sup> of the key institutions and agencies responsible for or involved in supporting tourism development in the country. The objective will be to strengthen the horizontal and vertical institutional coordination mechanisms and results among the institutions at the central level, from the central to the regional and local levels and among the units at the local level.
- b. *Review and advise on the draft National Tourism Strategy:* LRCP will fund the engagement of a specialist to review the government's National Tourism Strategy for the period 2016 onward and its action plan, which are currently under preparation, and its environmental and social impacts.
- c. *Improve the availability and use of data to inform policy-making.* LRCP will fund the engagement of specialists to support the Government as it implements recommendations from a study<sup>24</sup> on the current state of data collection in the sector and its use in policy-making, and provide recommendations (including on the feasibility and regulatory issues related to establishing a "Tourism Satellite Account").
- d. *Improve the business environment:* LRCP will fund selected analysis, policy notes, and advice on measures necessary to improve the sector-specific business environment, particularly in the areas of industry standards, licensing, accreditation, and the regulatory burden on micro and small enterprises. For instance, the project may assess any gaps between laws and regulations on paper and their implementation in practice at the local level in selected destinations).
- e. *Support and just-in time technical advice to the implementation of the activities under the Recipient Executed Components.* LRCP will fund the World Bank's implementation support to the project's activities. This will include technical reviews and advice (e.g. for no-objections), site visits, coordination, monitoring and evaluation, and coordination meetings with the implementing agencies and beneficiaries. This includes, among other things, development of the Grant Manual

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<sup>23</sup> The functional review will be implemented with support from the grant implementing the Macedonia Competitive Industries and Innovation Support Program (MCIISP).

<sup>24</sup> In pipeline to be supported by MCIISP.



(rulebooks) of the financing instruments under Component 3. LRCP will finance the engagement of World Bank Group specialists to provide technical assistance and global best practices in the development of the grant instruments for co-financing tourism infrastructure, soft-infrastructure and non-infrastructure sub-projects based on the circuit and corridor needs assessment. The Grant Manual will be appended to the Project Operational Manual (POM). Preparation of a Grant Manual acceptable to the Bank will be a condition for starting disbursement under Component 3 of the project.

### ***Recipient Executed Components***

**59. LRCP will provide investment funding and capacity building to support sector growth, investment in destinations and specific destination prosperity.** At the central government level, the project will enhance the business environment, private-public dialogue, and strategic planning for the sector (Sub-component 2.1). At the regional and local levels, the project will support selected tourism destinations in the country through a combination of technical assistance to improve destination management (Sub-component 2.2), infrastructure investments (Sub-component 3.1), and investments in linkages and innovation (Sub-component 3.2).

**60. Component 2: *Strengthening destination management and enabling environment (Recipient Executed)*. Amount: EUR 1,181,950 (US\$1,345,235).** This component will support implementation of activities to enhance tourism development at the central government level and at the destination level. It will include the following:

- (i) *Sub-component 2.1: Central level capacity, coordination, and policy:* LRCP will support Recipient Executed activities to implement recommendations from Component 1, including but not limited to: (i) training in public-private dialogue and tourism development; (ii) systems and equipment to implement improvements in data- and information-gathering, its linkages with policy-making; and (iii) technical assistance to implement business environment reforms (including selected equipment, e.g. IT).
- (ii) *Sub-component 2.2: Destination Management:* LRCP will build destination management capacity in the destinations selected for participation in the project, in order to more effectively manage tourism development and provide greater impacts for local people. This component will provide support through technical assistance and limited equipment or service provision. Destination management will be improved through an approach centered on public-private dialogue (PPD) with key stakeholders in the destination. Stakeholders will include private tourism businesses and entrepreneurs, buyers from outside the destination, relevant municipalities, centers for regional development, local NGOs, local service or skills development institutions, national parks authorities, security and safety services, transport and environment representatives from the government, and others.

**61. The component will fund activities including: stakeholder mapping; design of a structured PPD platform and process; training in destination management and PPD;** light equipment and/or software to support destination management; development of toolkits and manuals; and study tours, international linkages or knowledge exchanges for destinations. Outputs of destination management will include stakeholder maps, needs assessment for the

destination, PPD platform, trained destination stakeholders, and destination management toolkits and manuals. The aim will be to develop sustainable destination management capacity and organizational framework (statute, governance and business model, work plan and financing plan) in DMOs, LRCP will provide support such as technical assistance in organizational frameworks and targeted contribution for necessary equipment and technical assistance for DMOs.

**62. Component 3: Investment in tourism-related infrastructure and linkages at destinations (Recipient Executed). Amount: EUR 16,436,471 (US\$18,707,144)** ((with beneficiaries' contributions of an additional approximately EUR 2,278,454<sup>25</sup>)). The objective of this component is to support key investments that will make an impact on increasing the attractiveness of the selected destinations through upgraded product offerings and linkages with local economies to capture a greater share of economic benefits. The component will provide funds for investment in infrastructure and non-infrastructure activities (training, publications, upgrading of supplier capabilities, etc.) in the destinations selected for participation in LRCP.

**63. There will be an open call for sub-project proposals in the destinations comprising the circuits/corridor.** While the project's funding may not be sufficient to fund projects in all 10 destinations, public and private entities in these destinations will be invited to apply with sub-projects and participate in the selection process described in section D below Components 3.1 and 3.2 shall be considered as an integrated set of measures that will improve the attractiveness of a limited number of touristic destinations through a smart combination of "soft" and "hard" measures. Integrated with the destination management activities from Component 2, the package of interventions will facilitate the realization of impacts such as job creation, attraction of new tourists, increased spending per tourists, number of nights stayed by visitors, increase in revenue and tax generated from tourism related activities, and greater participation by rural, poor, or marginalized communities. The component will include two sub-components.

**64. Sub-component 3.1: Infrastructure investments. Amount: Approximately EUR 11,012,436 (US\$12,533,787), with beneficiary contributions of approximately EUR 1,101,244:** This sub-component will finance tourism product or related infrastructure sub-projects that are critical for unlocking the potential of the destinations by upgrading the quality of attractions, sites, and general visitor experience. The investments will be informed directly by the circuit/corridor needs assessment and development plans to be developed with support from CIIP. Eligible activities for infrastructure sub-projects will include interventions to improve physical condition of attractions, access to cultural and natural heritage sites, and related TA such as promotion and branding of destinations and sites, etc. Beneficiaries will provide a contribution of 10 percent of the amount of the investment sub-project.

**65. Sub-component 3.2: Grants for enhanced tourism service-delivery and local economic impact (linkages and innovation grants). Amount: Approximately EUR 5,424,035 (US\$ 6,173,358), with beneficiary contributions of approximately EUR 271,202 from non-profit entities and approximately EUR 1,356,009 from for-profit enterprises:** This sub-component

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<sup>25</sup> Assuming 10% co-financing by public and non-profit entities, 50% co-financing from private enterprises, and that half of component 3.2 funding would be demanded by non-profit entities, while the other half would be demanded by private enterprises.

will finance sub-projects, through matching grants, for qualified organizational entities at destinations to improve access to information and services, improve service quality, linkages and innovation of stakeholders in the destinations. Activities could include technical assistance and capacity-building (e.g. design and implementation of local supplier linkages programs, modules for competency based skills training); technical and financial support (e.g. for tourism innovation competitions at schools or associations); soft infrastructure (e.g. equipment, ICT, training materials); and promotional activities (recruitment drives, marketing of local products, business-to-business (B2B) integration, branding and marketing activities); among others.

**66. This sub-component will also co-finance innovation by micro and small private enterprises** to develop new or improved products and services in the tourism value chain; conduct marketing or business development; pursue training; purchase minor equipment; and undertake renovation of existing facilities (construction of new facilities will not be eligible), among others. Grants to private enterprises will require a matching contribution of 50-60 percent in cash. The grants will increase the capacity of the private sector to generate increased economic benefits from tourism activities at the destinations.

**67. The process and indicative eligibility criteria for selecting sub-projects in Component 3 are described in detail in the following sections** of this annex.

**68. Component 4: Strengthening project management (Recipient Executed). Amount: EUR 1,318,050 (US\$1,500,137).** This component will support the capacity of the Project Implementation Unit (PIU) to ensure that all Recipient Executed activities under LRCP are effectively implemented. It will finance technical expertise (consultants), training, equipment, operating costs, and equipment associated with implementation, monitoring and evaluation of project activities. Staff and consultants of the PIU will be trained, as necessary, in tourism development and destination management, and in the concepts, policies and activities supported under LRCP. PIU staff will also provide training to beneficiary municipalities/public entities in tourism development, cultural heritage, regional development, and related areas.

### **C. Methodology for Identification of Tourism Destinations**

**26. The majority of LCRP's resources will be directed towards making improvements at the local 'destination'<sup>26</sup> level**, with a minor portion addressing issues at the economy-wide or 'sector' level. It is considered international best practice when working on tourism development at the local level to ensure that interventions address market failures across an entire value chain. In countries where there is strong tour operator dominance (or this market segment has been selected as a priority), value chains often include multiple destinations along a given circuit or itinerary, as well as less visible components that occur outside the destination (marketing, sales etc.). This is the case in FYR Macedonia. The highest spending market segment in the country is the 'international market' that is largely dominated by packaged tours, and is carried out by road in private vehicles that take in a number of attractions and destinations. Working at the local

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<sup>26</sup> Destinations are understood to mean 'distinctive centers of tourism activity' that together make up a recognized theme, cluster or circuit. A circuit is a linear (circular) itinerary that involves short stops at key destinations or attractions, usually starting and stopping at the same place, but not revisiting the start until the end of the trip. They can be large (taking weeks, with several countries) or small (taking a day). A corridor is a linear (non-circular) route with the same characteristics as above, except that visitors do not return to the point they started.

level therefore necessarily requires that the entire value chain, ‘package’ or ‘circuit’ to be sold is developed in an integrated way, without just focusing on one destination.

**27. Two circuits and one corridor comprising a total of 10 destinations have been identified as having the most potential for FYR Macedonia.** Following a literature review of all the key strategies that govern the tourism sector, it was evident that although a number of destinations (or clusters of destinations) had been identified as ‘strategic’ for the sector, defining how they link together or could be developed for the market was missing. In other strategies globally – this step typically results in the identification of key circuits, corridors, or other spatial/ thematic frameworks. This weakness has already been identified in the latest review of the National Strategy. The project team (led by selected members of the Working Group) therefore scored and prioritized the destinations using a set of five criteria,<sup>27</sup> and identified the selection of ten destinations that scored over 60 percent. The team consulted with the private sector in order to: (i) validate and verify their commercial viability, and (ii) define their organization into circuits or corridors as per the reality of how they are packaged and used. This process resulted in the definition of two circuits and one corridor.

**28. The destinations within the selected circuits/corridor are mostly multiple-use.** They can be visited for a variety of products rather than identifying with just one specific product or theme. The product themes which most prominently stand out within these destinations are broadly reflective of those identified in the National Tourism Strategy:

- a. Rural tourism (cultural facilities, but mostly nature, leisure, traditional activities, skiing, hiking, biking)
- b. Lake tourism (around the 3 natural lakes, combined with cultural, rural and nature)
- c. Nature tourism (mountain, hiking, biking, paragliding)
- d. Cultural tourism (heritage resources, historical sites, religious, archeological, nature)
- e. Wine tourism (some cultural facilities, leisure, nature, rural)

**29. The circuits, corridor, and destinations are illustrated** in the map below, and listed below the map.

**Figure 1: Map of FYR Macedonia Showing Tourism Destinations, Circuits and Corridor**

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<sup>27</sup> The criteria was based on the circuit’s strategic significance for the development of tourism, will have strong market demand, and deliver significant regional development and other impacts in-line with national development goals and objectives of the LCRP.



**Red** = Eastern circuit; arriving/departing Skopje (or Bulgaria/Greece), visiting 5, 9, and 10.  
**Blue** = Central corridor: arriving Skopje, departing Greece (or reverse) including 4, 7, and Thessaloniki  
**Orange** = Western circuit; arriving/departing Skopje or Ohrid. Central hubs of Skopje and Ohrid, connecting with smaller destinations 8 and 6, and 3 and 4.

**30.** The destinations are as follows:

- a. Destination 1 encompasses Ohrid, Struga, Prespa and their surroundings
- b. Destination 2 encompasses Skopje, Kumanovo and their surroundings
- c. Destination 3 encompasses Pelagonija
- d. Destination 4 encompasses the Tikvesh region
- e. Destination 5 encompasses Maleshevo
- f. Destination 6 encompasses the Reka region
- g. Destination 7 encompasses Gevgelija and Dojran
- h. Destination 8 encompasses the Polog region
- i. Destination 9 encompasses Strumica and its surroundings.
- j. Destination 10 encompasses Shtip, Radovish and their surroundings

**31.** An assessment conducted during project preparation shows that the circuits and corridor connect the destinations as follows. Circuits will be further validated, and their description refined, as the project proceeds to implementation.

- a. The Western circuit comprises six destinations (1, 2, 3, 4, 6, 8). One of these destinations (Skopje, Kumanovo and their surroundings) is also part of both the Eastern circuit and the corridor (in the Tikvesh region). Tourists typically arrive/depart either to/from Skopje or Ohrid. Destinations in the circuit are engaged in two ways: hubs and spokes<sup>28</sup> approach with two dominant hubs (Skopje and Ohrid) and tour of the whole circuit. In the hub and spokes approach, tourists arriving to/departing from Skopje usually visit destinations 8 and 6, and sometimes 4. Those arriving to/departing from Ohrid visit 6 and 3, and sometimes 4. Another option is a tour of all destinations in the circuit starting either from Skopje or Ohrid and going in circle.
- b. The Eastern circuit comprises four destinations (2, 5, 9, 10), and one (Skopje, Kumanovo and their surroundings) is also part of the western circuit and the corridor. Typically tourists either arrive to/depart from Skopje by plane and visit one of the smaller destinations 5, 9 or 10; or tourists from the border with Bulgaria would come to tour destinations 5, 9 and 10. In this circuit apart from the Skopje area, 5 is the most popular both among international and domestic tourists.
- c. The Central corridor is part of the Pan-European corridor X (ten), which runs between Salzburg in Austria and Thessaloniki in Greece, approximately 2,300 km or 1,429 mi long. In FYR Macedonia it encompasses 3 destinations. The majority of tourists in this corridor travel from various European countries or from Skopje to Northern Greece and Turkey. Some tourists also arrive to/depart from Thessaloniki airport and take this corridor to visit various destinations in FYR Macedonia.

#### **D. Methodology for Selection of sub-projects (infrastructure and other investments)**

**32. For the identified circuits, a Circuit Development Plan will be drawn up.** The Development Plans will be informed by, and include, a needs assessment that identifies the key gaps in circuit development that are necessary to create transformational growth over a period of time, for example five years. These gaps will be destination-specific (e.g. lack of lavatories) cross-destination (e.g. insufficient signage/interpretation) or circuit-specific (e.g. short season, poor customer service). For a given year, targets will be set based on the LCRP objectives, and other, broader objectives – including visitor numbers, overnights, spend, jobs created, and private sector investment. In parallel, the gaps that need to be filled to meet each of these targets will be categorized and clearly laid out as part of a time-bound development plan. The result will be a five year road-map indicating the targets each circuit can expect to meet, and the gaps that need to be filled in order to meet them each year.

**33. The Circuit Development Plans will be developed according to international best practice with technical assistance under CIIP.** The process will be fully participatory along the value chain. This means that it will be driven both by needs and feedback from the ‘buyer’ perspective (foreign tour operators and other trade) and the needs and feedback from the ‘ground’ at the circuit level.<sup>29</sup> By incorporating the demand aspect and a strategic focus

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<sup>28</sup> In a “hub and spoke” approach, the tourist stays overnight at the hub and visits different spokes during the day.

<sup>29</sup> Outputs of the destination management process underway concurrently in Component 2 will feed directly into the Plan

specifically on tourism, this approach will complement the substantial work that has been done to date by municipalities, centers for regional planning, and some donors. A strong public private dialogue process will be a requirement to manage the latter, and will serve as the basis for future development of destination management capacity (Component 2).

**34. The Development Plans will help to directly inform the selection of sub-projects.** The Circuit Development Plans will be made public and all stakeholders made aware of key gaps to be addressed in the first year/ phase, second phase etc. This outreach will be carried out as part of the ‘destination management’ process that will be underway in parallel under Component 2. The plan will specify the need or gap to be filled but will not articulate specific projects that could meet this need.

**35. The PIU, with necessary technical assistance from the WBG Team (through Component 1) will develop a Project Operations and Grant Manuals.** The Grant Manual will provide the details on the grants, the application process, eligibility criteria, and all elements required for implementation of the grants under Component 3. Adoption of a Grant Manual will require a no-objection from the WBG Team and will be a condition for disbursement under Component 3.

**36. The PIU will implement a public and competitive process for selection of sub-projects to receive grants for infrastructure and non-infrastructure investments.** The process will be executed in a number of key steps, as follows:

- a. **Step 1: The PIU issues a call for Expressions of Interest from tourism circuit stakeholders.**<sup>30</sup> The call will request sub-projects that meet the gaps identified in the first ‘phase’ of the Circuit Development Plan.
- b. **Step 2: The PIU screens the sub-project EOIs** to check that proponents (applicants) are eligible, information is complete, and the project broadly meets the parameters set under the call.
- c. **Step 3: Proponents of shortlisted sub-projects will be invited to develop a full proposal.** Proposals should be developed in accordance with the criteria. They must demonstrate how the project meets the needs of the circuit, and that it is viable and sustainable. The PIU will provide technical assistance to the proponents that request support, to both improve the strength of their proposal and provide opportunities for ‘bundling’ or joint sub-project proposals, if appropriate.
- d. **Step 4: Final sub-project proposals are submitted for evaluation.** A technical committee comprised of technical experts with international experience will evaluate each proposal against a set of criteria to be established in the Grant Manual. The criteria will measure both the sub-project’s ‘desirability’ and its ‘feasibility’. ‘Desirability’ criteria examine how much of a priority the sub-project is for the circuit, including its likely impact in helping the circuit to reach the targets (jobs, investment), and the value it will add to the circuit. ‘Feasibility’ criteria examine the sub-project’s feasibility and sustainability, including its governance, management structure, maintenance plans, and financial arrangements. Each criteria will be scored and weighted, and the top-ranking

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<sup>30</sup> Different stakeholders are eligible to apply for different types of projects. The private sector, for example, may not apply for infrastructure projects. Eligibility will be specified in the POM.

sub-projects will move forward to no-objection by the World Bank (as applicable), contract signing, and grant disbursement.

**37. Indicative criteria for evaluation of the sub-projects include the following:**

- a. Stage 1: Screening (to be evaluated by the PIU):
  - i. Sub-projects proposed are compatible with the Circuit Development Plan
  - ii. The package is complete without missing information
  - iii. Sub-project proponents meet the eligibility criteria established in the Grant Manual.
- b. Stage 2: Sub-project Evaluation (to be evaluated by the expert panel):
  - i. Core criteria:
    1. Sub-project meets priority gap(s) identified in Circuit Development Plan
    2. Sub-project will catalyze further private investment and growth along the circuit
    3. Sub-project will stimulate job creation
    4. Sub-project will contribute to increased tourist spend and overnights
    5. Sub-project is financially feasible
    6. Arrangements for sub-project implementation (i.e. operation, maintenance, etc.) are sustainable
    7. Sub-project sponsor is experienced
    8. Sub-project governance is sound
    9. Sub-project management is sound
  - ii. Additional criteria: To be scored only after the total score from the preceding criteria is complete, and then multiplied together with the total.
    1. Project leverages high proportion of own funds<sup>31</sup>
    2. Project incorporates multiple municipalities.

**38. Sub-project proposals must be accompanied by a social and economic screening/assessment** that is consistent with LRCP's Environmental and Social Management Framework. The sub-project proponents will co-finance a minimum percentage of the sub-project costs. Sub-projects proposed by public or not-for-profit entities will require a matching contribution of 10 percent of the sub-project's value, in cash or in kind. Sub-projects proposed by private, for-profit

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<sup>31</sup>To help spread the available funding further in the destinations, and allow for more sub-projects to be funded, the criteria will also include a weighted category for 'leverage'. In other words, assuming the sub-project is already deemed desirable and feasible, the higher the proportion of the sponsor's voluntary financial contribution (over the minimum percentage to be specified in the Operation manual) to the project – the higher the sub-project will score, and the more likely it will be to receive funding.



entities will require a matching contribution of 50-60 percent. Details will be specified in the Grant Manual.

### **E. Financing Instruments under Component 3**

**39. The grants under Component 3 will be made through three types of financing instruments,** described below.

**40. *Grants for tourism-related infrastructure:***

- a. ***Rationale:*** The quality of infrastructure at tourism sites and attractions needs to be upgraded and better managed to make the sites and destinations more attractive and integrated into tourism product offer. Grants provided through this financing instrument will support investments that will upgrade the tourism-related infrastructure at selected destinations and increase the attractiveness of the destinations through upgraded product offerings (e.g. cultural, historic and/or natural heritage sites) and through linkages with local economies in order to capture a greater share of economic benefits.
- b. ***Intervention and Eligibility:*** The instrument will finance investment in tourism related infrastructure which is critical for unlocking the potential of destinations in two circuits (western and eastern) and the central corridor. Projects proposals may be submitted by municipalities (single or groups), regional development centers and other public entities (e.g. Ministry of Culture, Office for Protection of Cultural Heritage, etc.) responsible for cultural heritage and tourism infrastructure in the country.

Eligible investments will include interventions to improve the physical condition of attractions and tourist sites in public ownership, access to cultural and natural heritage sites, related promotion and branding of destinations and sites, etc. Examples of such investments include: mapping and upgrading of hiking and biking routes and trails; signage and interpretation; upgrading public spaces and cultural buildings; rehabilitation of tourist information kiosks and offices; restoration of cultural and natural heritage sites, facades of traditional and historic significance buildings (buildings of historic value and/or traditional architecture); improvement of access roads to sites and attractions, landscaping and public parking.

- c. ***Instrument design:*** Consultations have proposed investments up to EUR 1 million to a single municipality and up to EUR 3 million for a number of municipalities or public sector entities applying together as approximate maximum limits (to be confirmed/ defined further in the Grant Manual). To ensure impact and ownership, investment guidelines will require co-financing of 10 percent of the amount of the investment sub-project. This would help prevent creation of a culture of “easy grant money” and will strengthen project ownership by the applicant entity(ies).

**41. *Grants to private sector organizations for enhanced tourism service-delivery***

- a. ***Rationale:*** This instrument aims to improve the ability of private sector organizations to increase service quality, access to information (e.g., survey

forms, survey data, etc.) and services including training for skills, innovation and business development. By providing the services to the industry organizations, this instrument will deepen the knowledge base and services of the organizations to their member companies and stimulate them to invest management time and resources in knowledge and innovation. The eligible sub-projects do not have to be in the exact physical location of the circuit, but must demonstrate contribution to the circuit's value chain (e.g. a training center that trains skills needed in the circuit).

- b. ***Intervention and Eligibility:*** The grants will finance goods and services such as soft infrastructure (e.g. equipment, ICT, training materials); and non-infrastructure services such as capacity-building (e.g. design and implementation of local supplier linkages programs, modules for competency based skills training); training technical and financial support (e.g. for innovation competitions at tourism schools); and promotional activities (promotion of local products, business-to-business (B2B) linkages, branding and marketing activities).

Eligible applicants for these grants include DMOs (where these are established), non-profit entities (e.g. business associations), training and educational service providers, and civil society organizations.

- c. ***Instrument design:*** The instrument will provide grants of up to approximately EUR 100,000 for a single applicant or up to EUR 300,000 for projects proposed by a partnership between two or more entities (to be confirmed/ defined further in the Grant Manual) to organizations of the private sector - business associations, chambers, DMOs and educational organizations, which are active in the tourism sector and in destination management. The applicants have to be locally registered not-for-profit organizations with local member base. Co-financing of at least 10 percent in cash and in kind will be required.

#### ***42. Matching grants for local micro and small sized enterprises to enhance business linkages and innovation for destinations competitiveness***

- a. ***Rationale:*** Micro and small firms are likely to benefit the most from matching grants in product and quality improvement, technology absorption, marketing is relevant to local industry and society as opposed to conducting theoretical or frontier research. Micro and small firms are particularly constrained in scouting for know-how and investing in innovation.
- b. ***Intervention:*** This instrument aims to improve the ability of commercial, private sector entities which are in greatest need for resources, i.e., micro and small enterprises to invest in new or improved products or services, new knowledge through market research, business plan or marketing strategy development, adoption and implementation of international quality standards, investment in business linkages and innovation, and training
- c. ***Instrument design:*** Matching grants could co-finance advisory and technical assistance, capacity-building and minor equipment, in the amount of up to approximately EUR 10,000 for a single company or EUR 30,000 for a group/ cluster of companies (to be confirmed/ defined further in the Grant Manual) with

50-60 percent co-financing from the applicant. Eligible applicants will include domestic micro and small enterprises (size according to the criteria defined in the Company Law), which have been in operation at least 1 year before time of application and have a positive financial record.

**43. Exclusion criteria: sub-project proposals which will not be considered for support** include projects which are likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented and may affect an area broader than the sites or facilities subject to physical works; investments in designated protected areas, which would have negative impact on natural and critical habitats and species; investment within designated “Special Tourism Development Zones”; activities impacting fragile ecosystems, sports facilities, gambling and betting facilities/activities, important habitats, and green-fields of outstanding aesthetic value; activities requiring conversion of forests, wetlands, and alpine/sub-alpine meadows; heavily polluting industries; and new construction or substantial investment in general municipal infrastructure (which may be funded under other existing projects).

#### **F. Summary of potential sub-project proposals (pipeline)**

**44. The Working Group has collected information and documentation on approximately 110 potential project proposals for hard, soft and non-infrastructure investments** in all regions of the country. The sources of the project documentation are the Ministry of Culture, Ministry of Environment and Physical Planning, Agency for Promotion and Support of Tourism, Municipalities, Regional development centers and ELEM (State Enterprise for Power Plants). The estimated value of the projects varies from below EUR 30,000 to EUR 3.5 million. Summary of the information by project value, region and type of investment needed is provided below. An initial review of the list of projects show that most (39) are in the Pelagonia region, most include some type of infrastructure and preparation of project documentation. By value, the highest number of projects are in the range of EUR 30,000 to EUR 300,000, with a few large projects in the range between EUR 501,000 and EUR 3.5 million. A few projects relate to general municipal infrastructure such as water supply, sewerage, wastewater treatments, industrial zone and road construction. Tourism-related investment includes the following types of projects:

- Biking and hiking trails (around Lake Ohrid and River Drim)
- Improvement of access to sites and attractions
- Reconstruction and expansion of mountaineering huts
- Reconstruction and improvement of Old Bazaar (Old Towns)
- Construction of ethno villages
- Restoration of old traditional architecture
- Restoration and improvement of traditional villages with tourism potential
- Improvement and expansion of accommodation facilities
- Modernization of camping sites
- Safety fence around archeological sites
- Landscaping and lighting around
- Information kiosk and refreshment facility (café) at archeological sites
- Construction or reconstruction of museums
- Feasibility studies

45. The Working Group also obtained a list of projects from the German Development Cooperation (GIZ) office with complete or partially completed documentation developed with their assistance.

46. The list by region<sup>32</sup>, type of project and total cost is represented in Table 4 below. Some of the projects overlap with the pipeline secured from the institutions.

**Table 4: Potential Projects by Value and Public Institution**

Category (in Euros)	Ministry of Culture	Ministry of Environment and Physical Planning	Centers for Development of Mountain Regions	Agency for Tourism	Municipality	ELEM	Total Projects
0-30,000	8	1	1				10
30,000-300,000	10	13	19	1	2	2	47
301,000-500,000		1	22				23
501,000 - 3,500,000	2		21		4	3	30
<b>TOTAL</b>	<b>10</b>	<b>14</b>	<b>41</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>110</b>

**Table 5: Potential Projects by Region and Value**

Region	0-30,000	30,000-300,000	301,000-500,000	501,000 – 3,500,000	Total by Region
Skopje		2		5	7
Eastern		3	6	4	13
South-East	1	3	5	5	14
North East			1		1
Pelagonian	1	22	8	8	39
Vardar	8		1	4	13
South-West		4	1	3	8
Polog		12	1		13
Multiregional		1		1	2
<b>Total</b>	<b>10</b>	<b>47</b>	<b>23</b>	<b>30</b>	<b>110</b>

**Table 6: Project by Type of Engagement/ Investment**

Type of Project	Type of investment			Grand Total
	Infrastructure	Soft + Infrastructure	Soft	
Works	38	12		50
Works and Documentation (design, feasibility study, etc.)	45	4		49
Works and Supply (equipment)	6	5		11

<sup>32</sup> The projects collected are largely organized by administrative region. In reality destinations and circuits that are identified as the focus of this project may span a number of regions.

Supply		1	3	4
TA		1		1
TA and documentation		1	2	3
TA, Works, Documentation, and Supply	1	1		2
<b>Grand Total</b>	<b>90</b>	<b>25</b>	<b>5</b>	<b>120</b>

## Annex 3: Implementation Arrangements

### FYR Macedonia: Local and Regional Competitiveness

#### A. Project Institutional and Implementation Arrangements

**1. The key implementing agency will be the Cabinet of the Deputy Prime Minister for Economic Affairs (CDPMEA).** The CDPMEA is a policy and delivery unit under the General Secretariat of the Government. A Project Implementation Unit (PIU) will be established at CDPMEA, and it will oversee and coordinate all of the implementation, results monitoring, reporting, fiduciary functions, and safeguards of the Recipient Executed components, in close collaboration with the line ministries and public agencies. Capacity will have to be strengthened in the CDPMEA and the PIU when it is established on the rules and requirements of Bank procedures for investment lending and trust fund management.

**2. Other beneficiary agencies will be involved in coordinating the implementation of tasks planned under the project.** These are the Ministry of Economy (MoE); Ministry of Culture, (MoC) and Ministry of Local Self-Government (MoLSG). The Ministry of Economy and Ministry of Culture have prior experience implementing Bank projects through the Business Environment Reform and Institutional Strengthening (MoE) and the Community Development and Culture Project (MoC). While overall fiduciary (financial management, procurement) and safeguards management will lie with the CDPMEA, capacity building will be provided to CDPMEA as well as to the relevant public agencies and municipalities involved in the project, in terms of their understanding of Bank fiduciary and safeguards procedures for the activities to be implemented under the Recipient Executed components.

**3. A Steering Committee will be formed, with representation of key public agencies with mandates related to the project.** The composition of the Steering Committee will be similar to the Working Group that was in place during project preparation. It may include representatives from: the General Secretariat, Secretariat for Economic Affairs, Ministry of Finance, Ministry of Economy, Ministry of Local Self Government, Ministry of Environment and Physical Planning, Ministry of Culture, and Agency for the Promotion and Support of Tourism. The Delegation of the European Union, in an advisory role.<sup>33</sup>

#### B. Financial Management and Disbursements

**4. Risk analysis.** The overall financial management (FM) residual risk for the project is substantial; after the agreed mitigation measures are implemented, the FM risk would be decreased to moderate. CDPMEA has no experience in managing World Bank-financed projects and will establish by Grant effectiveness a PIU, with qualified staff and consultants who will ensure the fiduciary functions of the project as well. The decentralised large and soft infrastructure investments and matching grants envisaged under Component 3 of the project involve risks in terms of flow of funds, internal controls, accounting and reporting on the use of IPA funded Grant proceeds. These would require increased coordination, monitoring and enhanced controls over the use of funds. Appropriate procedures and controls should be

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<sup>33</sup> 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.

instituted and documented in an operational Grant Manual to be developed as a condition for disbursement under Component 3 and once finalized, communicated to the recipients. Both the PIU and beneficiaries will maintain adequate financial records and supporting documentation for the project and project financial statements will be audited on a yearly basis, in line with terms of reference agreed with the Bank. The FM and disbursement arrangements of the project will be also described in the financial section of the Project Operational Manual (POM).

**5. Staffing.** The current FM capacity of the CDPMEA will be supplemented with external consultants with relevant qualifications and experience and a PIU will be formed to ensure project management, including the fiduciary aspects. The PIU should be staffed with core functions (i.e. Project Coordinator, Procurement Specialist, Financial Management Specialist, Technical Coordinators) and become operational by the Grant effectiveness. In order to strengthen capacity within CDPMEA, it would be beneficial that staff with responsibilities related to financial management aspects in the project participates in any relevant training organized by the World Bank.

**6. Planning and Budgeting.** The Office budget is formulated and approved as part of the funding coming from the State Budget. Plans and budgets for all sources of financing, will be prepared on a timely basis based on the Procurement Plan and entered in the accounting software, once approved. Sufficient capacity for planning and budgeting should be instituted in order to manage project funds in an optimal manner from aspects of funds allocation, liquidity and overall performance. Project budget should be formulated based on communication with various beneficiaries accessing funds under Component 3. Variances of actual versus budgeted figures will be monitored on regular basis, appropriately analyzed and corrective actions taken.

**7. Accounting System.** CDPMEA uses the Treasury system and an Oracle database for accounting and reporting. The Treasury system was assessed by the Bank's diagnostic work and found to be sound with reliable reporting and ex-ante controls. The accounting system allows opening a separate cost center for the project and maintaining analytics for project transactions. Given the more complex Component 3 that would finance three types of grants for various types of beneficiaries, it is envisaged that a financial software will be purchased under the project to supplement the existing systems and to allow enhanced project records and monitoring, in particular regarding the activities under the grants. The software should enable sufficient transparency of the use of project funds and generate financial information for proper and easy preparation of the project financial statements, as well as the quarterly IFRs on cash basis in the agreed format. The software should provide reliable accounting information, and be transparent with easily accessible information. Project-supported beneficiaries will be also required to maintain proper accounting records and supporting documentation to ensure proper identification of grant transactions, including co-financing.

**8. Accounting Policies and Procedures.** The accounting books and records will be maintained on cash basis with additional information on signed contracts. Project financial statements will be presented in the Grant currency, and will encompass all transactions financed under the project. The entity will apply in practice a set of acceptable accounting procedures and internal controls including authorization and segregation of duties for the project.

The specific mechanisms of the grants envisaged under Component 3 will be also described in a separate Grant Manual. Any transactions incurred under this component will be properly disclosed in the project financial statements.

### *Internal controls*

**9. An appropriate system of internal controls for the project will be instituted for the project.** The main FM controls and procedures will be described in the POM (Financial Management section) and Grant Manual. Key underlying internal controls to be applied for the project include *inter alia* (i) appropriate authorizations and approvals; (ii) segregation of duties (no one person has control over all phases of a transaction); (iii) regular reconciliations between records and actual balances, as well as with third parties and (iv) original and orderly supporting documentation for all project transactions.

**10. Adequate procedures and controls will be instituted and applied in practice also for grants under Component 3.** The respective procedures will be designed to ensure use of funds for intended purposes and will be described also in a Grant Manual. The adoption of such a manual acceptable to the Bank is a condition of disbursement under Component 3. Key internal controls and procedures that need to be in place with respect to grants mechanism should include *inter alia* (i) clear description of eligibility criteria for beneficiaries, projects and activities to be financed; (ii) robust evaluation and selection procedures, including determining and describing responsibilities for the process; (iii) procurement process (iv) flow of funds, (v) monitoring use of funds at beneficiary level, as applicable; and (vi) accounting and reporting on the use of funds, and relevant templates.

**11. A differentiated approach will be followed for infrastructure grants (Component 3.1), respectively for linkages and innovation grants (Component 3.2)** depending on the applicants` capacity to properly implement the sub-project and use the funds allocated. The applicable mechanism of procurement and flow of funds will be decided at the evaluation stage of sub-project proposals based on an assessment of beneficiary`s fiduciary implementation capacity and type of activities and will be described in the individual grant agreement. While procurement will be solely led by the PIU in the case of infrastructure grants (3.1), an alternative would be allowed for the recipients of linkages and investment grants (3.2) to conduct procurement activities, with constant and close monitoring and support of the PIU. Depending on the option reflected in the individual grant agreement, the funds will flow from the project Designated Account managed by the PIU to the beneficiaries (when they conduct procurement) and then to suppliers, or directly to suppliers (when PIU is a contractual party) in accordance with the procedures to be described in a Grant Manual and POM.

- a. **When PIU is leading procurement, a tripartite contract would be concluded between PIU-grant beneficiary-supplier** based on which the PIU will pay suppliers` invoices as per the eligible percentage agreed under the Grant. Project-supported beneficiaries will oversee and accept the works and other activities carried out under the respective grant.
- b. **For linkages and innovation grants, when beneficiary is procuring activities, beneficiaries will be the only signatories to the contracts with suppliers for activities planned under the grants.** The PIU will be closely involved in the preparation and monitor the procurement and payment process under the grants. Grant beneficiaries will submit to the PIU the relevant supporting documentation (contracts, invoices etc.), and subject to review and approval, the PIU will transfer the required amount in the designated local currency account opened for the



project. The beneficiaries will then perform the payments to the suppliers at the earliest possible. Subsequent grant financing can be transferred to beneficiaries if proper evidence is provided that the previous funds have been properly spent.

**12. Irrespective of the option selected in terms of procurement and flow of funds, the beneficiaries will maintain proper fiduciary arrangements and the PIU team, including the Financial Management Specialist, will carry out regular on-site monitoring visits** to ensure adequate application of project fiduciary procedures in practice. As mentioned above, enhanced control and monitoring mechanisms will be instituted for the grants under Component 3 and these will consist of (i) definition in the operational manuals of clear and reliable procedures, including flow of funds and fiduciary requirements, (ii) regular reporting on the expenses incurred and (iii) inclusion in the scope of the project audit of a representative sample of sub-projects.

**13.** The specific mechanism of flow of funds under the Grant, in particular under the more complex Component 3, has been confirmed during appraisal of the project and will be described in the POM and Grant Manual.

**14. *Reporting and Monitoring.*** Project management-oriented Interim un-audited Financial Reports (IFRs) will be used for project monitoring and supervision. The format of the IFRs was agreed with the Bank at negotiations and will be attached as an annex to the POM. The PIU will produce a full set of cash-based IFRs in the Grant currency, covering all project components and sources of financing for each calendar quarter throughout the life of the project. They will be due 45 days after each quarter end. The IFRs will comprise the following reports presented in the agreed format: (i) Statement of Cash Receipts and Uses of Funds; (ii) Statement of Uses of Funds by Project Activity; (iii) Designated Account Statement (iv) Breakdown of Grants under Component 3; and (v) Narratives to the reports.

**15. *External Audit.*** The project financial statements will be audited in accordance with terms of reference acceptable to the Bank, conducted in accordance with the International Standards of Auditing issued by the IAASB. The audit will be carried out by an audit firm acceptable to the Bank. The audit report and audited financial statements will be submitted to the Bank not later than six months after the end of the audited period. Given the higher complexity of the component related to infrastructure and linkages and innovation grants for selected municipalities and other public and private entities, the financial audit will include a representative sample of sub-projects to ensure that grants funds have been used for eligible activities and properly supported by documentation in accordance with the applicable conditions and procedures detailed in POM and Grant Manual. The draft audit terms of reference were agreed at negotiations and will be attached as an annex to the POM. The audited financial statements of the project will be made publicly available within 2 weeks upon the audit report is formally accepted by the World Bank. The annual cost of the audit will be covered by the project funds.

#### ***Funds Flow and Disbursement Arrangements.***

**16. Transaction-based disbursement method will be used for the Project.** Once the Project becomes effective, a Designated Account (DA) denominated in Euro will be opened in the National Bank of Republic of Macedonia (NBRM), to which the funds will be transferred. This will be a separate account used for withdrawals and payments of the project funds only. A mirror Denar account will be opened within the Treasury Single Account to serve as an operating

account for withdrawals from the foreign currency account. The DA will be managed and operated by the PIU with the authorized signatories. All transfers will take place through it, with a corresponding transfer of the Denar-equivalent amount from the foreign exchange account. The account in Denars will be a transit account with an immaterial or zero balance. Given the expected uneven capacity of various potential beneficiaries of sub-grants under Component 3, the payment process is mostly centralized at the level of the PIU, which will pay suppliers based on approved invoices. An alternative was allowed for linkages and innovation grants where selected beneficiaries could procure activities and then pay suppliers after the PIU reviews the supporting documentation and transfers the required funds. The individual grant agreement will specify the applicable procurement and flow of funds arrangements. The sub-projects beneficiaries under Component 3 which are accessing funds from the PIU to pay suppliers will maintain separate accounts in the Treasury or an acceptable commercial bank and appropriate supporting documentation for the purpose of the financing received under the Grant. The PIU will transfer to eligible beneficiaries through the mirror DA the funds required based on payment requests, supporting documents and evidence that the previously-received funds have been used as intended. The beneficiaries will transfer the funds received to the suppliers in maximum five business days.

**17. Project funds will flow from the World Bank - either as an advance, via a DA to be opened in NBRM, which will be replenished under transaction-based disbursement method, and managed as described in the section, or by direct payment on the basis of direct payment withdrawal applications, or via special commitment, issued on the basis of withdrawal applications supported with the relevant letters of credit.**

**18. Applications for replenishment of the DA will be submitted quarterly or more frequently, if needed.** Documentation requirements for replenishment would follow standard Bank procedures as described in the Disbursement Handbook. Bank statements of the DA, which have been reconciled, would accompany all replenishment requests.

**19. Flow of funds for grants will be the same as for other activities, meaning that funds for the approved grants will flow from the DA to the suppliers or beneficiaries (depending on the flow of funds mechanism) based on adequate supporting documentation and payment orders signed by authorized signatories.** Recipients of grant funding under the project should open a separate local currency account to channel the funds under this specific source of financing and maintain appropriate documentation for the use of funds. All procedures related to flow of funds and disbursement methods and requirements would be properly described in the POM and Grant Manual.

**20. In terms of documentation for the use of Grant proceeds, it was agreed that infrastructure sub-grants below EUR 1 million and linkages and innovation sub-grants below EUR 100,000 would be supported through listing in Statement of Expenditures, while sub-grants above these thresholds will be justified with adequate evidence for the underlying expenditures incurred.**

**21. Financial Management Conditions.** The following conditions should be implemented for the FM arrangements to be acceptable under the Grant.

<i>Description</i>	<i>Responsible entity</i>	<i>Due Date</i>
Recruitment of a full-time qualified and experienced project Financial Management Specialist	CDPMEA/PIU	Effectiveness of the Project
Finalization of an acceptable Project Operational Manual (with Financial Management section as integral part)		
Finalization of an acceptable Grant Manual (with Financial Management section as integral part)		Disbursement condition for grant instruments in Component 3

### C. Procurement

**22.** The Project Implementation Unit established within CDPMEA will be responsible for the overall management and coordination of procurement activities under the project. The Terms of Reference for the core team of the PIU have been prepared by the project team at the CDPMEA, and the Bank has issued no-objection to them. The selection process of the PIU staff is planned to be initiated in November 2015, and the core team to be selected by project effectiveness.

**23. Applicable Guidelines:** Procurement for the proposed project will be carried out in accordance with the World Bank's Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised July 2014. Consulting services would be procured following the Bank's Guidelines "Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 and revised July 2014, as well as the provisions stipulated in the Financing Agreement. Private Sector Commercial Practices may be followed for Goods, Non-Consulting and Consulting Services under sub-projects to private enterprises in Component 3, in accordance with paragraph 3.13 of the Procurement Guidelines and paragraph 3.13 of the Consultant Guidelines, and the provisions stipulated in the Operational Manuals.

**24. General Procurement Notice** of the Project will be published after project Negotiations in United Nations Development Business (UNDB), the World Bank's external website, in the FYR Macedonian Official Gazette and on the implementing agency's website.

**25. Anticorruption measures:** The implementing agency through the Project Implementation Unit (PIU) will follow the World Bank anti-corruption measures and will not engage services of firms and individuals debarred by the World Bank. The list of debarred firms and individuals is located at: <http://www.worldbank.org/html/opr/procure/debarr.html>

**26. The World Bank Guidelines on Preventing and Combating Fraud and Corruption** in Projects Financed by IBRD Loans and IDA Credit and Grants dated October 15, 2006 and revised on January 2011, will also apply.

**27. Summary Procurement Plan.** A Summary Procurement Plan has been prepared and was agreed on at negotiations. It includes: (i) a brief description of the goods, works, non-consulting and consulting services required for the project; (ii) the proposed method of procurement; (iii) estimated costs; and (iv) the Bank's review requirements. The estimated costs and the timeline for initiation of procurement, including contract commencement and completion will be agreed during LRCP Negotiations. After Negotiations, the Bank shall arrange for publication on its

external website of the agreed initial procurement plan and all subsequent updates once it has provided a no-objection.

**28. The description of various items under different expenditure categories is provided below.** For each contract to be financed by the project, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame would be agreed between the Borrower and the Bank team and reflected in the Procurement Plan (Table 2).

**Table 2: Summary Procurement Plan**

<b>MACEDONIA</b> <b>Local and Regional Competitiveness Project (P154263)</b> <b>Summary Procurement Plan</b>				
<b>I. Goods, Works and Non-consulting services</b>				
<b>1. PRIOR REVIEW THRESHOLDS:</b> Prior Review Threshold: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement				
Procurement Method	More / Less	Method Threshold (USD)	Prior Review Threshold (USD)	Comments
ICB Works	More	US\$ 5,000,000	All contracts above US\$ 5,000,000	Specific contracts that need to be subject to prior review will be identified in the procurement plan on an as-needed basis.
NCB Works	Less	US\$ 5,000,000	First NCB contract	
Shopping Works	Less	US\$ 200,000	First shopping contract	
Procurement Method	More / Less	Threshold (USD)	Prior Review Threshold (USD)	Comments
ICB Goods	More	US\$ 1,000,000	First and all contracts above \$ 3,000,000	
NCB Goods	Less	US\$ 1,000,000	First NCB contract	
Shopping Goods	Less	US\$ 100,000	First contract	
Direct Contracting		Any amount	All contracts above 80,000	If need arises during project implementation
<b>2. Prequalification.</b> Bidders for __ shall be prequalified in accordance with the provisions of Guidelines ( <b>No prequalification is envisaged</b> ).				
<b>3. References to (any) Project Operational/Procurement Manual:</b> A Project Operational Manual will be prepared by the Client and will be cleared with the Bank. The Manual will provide details on the procurement of goods and services for the project, as well as for the sub-grants envisaged under Component 3.				
<b>II. Selection of Consultants</b>				
<b>1. Prior Review Threshold:</b> Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:				

Procurement Method	More/Less	Method Threshold (US\$)	Prior Review threshold	Comments
QCBS	More	US\$ 300,000	First contract and all contracts with estimated cost equivalent or more than US\$ 1,000,000	
SSS			All Contracts above US\$ 10,000	If need arises during project implementation
CQ	Less	US\$ 300,000	First contract	
IC			First contract and all contracts above US\$ 300,000	Specific contracts that need to be subject to prior review will be identified in the procurement plan on an as-needed basis.

**2. Short list comprising entirely of national consultants:** Short list of consultants for services, estimated to cost less US\$ 300,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

1	2	3	4	5	6	7	8	9
Ref. No.	Description	Type (Goods/ Works/ Non-consulting/ Consulting Services)	Estimated Cost EUR	Procurement Method	Review by Bank (Prior / Post)	Contract Signing	Contract Completion	Comments

**Component 2: Strengthening destination management and enabling environment (Recipient Executed)**

*Component 2.1: Central level capacity, coordination, and policy*

2/1	Training in public-private dialogue and tourism development	Training (Firm)		CQS	Prior	March 2016	September 2018	
2/2	Design of software for data-gathering	CS (F)		CQS	Post	August 2016	March 2017	
2/3	Equipment for data-gathering system	Goods		SH	Prior	August 2016	March 2017	
2/4	TA for implementation of business licensing reforms	CS (F)		CQS	Prior	September 2016	September 2018	
2/5	TA for implementation of standards improvement	CS (F)		CQS	Post	September 2016	September 2018	
2/6	TA for regulatory simplification and design of platform for electronic issuing of licenses and permits in tourism	CS (F)		CQS	Post	March 2016	September 2018	

<i>Component 2.2: Destination Management</i>								
2/7	TA on Destination Management: Stakeholder mapping; Design of structured PPD platform and process; Training in destination management; Development of toolkits and manuals; Study tours	CS (F)		QCBS	Prior	March 2016	September 2018	
2/12	Design of software to support destination management	CS (F)		CQS	Post	August 2016	March 2017	
2/13	Equipment to support destination management (computers, office furniture, others)	Goods		SH	Post	August 2016	March 2017	
2/14	Annual survey of the project's impact on beneficiaries and local economies	CS (F)		CQS	Prior	September 2016	September 2019	
<b>Component 2 sub-total</b>								
<b>Component 3: Investment in tourism-related infrastructure and linkages at destinations (Recipient Executed):</b> No procurement items. All funding is grants.								
<b>Component 4: Strengthening project management (Recipient Executed)</b>								
4/1	Director	CS (I)		IC	Prior	February 2016	February 2020	
4/2	Financial Management Specialist	CS (I)		IC	Prior	February 2016	February 2020	
4/3	Procurement Specialist	CS (I)		IC	Prior	February 2016	February 2020	
4/5	Civil Engineer	CS (I)		IC	Prior	August 2016	February 2020	
4/6	Architect and Cultural Heritage Specialist	CS (I)		IC	Prior	August 2016	February 2020	
4/7	Tourism Development Specialist	CS (I)		IC	Prior	February 2016	February 2020	
4/8	Regional Development Specialist	CS (I)		IC	Prior	February 2016	February 2020	
4/9	Tourism Expert 1 (for Technical Committee)	CS (I)		IC	Prior	September 2016	September 2018	
4/10	Tourism Expert 2 (for Technical Committee)	CS (I)		IC	Prior	September 2016	September 2018	
4/11	Tourism Expert 3 (for Technical Committee)	CS (I)		IC	Prior	September 2016	September 2018	
4/12	Monitoring and Evaluation and Communications Specialist	CS (I)		IC	Prior	August 2016	February 2020	
4/13	Environmental Specialist	CS (I)		IC	Prior	August 2016	February 2020	
4/14	Procurement Officer	CS (I)		IC	Prior	February 2016	February 2020	
4/15	Administrative	CS (I)		IC	Prior	February 2016	February 2020	

	assistant/operative/translator							
4/16	Financial/Accounting Software and support and maintenance for the project duration	Goods		SH	Post	March 2016	March 2020	
4/17	Office equipment (computers, furniture) - two lots	Goods		SH	Post	March 2016	March 2020	
4/17	Project Vehicle	Goods (at least 2)		SH		April 2016		
4/18	Training for PIU staff	TR		-	According to a plan agreed in advance with TTL			
4/19	Project Audit	CS		CQ	Post	Mid 2016	Mid 2020	
4/20	Visibility and Promotional Campaign	CS		QCBS	Prior	March 2016	March 2020	
4/21	Operating costs (not part of Procurement Plan)	OC		-		February 2016	March 2020	
<b>Component 4 sub-total</b>								



#### **D. Environmental and Social (including Safeguards)**

**29. As the key implementing agency, the CDPMEA will hold overall responsibility for monitoring implementation of environmental and social safeguards according to the procedures described in the ESMF.** The CDPMEA will work in close collaboration with the relevant public agencies responsible for Components 2, 3 and 4. Responsibilities of CDPMEA, amongst other, include responsibility for adherence to all safeguard requirements of the World Bank regarding the final users of funds under the Component 3. CDPMEA will appoint an Environmental Focal Point for coordination of environmental due diligence during the project implementation and as environmental communication/information officer. The Environmental Focal Point will initiate Supervision Screening Team (SST) meetings, coordinate all safeguards activities and will be responsible for keeping records and filing documentations, public disclosure, reporting and communication with Applicants and more.

**30. An independent Environmental Expert and Social/Cultural Heritage Management Specialist(s) will be engaged full time in the PIU for the duration of the LRCP, for screening sub-projects/grants selected for financing to ensure:** (i) compliance with the World Bank and IFC exclusion list, (ii) that no sub-projects with significant impacts of a Category A type are supported, (iii) that sub-projects/grants will not exert severe environmental and/or social (cultural heritage) impacts, (iv) no sub-projects requiring pest management or exercising impact to international waterways will be supported. Any activities corresponding to the World Bank category B Projects will be required to have an Environmental and Social Management Plan (or EMP Checklist for the simpler works as defined in ESMF) in place, in final version (disclosed), prior to approval that would identify potential environmental and social impacts and provide adequate mitigation measures.

**31. The Environmental Expert will perform environmental screening of the project-concept applications, provide recommendation to a Supervision Screening Team (SST) and quality and content assessment of EA documents, and carry out environmental project implementation compliance supervision and other safeguards tasks as defined in ESMF.** Prior to environmental review, applicants will provide required environmental and other information of the proposed sub-project through previously prepared form (environmental protection questionnaire) defined in the ESMF. The application will include a certain degree of self-assessment including environmental screening, environmental categorization which determines the sub-project's eligibility, scope of environmental assessment, construction and/or emissions permitting and other environment related documentation required for sub-project approval and implementation. The application will then be screened and assessed by the Environmental Expert whose conclusions will be reviewed and confirmed by the SST and Environmental Focal Point for sub-component 3.1 and sub-component 3.2 respectively.

**32. Screening procedures will include categorization procedures, documents revision and possibly interview with the applicant.** The Environmental Specialist of the World Bank will closely work with the Environmental Expert in the PIU and the Environmental Focal Point during sub-project categorization, providing assistance and advice. Upon the SST or Environmental Focal Point's recommendation, CDPMEA will conduct appraisal of sub-projects, in the case the application was successful.

**33. The Environmental Expert and Social/Cultural Heritage Management Specialist(s) will be responsible to ensure that any Technical Assistance (TA) outputs supported under**

**the Project (within components 1, 2 and 4) are consistent with World Bank safeguard policies.** The environmental and social safeguard policies will apply by including adequate and appropriate safeguards requirements, obligations, standards and other considerations to ToRs for studies and capacity building activities planned under the components.

**34. The Supervision Screening Team (SST), coordinated by the Environmental Focal Point, and composed of experts of various qualifications, appointed by CDMPEA, will supervise sub-projects screening under the Component 3.** SST produces final sub-project appraisal recommendations for CDMPEA, based on the Environmental Expert reports. In addition, SST will supervise the work of the Environmental Expert, including performing EA documentation quality checks and compliance, reporting quality supervision and field supervision. SST regularly reports to CDMPEA on safeguards issues and WB including project progress reports, financial reports and safeguard reports.

**35. The World Bank will provide training for the Environmental Expert, the Environmental Focal Point, Social/Cultural Heritage Specialist(s) and SST members to enhance understanding of WB policy application and compliance as well as WB procedures.** The main goal of this training is to enhance the capacity of the Focal Point and SST to successfully review sub-project applications and screening reports, supervise work of EE, assist and coordinate SST and other environmental stakeholders (EE, SST, CDMPEA, WB) in the environmental due diligence implementation.

**36. In addition to assisting the Environmental Expert and CDMPEA in screening the applications, the World Bank will perform environmental evaluations and review procedures on periodic basis on a selected sample.** World Bank will perform: i) a prior review and clearance of all sub-projects falling in category B+ requiring EIA and/or full EMP, (ii) prior review of randomly selected five (5) category B- sub-projects, (iii) post review for a sample of other projects. In addition, environmental performance of the Environmental Expert, SST and selected Applicants will be a subject of the WB supervision missions.

**37. There will be communication present between the World Bank, Environmental Expert and CDMPEA, and reporting on environmental due diligence performance and implementation will be a subject of several reporting lines:** (i) CDMPEA will report on Project's environmental performance through regular reporting on performance of project portfolio, (ii) Screening Reports and screening procedure set in EMF, and (iii) Environmental Expert and SST will provide due diligence documents quality reports and mitigation and monitoring plan implementation supervision reports to the World Bank on regular basis and in accordance with the agreed schedule.

## **E. Monitoring and Evaluation**

**38. Monitoring of progress on indicators and evaluation of results during implementation will be in accordance with the agreed LRCP results framework and based on published data, surveys, field visits and mission reports.** The PIU will prepare semi-annual reports with data for the Results Framework (see Annex 1), to be reviewed and discussed with the World Bank Task Team and other project counterparts, as applicable. The Results Framework data will be captured in Implementation Status and Results reports that the World Bank will prepare semi-annually. Implementation support provided by the World Bank team will also enhance results monitoring and evaluation. Thus, progress against objectives will be

assessed on an ongoing basis. In addition, a midterm review will be held approximately 2 years into the project. Within 12 months of LRCP closing, the World Bank will complete and disclose an Implementation Completion and Results Report of the project.

**39. Furthermore, to strengthen the government's capacity, the project will support piloting of a tourism competitiveness policy planning, monitoring, and coordination (TCPMC) system.** The establishment of the system will be informed by findings from a study on the needs of data for the tourism sector and destination management at the central and local levels, institutional coordination, etc. The system should complement the type of data that the State Statistical Office is providing on the tourism sector, in terms of private sector investment in tourism, jobs in tourism, skills profiles and shortages (in coordination with a Labor Market Observatory), tourist surveys, circuit needs and gaps analysis, etc. Evidence-based approach to decision making and policy development will be channeled down to the organizations and institutions at the destination level. Institutions that will be represented in the Steering Committee will have a role. The CDPMEA will coordinate the results monitoring and provide guidance on evaluations of select programs that will be undertaken by relevant line ministries.

#### **F. Role of Partners**

**40. The World Bank is coordinating closely with the EU Delegation in FYR Macedonia and the Secretariat for European Affairs** (which coordinates EU funding). The EU will finance LRCP and is supporting a range of policies and programs related to competitiveness and innovation through the Instrument for Pre-Accession (IPA) funds. The Bank's support will be fully complementary with and leverage other assistance provided through IPA funds. Moreover, the Bank is leveraging work done by other donors, such as GIZ on local and regional development, UNIDO on tourism cluster development, Swisscontact on destination management, and USAID on tourism and business development. Synergies and cooperation will be explored with the new project on nature and national parks management to be financed by IPA II and managed by the UNDP.

## Annex 4: Implementation Support Plan

### FYR Macedonia: Local and Regional Competitiveness in Tourism

#### Strategy and Approach for Implementation Support

**1. The Implementation Support Plan (ISP) articulates the Bank’s approach to help FYR Macedonia achieve the expected project results based on the project’s nature and risk profile.** It identifies the inputs and actions required to facilitate better risk management, better results, and increased institutional development, while ensuring compliance with the legal agreements to meet the Bank’s fiduciary obligations. Resources have been identified keeping in mind the need for (a) providing the necessary technical advice to the implementing agencies to build capacity; (b) monitoring and evaluating results on the ground; (c) facilitating the timely implementation of the risk management measures.

**2. The project is expected to have a Task Team Leader (TTL) and a co-TTL from the WBG Trade and Competitiveness Global Practice,** and a mix of local and international technical experts assigned to each of the components. The team will be based in Washington, DC, Skopje and the Bank’s regional and country offices. This may include offices in Istanbul, Zagreb, Bucharest, and others. The team will be supported by procurement, financial management, and safeguards team members. The team members will travel periodically to the country, with approximately 2-4 missions per year. The blend of staffing in headquarters, regional and country offices will ensure an appropriate balance between local and regional knowledge and responsiveness and global expertise.

**Table 1. Tentative Implementation Support Plan (Annual)**

<b>Position</b>	<b>Role</b>	<b>Resource Estimate (annual staff weeks)</b>	<b>Number of Trips (annual)</b>	<b>Team member based in (as of Oct. 2015)</b>
Task Team Leaders	Overall responsibility for project implementation with the Government of Macedonia and coordination with the EU	14	TTL: 0 Co-TTL: 2	TTL: Skopje Co-TTL: Washington, DC
Tourism Specialist	Technical support on tourism aspects	7	2	Istanbul
Investment Specialist	Technical support on private investment	3	2	Vienna/TBD
Urban/Rural/Cultural heritage Specialist	Operational and technical support on cultural heritage and rural dimensions of tourism development and sub-projects	4	2	Moscow
Investment Climate Specialist	Technical support on business enabling environment and regulatory reforms	3	2	TBD

Monitoring and Evaluation Specialist	Operational support on M&E matters	2	1	TBD
Skills Specialist	Technical support on skills for destination needs assessments and non-infrastructure sub-projects	3	0	Skopje
Gender Specialist	Operational support on gender aspects	2	1	Washington DC
Communications Specialist	Guidance to the PIU on communications and EU visibility; monitoring of compliance with EU visibility requirements	2	0	Skopje
Regional Development Specialist	Operational and technical support on balanced regional development	4	0	Skopje
Financial Management (FM) Specialist	Operational support and monitoring on compliance with Bank policies	2	1	Bucharest
Procurement	Operational support and monitoring on compliance with Bank policies	3	1	Zagreb
Environmental Safeguards Specialist	Operational support and monitoring on compliance with Bank policies	2	2	Zagreb
Social Safeguards Specialist	Operational support and monitoring on compliance with Bank policies	1.5	0	Skopje
<b>Total</b>		<b>46.5</b>		

### Partners

Name	Institution/Country	Role
EU Delegation	EU/fYR Macedonia	Development partner
Cabinet of Deputy Prime Minister for Economic Affairs (CDPMEA)	fYR Macedonia	Implementation agency

## **Annex 5: Systematic Operations Risk- Rating Tool (SORT)**

### **FYR Macedonia: Local and Regional Competitiveness in Tourism**

**1. The overall risk of the project is Moderate.** The main risks rated as substantial are: (i) political and governance risks relate to unstable political processes, governance concerns and possible changes in the level and consistency of support to the implementing agency and beneficiary public agencies; (ii) stakeholder risks related to weak coordination and limited implementation capacity, and (iii) fiduciary risks before mitigation measures are and implemented.

**2. Political and Governance:** The success of LRCP relies on continuous and engaged commitment from the government of FYR Macedonia at the central and local levels. CDPMEA, as an implementing agency, in cooperation with the Ministry of Finance and the General Secretariat need to ensure a smooth and timely resource allocation, implementation of activities and disbursement of funds. The line ministries need to continue to have an interest in and support tourism development, and coordinate amongst themselves. The level and consistency of support is a substantial risk in FYR Macedonia, given political instability, changes in ministers and senior staff at public agencies, political divisions and concentration of decision making at the top levels. There is also need for transparency and accountability in decision making and implementation.

**3. Mitigation:** Strong communications with the institutions, private sector, civil society, EU Delegation, etc. to maintain a broad-based platform of support for reforms will help mitigate this risk. To build capacity in the public sector agencies, WBG will provide substantial technical assistance on inter-agency coordination and public-private dialogue during project implementation. WBG also anticipates coordinating communications efforts around the tourism competitiveness development agenda with the Tourism Committee, parliamentary committee, and authorities at central and local levels. The early parliamentary elections to be held in April 2016 may slow down the effectiveness and implementation of LRCP. The Bank team will continue to monitor the political situation and consult closely with the EU Delegation in FYR Macedonia. The PIU, the Tourism Committee and the Agency for Promotion and Support of Tourism are in a good position to support an inclusive and transparent dialogue, consultations, decision making and promotion of the opportunities that LRCP will be providing and ensure adequate continued support among the local and central authorities.

**4. Stakeholders:** Implementation and impact of LRCP will depend on successful involvement of a significant number of stakeholders at the central and local levels, and between the public and private sectors. Coordination at the central level, facilitated by the CDPMEA and the PIU is most critical for implementation of the activities under Component 2, and strong coordination and capacity building is needed for activities under Component 3, for readiness for the investments in tourism infrastructure, soft infrastructure and services at destinations. Many of the stakeholders have a limited capacity to develop proposals and technical specifications for strong sub-projects, which may pose delays in preparing project documentation.

**5. Mitigation:** The risks related to institutional capacity and stakeholder coordination will be mitigated through establishment of a PIU with qualified staff and close cooperation with the Steering Committee. The government agencies are currently benefiting from technical assistance by GIZ on the preparation of strong sub-project proposals, and WBG will also provide technical assistance under Component 1. The Steering Committee and the PIU will ensure that the

institutions at the central level work together and cooperate strongly with the local level authorities (municipalities and centers for regional development) for a smooth implementation of the activities and reaching LRCP's objectives.

**6. Fiduciary: Financial Management.** A large portion (approximately 80 percent) of the project (Component 3) will finance large and small scale infrastructure, linkage and innovation activities through grants to competitively-selected projects to be implemented by municipalities and other public and private entities. The following financial management risks have been identified:

- (i) Insufficient and/or untimely budgetary allocations for the project activities (for the IPA II Grant but also co-financing of beneficiaries);
- (ii) Limited knowledge and experience of the PIU with the World Bank procedures in terms of disbursement and financial management;
- (iii) Limited capacity of the PIU to provide support and closely monitor the use of funds at beneficiary level; and,
- (iv) Limited capacity of the project-supported beneficiaries to ensure adequate fiduciary arrangements for the use of grants proceeds.

Based on the above, the risk related to financial management is assessed to be **substantial**.

**7. Mitigation:** Mitigation measures have been designed and will be implemented as part of a time-bound action plan agreed with the PIU. In terms of sustainability of the financial envelope, the Bank will monitor closely the budget available for the project activities and if needed, liaise with the relevant decision makers in order to avoid bottlenecks in the implementation. A PIU with experienced core staff, including fiduciary functions, will be established by Grant effectiveness. Appropriate training and ad-hoc advice will be provided by the Bank team as needed. The decentralised infrastructure investments would require increased monitoring and enhanced controls over the use of funds. Clear monitoring procedures and reporting lines between the PIU and beneficiaries will be established. A POM and Grant manual detailing the internal controls framework to be instituted for the project will be prepared going forward with the preparation. The Bank will monitor the quality and timeliness of the project quarterly Interim un-audited Financial Reports (IFRs) and audited annual project financial statements and follow-up on any findings as needed. The Bank will monitor the application in practice of the FM arrangements instituted for the project through regular implementation support and supervision missions, correlated with the risk of the project and fiduciary performance, with particular emphasis on the activities pertaining to sub-grants.

**8. Fiduciary: Procurement.** An assessment of the capacity for procurement management within CDPMEA and the capability of the Implementing Agencies (IAs) to conduct procurement under the project was completed during project appraisal in October 2015. It was agreed that the risk associated with procurement after implementation of the mitigation measures as outlined in Table 1 below, is rated as **Moderate**.

**Table 2: Agreed Mitigation Measures**

	<b>Mitigation Measures</b>	<b>Timeline for completion</b>	<b>By whom</b>
1.	Complete selection of the core PIU staff (Project Director, Procurement Officer, Financial Management Officer, Tourism Specialist and Environmental Specialist)	Effectiveness	CDPMEA
2.	Given the demand driven nature of the project, the implementation arrangements for procurement and the involvement of the PIU in coordination and managing procurement under the sub-projects, hiring an additional Procurement Specialist/Assistant is recommended.	Implementation	PIU
3.	The procurement staff, beneficiaries' representatives, members of evaluation committees, and other technical staff involved in the project procurement will be trained in Bank procurement and consultant guidelines and procedures on a regular basis during the project implementation	Implementation	PIU and World Bank
4.	The POM will elaborate in detail the procurement arrangements, roles and responsibilities with regard to project procurement in general and procurement under the sub-grants in particular	Effectiveness	PIU
5.	The procurement and review thresholds for the project will be in accordance with the most recent ECA Region Reference Thresholds for Procurement methods effective January 2, 2014 and revised February 10, 2015	To be updated throughout implementation	PIU and World Bank
6.	The particular prior and post review arrangements are specified in the procurement plan agreed with the Bank	To be updated throughout implementation	PIU and World Bank
7.	The initial summary procurement plan for the first 18 months of project implementation was agreed during negotiations, and will be updated during project implementation annually or on an as-needed-basis.	To be updated throughout implementation	PIU

**9. Environmental and Social risks.** LRCP has been assigned an environmental Category B. The environmental and social risks are rated moderate. The risks will be moderated both by the exclusion of Category A activities and by the amount of funding available for each component and tentative maximum amounts for the types of investments under each funding instrument under Component 3. The investments in tourism infrastructure works will be limited



to rehabilitation of existing infrastructure or small scale new infrastructure. Other risk-limiting decisions include the exclusion of sites within designated “Special Tourism Development Zones” (based on social issues and potential controversies), exclusion of investments within activities impacting fragile ecosystems, important habitats, and green-fields of outstanding aesthetic value; activities requiring conversion of forests, wetlands, and alpine/sub-alpine meadows, excluding heavily polluting industries, and industries excluded under WB and EU investment policies.

**10. Mitigation:** The Environmental and Social Management Framework (ESMF) provides clear and concrete guidance for sub-project environmental and social screening and impact assessment and overall safeguards management of the Project. In addition to guidelines for reflecting environmental, cultural heritage preservation and social (land use) considerations in Project’s plans and daily operations, ESMF includes guidance for going beyond an assessment of the specific investments to be financed directly by the project, and undertaking appropriate environmental and social “due diligence” assessments of existing facilities and activities that would receive the support (e.g. ensuring that a ski resort in a natural area is not causing undue negative environmental or social impacts, before agreeing to support modest investments that will support its continued operation or expansion). Depending on the sub-project and its environmental impact, Environmental and Social Management Plans (ESMPs), ESMP Checklists, site specific ESMPs or Environmental and Social Impact Assessments (ESIAs) will be prepared for individual sub-projects based on ESMF.

## Annex 6: Economic and Financial Analysis

### FYR Macedonia: Local and Regional Competitiveness Project in Tourism

1. **The core focus activities of LRCP are improved destination management (coordination and information-sharing) and targeted investments in infrastructure and non-infrastructure elements.** It is expected that the LRCP activities will result in improved and better structured tourism offerings throughout the supply chain which in turn will increase the attractiveness of destinations and produce the following outcomes, sequentially as listed below:

- a. Increased tourist visits and overnight stays;
- b. Increased revenue for enterprises in the tourism sector at the destinations;
- c. Increased private investments in tourism related activities due to emerging opportunities;
- d. Jobs created for the operation of increased tourism activities at the destinations; and,
- e. Increased retention of economic benefits at the destination level.

2. **This project will be funded from an €18 million grant from the EU and national contribution of €3.18 million.** Therefore, it will leverage positive economic impacts at a low direct cost to the Government of FYR Macedonia.

3. **Evidence provided in this economic and financial analysis indicate high likelihood of generating the aforementioned benefits:**

- a. The number of tourists and economic activity in tourism have been increasing over recent years.
- b. FYR Macedonia presents tangible opportunities and potential to further develop product offerings in tourism. A value chain analysis undertaken in 2012 reveals that there is substantial room to increase in-country benefits from tourism. See Annex 2 for details.
- c. Several of the pipeline projects, which are among the most illustrative of the types of sub-projects the LRCP will fund, show positive economic/ financial returns.

4. **The sections below present further detail** about the Bank's economic and financial assessment for the project.

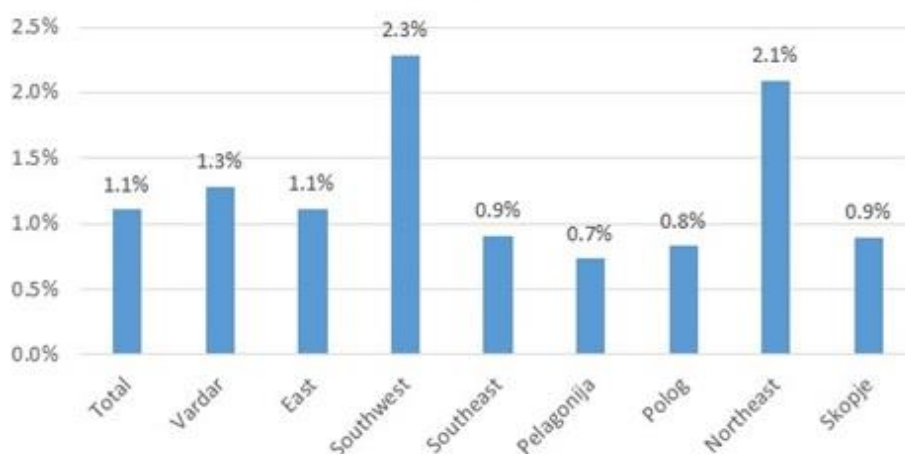
#### **A. Economic Impact of the Tourism Sector**

5. **The tourism sector contributes a small share to the national economy and to individual regions, but the trends are positive.** Tourism accounts for 5.2 percent of GDP, 4.7 percent of employment and 2.2 percent of total capital investment in FYR Macedonia in 2014. Although this is relatively small compared to other countries in the region, growth has been steadily increasing with direct GDP contributions from tourism increasing by 30 percent from 2010. In addition, data from 2013 shows the contribution of accommodation and food service activities in GDP by regions. Figure 1 shows that the southwest region has the highest share with

2.3 percent, which is quite limited considering that this region has the highest tourist arrivals and potential.<sup>34</sup>

6. **Increasing number of tourists.** The total number of tourists has steadily increased in FYR Macedonia, due to the increasing number of foreign tourists, while domestic tourist arrivals have decreased. The number of arrivals of foreign tourists has increased by more than 60 percent in the period of 2010-2014. Figure 2 and 3 illustrate this positive trend. The nights spent by foreign tourists has increased by 65 percent between 2010 and 2014, whereas the number of night by domestic tourists has been steadily decreasing (figure 4).

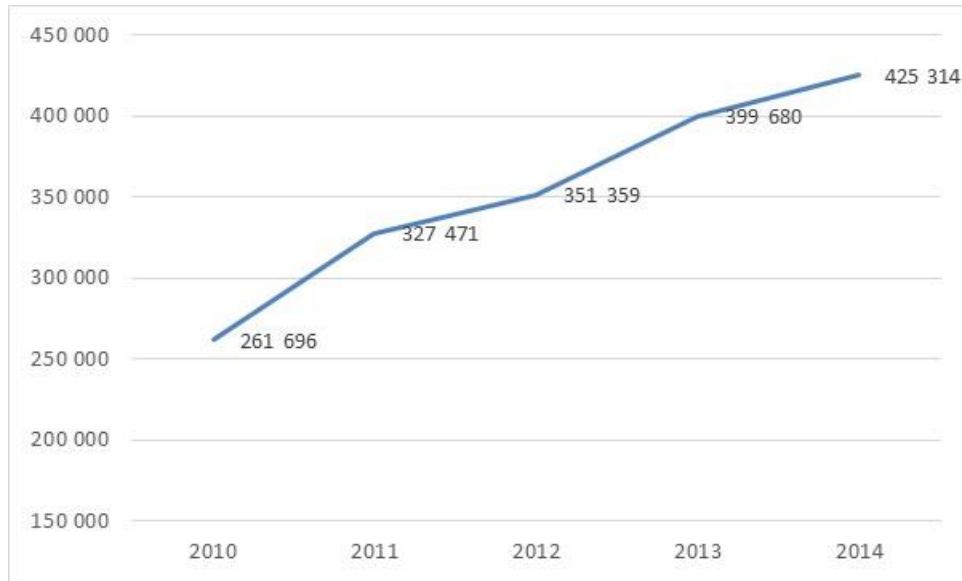
**Figure 1. Contribution of accommodation and food service activities in GDP by regions in 2013**



Source: State Statistical Office, FYR Macedonia

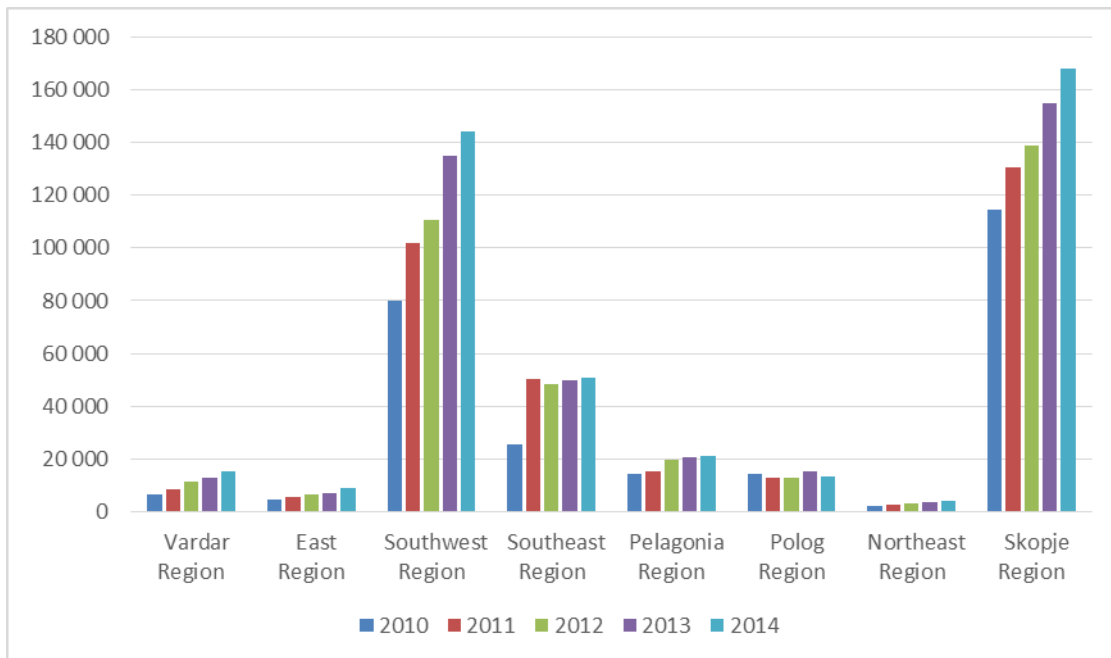
<sup>34</sup> Data provided in this figure does not include travel agencies. It has been noted by the Macedonian State Statistical Office that due to the high level of disaggregated data, the information is less reliable and cannot be taken with high certainty.

**Figure 2. Foreign tourists, number of arrivals**



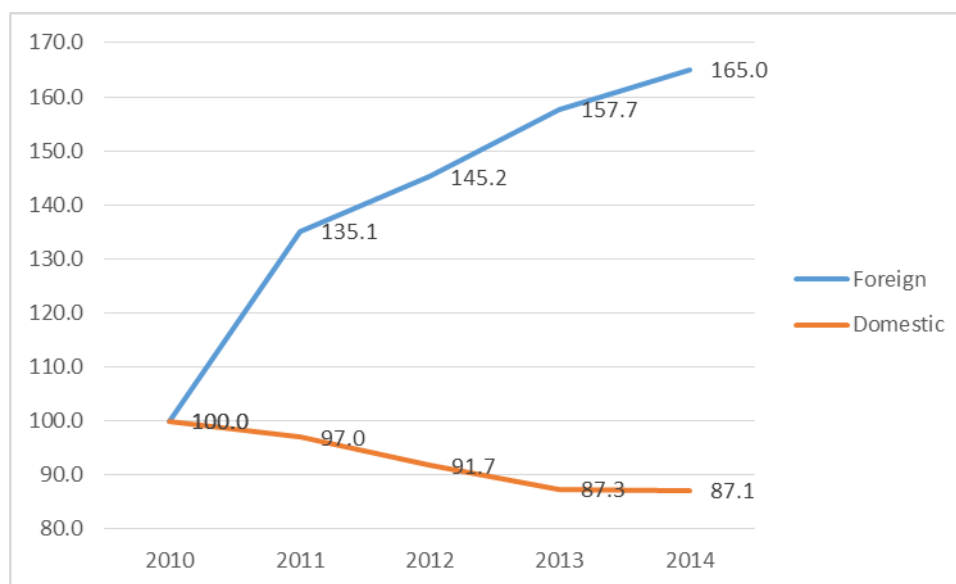
Source: State Statistical Office of the Republic of Macedonia

**Figure 3. Tourist arrivals, by statistical regions, 2010-2014**



Source: State Statistical Office of the Republic of Macedonia

**Figure 4. International and Domestic tourist nights spent, indices, 2010=100**

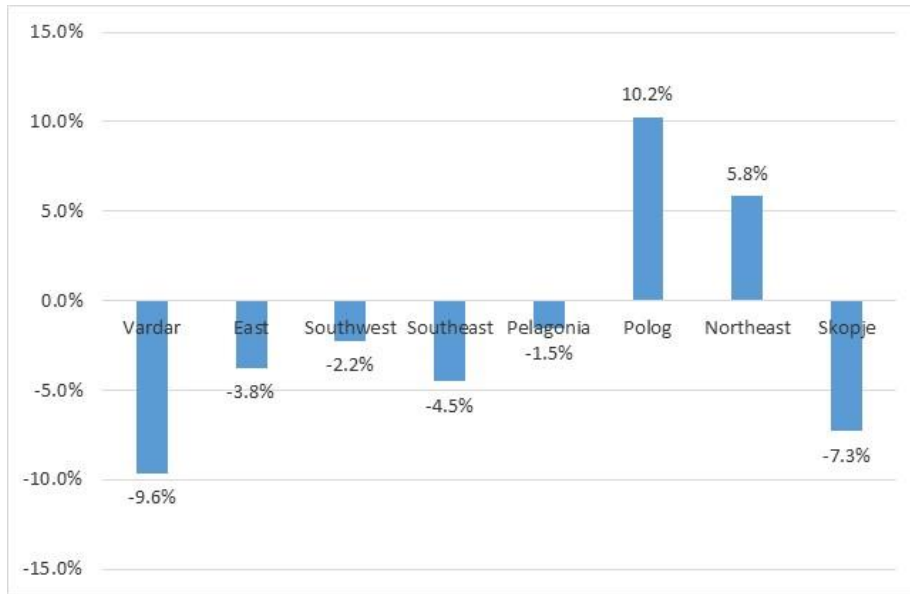


Source: State Statistical Office of the Republic of Macedonia

7. **The number of active business entities in the tourism sector has declined in recent years in most regions.** Despite the increase in the number of tourists, the number of active business entities providing services in the tourism sector is in decline in most regions (Figure 5). This is a symptom of the low retention of economic benefits, which correlates with the findings of the Value Chain Analysis undertaken by the WB in 2012 (Annex 2).<sup>35</sup> This will be taken into account during implementation of LRCP.

<sup>35</sup> FYR Macedonia modular competitiveness assessment - From world heritage to world destination: policy options to increase the competitiveness of the tourism sector in FYR Macedonia, World Bank, December 2012.

**Figure 5. Number of active business entities in percentage, 2014 compared to 2012**



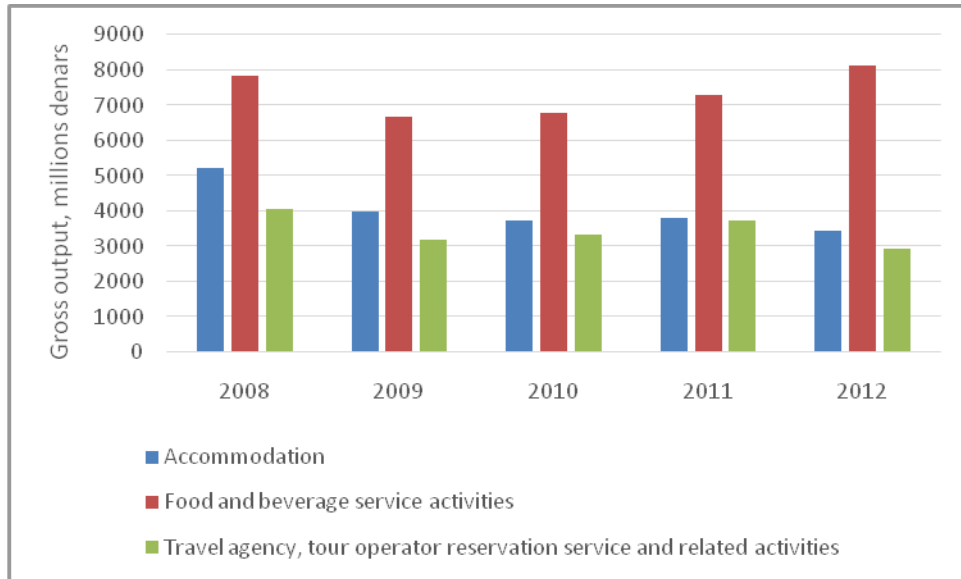
Source: State Statistical Office, FYR Macedonia

8. **Although data is limited, a preliminary analysis indicates that the increase in tourist arrivals has resulted in a positive trend of other tourism related indicators.** According to the data from the last 4 years from the Annual Report of the WTTC,<sup>36</sup> visitors' exports have been growing by around 9 percent on average, and the direct contribution of travel and tourism to GDP has been growing by almost 8 percent. Similar conclusions may be drawn from the data from the State Statistical Office presented in Figures 6 and 7, which indicates a positive correlation between the number of tourist arrivals and the contribution of tourism related sectors to the national economy. One reason why this growth has been limited is that European growth and disposable incomes dropped following the global financial crisis.

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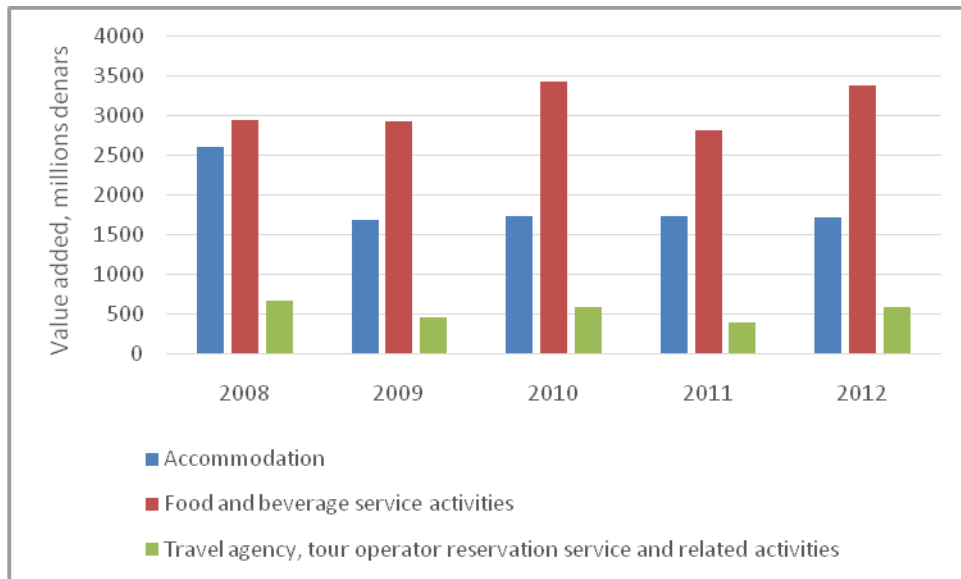
<sup>36</sup> World Travel & Tourism Council Economic Impact 2015

**Figure 6. Gross output per sector, 2008-2012**



Source: State Statistical Office, FYR Macedonia

**Figure 7. Value added per sector, 2008-2012**



Source: State Statistical Office, FYR Macedonia

9. **A small portion of the total cost of FYR Macedonia Tour Value Chain remains in-country.** One of the main takeaways of the Value Chain Analysis undertaken by the WB team in 2012<sup>37</sup> is that the category of “activities” such as excursions and entrance fees are at low cost proportional to the total cost. This is not necessarily interpreted as being a cost competitive tourist destination, but rather low quality as free or very low cost entrances to sites or churches may indicate to tourists that the tourism assets are not worth paying to see. The expenses associated with this category are often paid to local SMEs and tour operators and nurturing their development is most likely to lead to job creation. These areas of improvement are seen through the prism of LRCP as opportunities for more revenues and it is exactly what the project will work on to develop and take advantage of.

#### **B. Rural and Gender Impact**

10. **The tourism potential and niche segments identified (rural, natural and cultural diversity) can “turn around” certain regions and destinations.** These new opportunities for the development of tourism sub-segments that appeal to niche markets and customers have emerged in recent years and are mostly present in the lagging areas of the country. The Southwest region is mostly known for its tourist potential (UNESCO-protected, known for its lake, festivals, and Byzantine churches). Although it is number one in the country in terms of registered tourists, it has not been able to package this potential in a proper offering and take advantage of this throughout the supply chain (similar is with several other destinations, such as Mavrovo, Prespa, etc.). The region remains lagging behind national averages in key economic indicators. In 2012, the GDP per capita in the Southwest constitutes 75 percent of the national average and its contribution to the national GDP per capita is 8.1percent. According to the development, economic – social and demographic index, the southwest region is in the lower half of all eight regions in the country<sup>38</sup>. In the period of 2010-2012, the GDP in the southwest region grew 5 percent, which is less than the country’s average of 7 percent (Figure 7).

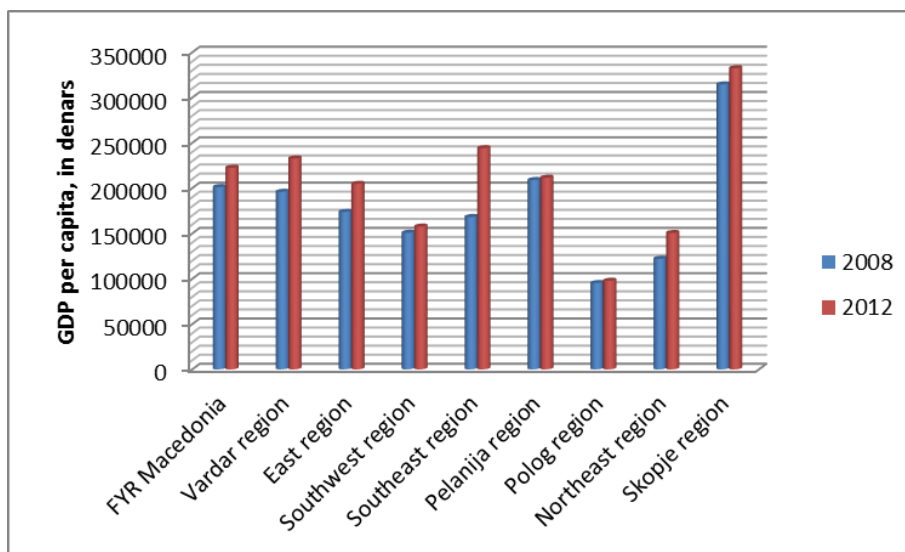
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<sup>37</sup>FYR Macedonia modular competitiveness assessment - From world heritage to world destination: policy options to increase the competitiveness of the tourism sector in FYR Macedonia, World Bank, December 2012.

<sup>38</sup>According to the Government Decision on Classification of the Planning Regions According to the Level of Development for the Period 2013 – 2017, Official Gazette of RM, (2013), no. 88/2013



**Figure 7. GDP per capita, 2008-2012**



Source: State Statistical Office, FYR Macedonia

11. **Additionally, the country’s main tourism region presents high unemployment and low value added to the national economy.** In 2013, the official unemployment rate in the Southwest region continued to be very high, at 36.7 percent, which ranks the region on 7th place out of eight regions. There are also gender disparities, as the unemployment rate of women is higher than that of men (40.5 percent vs. 34.2 percent). The region contributes 7.6 percent to the country’s gross value added (Table 1). These indicators, along with GDP data, point out to stagnancy of the regional economy in the past 5 years. As in the Southwest, expanding and upgrading tourism is a critical ingredient for reducing poverty and enlarging shared prosperity in several underdeveloped regions/destinations outside of Skopje.

12. **The Southwest region also has highly diversified ethnic structure.** Analysis done for the WBG CVPS shows that the gender gaps in accessing economic opportunities are tightly linked to differences across ethnic groups. Considering that the gender disparities can be found mostly in the rural and ethnically diverse areas, this project can potentially have a positive impact on more disadvantaged groups, given the fact that these are the areas where the tourism potential, i.e. niche market segments have been identified.

**Table 1. Contribution of the Southwest region to the country’s gross value added, by sector, 2012**

Sector	Contribution to the national gross value added (%)
Gross value added of all sectors	7.95
Agriculture, forestry, fishing	6.33
Mining; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	7.15
Construction	8.41

Wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage; accommodation and food service activities	8.77
Information and communication	0.74
Financial and insurance activities	4.89
Real estate activities, plus imputed rents	11.22
Professional, scientific and technical activities; administrative and support service activities	3.37
Public administration and defense; compulsory social security; education; human health and social work activities	7.86
Arts, entertainment and recreation; other service activities	4.87

*Source:* State Statistical Office, FYR Macedonia

13. **Regarding gender overall, firm ownership and management by women in FYR Macedonia is slightly below regional averages, but lower in non-exporting firms.** Analysis based on the World Bank Enterprise Survey (2013), which looks at established small, medium, and large businesses, shows that 29.4 percent of firms in FYR Macedonia have female participation in ownership compared to 33 percent in ECA and 37 percent globally. The highest share of female ownership - 37.8 percent - is in exporting firms (in which direct exports are at least 10 percent of all sales) compared to 31.6 percent in ECA and 36.7 percent in all countries. Of Macedonian firms interviewed, 26.3 percent have women in top management, which is higher than ECA (21.3 percent) and global (19.0 percent) averages. The share of women managers is again significantly higher in exporting firms (35.7 percent of firms have a female top manager as compared to 16 percent in ECA, 14.7 percent in all countries, and in 24.9 percent in non-exporting firms in FYR Macedonia). As the majority of firms targeted through this project are non-exporting firms and are likely to be in rural areas, the project's targets for women-owned and -managed beneficiary firms are towards the lower end of the range observed in the country.

### C. Cost-Benefit Assessment of Illustrative Sub-projects

14. **Project proposals for the types of sub-projects which are likely to be eligible for support under LRCP show positive economic/financial returns.** During project preparation, the team obtained proposals for a number of potential sub-projects which have been collected and considered by the Government's Working Group. Some of the project proposals include feasibility studies and cost benefit analysis, and some include comprehensive technical designs. The project proposals were developed by experienced consultants engaged by GIZ in cooperation with the centers for regional development, and, in some instances, the Ministry of Culture, in line with the regional development strategies and plans and with funding from the European Union. The project proposals described in this section are indicative and do not represent a commitment from LRCP to fund these specific projects.

15. **Studies conducted for relevant examples highlight positive feasibility** of the projects for several categories of investment of the type that will absorb a substantial share of the project funds. One of the most illustrative projects for the type of activities that may be financed under the LRCP, "Development of Pelagonija as adventure travel destination", is a useful example of

the underutilization of tourism potentials and low baseline, and the expected increase in tourist arrivals and overnight stays. The total impact of this project to the domestic economy is estimated at €141,198 for the first year to €2,411,862 over a period of 10 years. The key results from the feasibility studies of two additional representative projects are summarized below.

#### *Village Gari Revitalization*

16. **The main objective of this project is the protection of architectural heritage in the village of Gari.** This will comprise the revitalization of rural settlement - monumental assemblage by adapting and converting several selected objects of traditional architecture into tourism - attractive contents, i.e. accommodation and catering facilities, information zones and exhibition areas. The feasibility study for the project considers revitalizing supporting content – such as organizing specialized summer school for architectural conservation of traditional houses and practical training, preservation of selected houses in Gari with a high degree of conservation, conversion of the old building of the first hydropower plant into an exhibition area, preservation and conversion of the area called “mid-village” into a multipurpose space and transformation of other smaller (neighborhood) squares/piazzas at selected points into recognizable places/benchmarks.

17. **According to the feasibility study, the main investment activities, approximately 2.5 million EUR including maintenance of the investment, insurance and material costs, would result in a Net Present Value (NPV) of MKD 44 million and an internal rate of return (IRR) of 8.7 percent.** The main investment will go for the reconstruction of church and museum plant, revitalization of 72 private houses and paving 14,000 m<sup>2</sup> of streets, as well as setting up street lighting. The study is comprehensive in terms of expenditure categories, underlying assumption are conservative, and the costs are aligned with local conditions. The discount rate used in the NPV calculation is 6 percent. The profitability index of the project (NPV divided by initial estimate) is 29.3 percent, and the IRR is 8.7 percent (Tables 3 and 4). These outcomes show that the investment in the project is financially justified.

**Table 3. Net – Present Value of the Project for revitalization of village Gari (presented in MKD, 1 EUR = 61.6 MKD denars)**

<b>Net present value</b>			
<b>Year</b>	<b>Net income</b>	<b>Discount rate R= 6%</b>	<b>Discounted net income</b>
0	-150.321.467	1,0000000	-150.321.467
1	14.176.916	0,9433962	13.374.449
2	14.176.916	0,8899964	12.617.405
3	14.176.916	0,8396193	11.903.212
4	14.176.916	0,7920937	11.229.445
5	14.176.916	0,7472582	10.593.816
6	14.176.916	0,7049605	9.994.166
7	14.176.916	0,6650571	9.428.459
8	14.176.916	0,6274124	8.894.772
9	14.176.916	0,5918985	8.391.295
10	14.176.916	0,5583948	7.918.316
11	14.153.816	0,5267875	7.458.054
12	14.153.816	0,4969694	7.034.013
13	14.153.816	0,4688390	6.635.861
14	14.153.816	0,4423010	6.260.246
15	14.153.816	0,4172651	5.905.893
16	14.153.816	0,3936463	5.571.597
17	14.153.816	0,3713644	5.256.224
18	14.153.816	0,3503438	4.958.701
19	14.153.816	0,3305130	4.678.020
20	14.153.816	0,3118047	4.413.227
21	14.153.816	0,2941554	4.163.421
22	14.153.816	0,2775051	3.927.756
23	14.153.816	0,2617973	3.705.430
24	14.153.816	0,2469785	3.495.689
25	71.305.908	0,2329986	16.614.179
<b>Net present value</b>			<b>44.098.178</b>
<b>Relative net present value</b>			<b>29,34%</b>

Source: Feasibility study for revitalization of village Gari

**Table 4. Internal Rate of Return of the Project for revitalization of village Gari (presented in MKD, 1 EUR = 61,6 MKD denars)**

Internal rate of return					
Year	Net income	Coefficient at R= 8%	Discounted net income	Coefficient at R= 9%	Discounted net income
0	-150.321.467	1,000000	-150.321.467	1,000000	-150.321.467
1	14.176.916	0,925926	13.126.774	0,917431	13.006.345
2	14.176.916	0,857339	12.154.420	0,841680	11.932.426
3	14.176.916	0,793832	11.254.093	0,772183	10.947.180
4	14.176.916	0,735030	10.420.456	0,708425	10.043.285
5	14.176.916	0,680583	9.648.571	0,649931	9.214.023
6	14.176.916	0,630170	8.933.862	0,596267	8.453.232
7	14.176.916	0,583490	8.272.094	0,547034	7.755.258
8	14.176.916	0,540269	7.659.346	0,501866	7.114.916
9	14.176.916	0,500249	7.091.987	0,460428	6.527.446
10	14.176.916	0,463193	6.566.655	0,422411	5.988.482
11	14.153.816	0,428883	6.070.329	0,387533	5.485.069
12	14.153.816	0,397114	5.620.675	0,355535	5.032.173
13	14.153.816	0,367698	5.204.329	0,326179	4.616.672
14	14.153.816	0,340461	4.818.823	0,299246	4.235.479
15	14.153.816	0,315242	4.461.873	0,274538	3.885.761
16	14.153.816	0,291890	4.131.364	0,251870	3.564.918
17	14.153.816	0,270269	3.825.337	0,231073	3.270.567
18	14.153.816	0,250249	3.541.979	0,211994	3.000.520
19	14.153.816	0,231712	3.279.610	0,194490	2.762.771
20	14.153.816	0,214548	3.036.676	0,178431	2.525.478
21	14.153.816	0,198656	2.811.737	0,163698	2.316.952
22	14.153.816	0,183941	2.603.460	0,150182	2.125.644
23	14.153.816	0,170315	2.410.611	0,137781	1.950.132
24	14.153.816	0,157699	2.232.047	0,126405	1.789.112
25	71.305.908	0,146018	10.411.939	0,115968	8.269.192
<b>S (+ ili -)</b>			<b>-1.144.359</b>		<b>-4.518.433</b>
				<b>ISR=</b>	<b>8,6556%</b>

Source: Feasibility study for revitalization of village Gari

18. **To further test the profitability and feasibility of this investment, sensitivity analyses were conducted** by the consultants, considering three main changes in assumptions:

- +5% costs on materials and logistics in a select period;
- 5% incomes in a select period;
- +3% inflation in a select period.

All scenarios, including the worst-case scenario in which all three negative changes occur in the same time period, indicate the investment is sustainable (Table 5).

**Table 5. Scenarios of feasibility of the Project for revitalization of village Gari (presented in MKD, 1 EURO = 61,6 MKD denars)**

Indicators	Normal	Cost+5%	Income -5%	Inflation +3%	Cost +5% Income -5%	Cost +5% Inflation +3%	Income -5% Inflation +3%	Income -5% Cost +5% Inflation +3%	Coefficient of variation
Total material cost	5.051.200	5.303.760	5.051.200	5.051.200	5.303.760	5.303.760	5.051.200	5.303.760	2,44%
Total income	21.900.000	21.900.000	20.805.000	21.900.000	20.805.000	21.900.000	20.805.000	20.805.000	2,58%
Profit	9.646.958	9.419.654	8.661.458	9.646.958	8.434.154	9.419.654	8.661.458	8.434.154	5,59%
Net present value	44.098.178	41.211.841	31.584.167	123.634.222	28.697.831	119.689.338	106.530.767	102.585.883	52,33%
Relative net present value	29,34%	27,42%	21,03%	82,25%	19,11%	79,64%	70,92%	68,31%	52,32%
Internal rate of return	8,66%	8,49%	7,92%	8,66%	7,75%	8,49%	7,92%	7,75%	4,63%
Repayment period of investment	11	11	12	11	12	11	12	12	4,35%

Source: Feasibility study for revitalization of village Gari

*Development of Pelagonija as adventure travel destination*

19. **The project aims at creating preconditions for sustainable and competitive development of Pelagonija as an adventure travel destination;** development of a regional adventure tourism visual identity and strengthening regional capacities for adventure travel destination management. The project will work on development and improvement of a series of tourist attractions, all packaged together in a comprehensive itinerary. The improved regional tourism offer will be a base for achieving increased number of foreign tourists, thus directly contributing to the overall economic development of the Pelagonija region.

20. **In the feasibility study for this project, a model forecasting the potential socio-economic benefits in the region was developed.** The total estimated value for the local community increases from € 97,316 to €1,662,293 over the period of 10 years, demonstrating the positive expected socio-economic impact of the project. (Table 6).

**Table 6. Summary of the economic benefits for Pelagonija region**

VERSION ADJUSTED TO THE RM CONDITIONS - 8.5 days stay	Projection						
	2015	2016	2017	2018	2019	...	2025
<i>Average annual growth rate</i>	5.5%	5.5%	5.5%	5.5%	5.5%	...	5.5%
Number of foreign tourists in Pelagonija	22,149	23,367	24,652	26,008	27,438	...	37,833
Share of adventure tourists in foreign tourists	0.5%	2.0%	3.5%	4.5%	5.0%	...	5.0%
Estimated number of adventure tourists in Pelagonija	111	467	863	1,170	1,372	...	1,892
Average duration of the stay in days	8.5	8.5	8.5	8.5	8.5	...	8.5
Estimated number of overnight stays in Pelagonija	941	3,972	7,334	9,948	11,661	...	16,079
Average global price for the trip per day	€ 150	€ 150	€ 150	€ 150	€ 150	...	€ 150
<b>Total value for the domestic economy</b>	<b>€ 141,198</b>	<b>€ 595,855</b>	<b>€1,100,097</b>	<b>€1,492,202</b>	<b>€1,749,193</b>	...	<b>€ 2,411,862</b>
Estimated share from the total costs per guest that stay in the local community	65.0%	65.0%	65.0%	65.0%	65.0%	...	65.0%
Estimated value that remains in the local community	€ 91,779	€ 387,305	€ 715,063	€ 969,932	€1,136,975	...	€1,567,710
<i>Annual growth rate</i>		322.0%	84.6%	35.6%	17.2%		5.5%
Average cost per guest for souvenirs etc.	€ 50	€ 50	€ 50	€ 50	€ 50	...	€ 50
Estimated additional value for the local community	€ 5,537	€ 23,367	€ 43,141	€ 58,518	€ 68,596	...	€ 94,583
<b>Total estimated value for the local community</b>	<b>€ 97,316</b>	<b>€ 410,672</b>	<b>€758,204</b>	<b>€1,028,449</b>	<b>€1,205,571</b>	...	<b>€1,662,293</b>
<i>Annual growth rate</i>		322.0%	84.6%	35.6%	17.2%	...	5.5%

Source: Study on the development of the Pelagonija planning region as adventure tourism destination