LOAN NUMBER 9034-MK

Loan Agreement

(Local Roads Connectivity Project)

between

REPUBLIC OF NORTH MACEDONIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF NORTH MACEDONIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower the amount of seventy million Euros, (EUR 70,000,000), as such amount may be converted from time to time through a Currency Conversion ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest rate is the Reference Rate plus the Fixed Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.

2.06. The Payment Dates are March 1 and September 1 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower, through MoTC, shall carry out the Project in accordance with
the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

**ARTICLE IV — EFFECTIVENESS; TERMINATION**

4.01. The Additional Condition of Effectiveness consists of the following, namely, that the Project Operational Manual has been adopted in a manner acceptable to the Bank.

4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

5.01. The Borrower’s Representative is its Minister of Finance.

5.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower’s address is:

Ministry of Finance  
Dame Gruev 12  
Skopje, 1000  
Republic of North Macedonia

(b) the Borrower’s Electronic Address is:

Facsimile:  
+ 389 2 3255-721  
E-mail:  
cabinet@finance.gov.mk

5.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank’s address is:

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

(b) the Bank’s Electronic Address is:

Telex:  
248423(MCI) or 64145(MCI)  
Facsimile:  
1-202-477-6391  
E-mail:  
mmantovanelli@worldbank.org
AGREED as of the Signature Date.

REPUBLIC OF NORTH MACEDONIA

By

Authorized Representative

Name: NINA ANGELOVSKA
Title: MINISTER OF FINANCE
Date: 23 DECEMBER, 2019

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

Name: MARCO MANTOUANECCI
Title: COUNTRY MANAGER
Date: 20 DECEMBER, 2019
SCHEDULE 1

Project Description

The objectives of the Project are to improve government capacity to manage local roads and improve access to markets and services.

The Project consists of the following parts:

Part 1. Capacity Enhancement

1.1. (a) Carrying out of a municipal capacity assessment to assess the strengths and weaknesses of the current system for the management of local roads and, if required, design a program for enhancing capacity; (b) developing simplified road maintenance contracts; (c) assessing how smaller Municipalities can benefit from the economies of scale afforded by larger contracts, such as area-based maintenance contracts; and (d) developing a simplified RAMS for maintenance and rehabilitation planning and support some of its data collection needs.

1.2. Provision of technical assistance to strengthen MoTC’s capacity for the oversight and development and quality of local roads, including, inter alia: (i) the development of a central government policy for municipal roads; (ii) the definition of a sustainable source of financing for both capital investment and maintenance; (iii) the review and/or update of the allocation formula used to transfer funding to Municipalities via PESR; (iv) the development of a central government mechanism for monitoring municipal road conditions; (v) the carrying out of a road safety capacity review and recommendations for institutional change; (vi) the development of climate resilient design guidelines for local and low volume roads; and (vii) coordination with stakeholders.

Part 2. Rehabilitation of Local Roads and Community Facilities

2.1. Rehabilitation of municipal roads and streets to improve their quality, safety, and resilience.

2.2. Carrying out of a pilot to support priority investments identified by Selected Communities to enhance their mobility and road safety.
Part 3. Project Implementation Support

3.1. Provision of support to the PIU including procurement, financial management, monitoring and evaluation, safeguards and technical oversight, and policy coordination.

3.2. Carrying out of independent technical audits and the Project’s independent financial audits.

Part 4. Contingent Emergency Response

Provision of immediate response to an Eligible Crisis or Emergency, as needed.
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SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Without limitation to the provisions of Article V of the General Conditions and except as the Bank shall otherwise agree, the Borrower, through MoTC, shall maintain throughout Project implementation, a Project implementation unit (PIU) with composition, resources, terms of reference, and functions acceptable to the Bank, including the responsibility to manage, coordinate, monitor and evaluate the implementation of the Project.

2. Before commencing the bidding process for the first Sub-project in each Participating Municipality, the Borrower, through MoTC, shall enter into a Memorandum of Understanding (MOU) with said Participating Municipality, under terms and conditions acceptable to the Bank, including, inter alia, the Participating Municipality’s obligation to: (a) participate in Project training opportunities and reform activities; (b) utilize simple road asset management methods and a transparent budget planning process; (c) maintain a road inventory; and (d) adopt and use improved maintenance contracts where appropriate.

3. Before commencing any civil works under each Sub-project, the Borrower, through MoTC, shall enter into an agreement (Implementation Agreement) with the relevant Participating Municipality, under terms and conditions acceptable to the Bank, including the Participating Municipality’s obligation to carry out its obligations under said Sub-project with due diligence and efficiency, and in conformity with appropriate administrative, technical, financial, economic, environmental and social standards, and practices, and in accordance with the Anti-Corruption Guidelines and the pertinent provisions of the Project Operational Manual, the ESCP and this Agreement, including, inter alia, the Participating Municipality’s obligation to: (i) participate in informal works supervision; (ii) issue an opinion about completed works under the relevant Sub-project before the final payment is made to contractors; (iii) carry out the applicable measures and actions specified in the ESCP with due diligence and efficiency, and as further specified in the ESCP; and (iv) maintain the roads rehabilitated under the relevant Sub-project after a hand-over of said roads has been completed.

4. The Borrower, through MoTC, shall exercise its rights under each Implementation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project. Except as the Bank may otherwise agree in writing, the Borrower, through MoTC, shall not abrogate, amend, suspend, waive, or otherwise fail to enforce the Implementation Agreement or any provision thereof.
B. Project Operational Manual

1. The Borrower, through MoTC, shall carry out the Project in accordance with the provisions of a manual (the Project Operational Manual), in a manner and with contents acceptable to the Bank, including *inter alia*: (a) the indicators to be used in the monitoring and evaluation of the Project; (b) the procedures for Project monitoring, supervision and evaluation, including the format and content of the Project Reports; (c) the criteria for selecting: (i) Sub-projects; (ii) Selected Communities; and (iii) investments under Part 2.2 of the Project; (d) the model forms for the MOUs and Implementation Agreements; and (e) the Project's procurement and financial management procedures.

2. Except as the Bank may otherwise agree in writing, the Borrower, through MoTC, shall not abrogate, amend, suspend, waive, or otherwise fail to enforce the Project Operational Manual or any provision thereof.

3. In case of any conflict between the terms of the Project Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

C. Contingent Emergency Response

1. In order to ensure the proper implementation of contingent emergency response activities under Part 4 of the Project ("Emergency Response Part"), the Borrower, through MoTC, shall:

   (a) prepare and furnish to the Bank for its review and approval, a Contingency Emergency Response Manual ("CER Manual") which shall set forth detailed implementation arrangements for the Emergency Response Part, including: (i) any additional institutional structures or arrangements for coordinating and implementing the Emergency Response Part; (ii) specific activities which may be included in the Emergency Response Part, Eligible Expenditures required therefor ("Emergency Expenditures"), and any procedures for such inclusion; (iii) financial management arrangements for the Emergency Response Part; (iv) procurement methods and procedures for the Emergency Response Part; (v) documentation required for withdrawals of Emergency Expenditures; (vi) environmental and social safeguard management arrangements and instruments for the Emergency Response Part; and (vii) any other arrangements necessary to
ensure proper coordination and implementation of the Emergency Response Part;

(b) afford the Bank a reasonable opportunity to review the proposed CER Manual;

(c) promptly adopt the CER Manual for the Emergency Response Part as accepted by the Bank and integrate it as an annex to the Project Operational Manual;

(d) ensure that the Emergency Response Part is carried out in accordance with the CER Manual; provided, however, that in the event of any inconsistency between the provisions of the CER Manual and this Agreement, the provisions of this Agreement shall prevail; and

(e) not amend, suspend, abrogate, repeal or waive any provision of the CER Manual without the prior written approval by the Bank.

2. The Borrower, through MoTC, shall, throughout the implementation of the Emergency Response Part, maintain the institutional structures and arrangements established in accordance with the CER Manual, with adequate staff and resources satisfactory to the Bank.

3. The Borrower shall undertake no activities under the Emergency Response Part unless and until the following conditions have been met in respect of said activities:

(a) the Borrower has determined that an Eligible Crisis or Emergency has occurred, has furnished to the Bank a request to include said activities in the Emergency Response Part in order to respond to said Eligible Crisis or Emergency, and the Bank has agreed with such determination, accepted said request and notified the Recipient thereof; and

(b) the Borrower, through MoTC, has ensured the preparation and disclosure of all safeguard instruments as may be required for said activities in accordance with the CER Manual, the Bank has approved all said instruments, and the Borrower has ensured the implementation of any actions which are required to be taken under said instruments.

D. Environmental and Social Standards

1. The Borrower, through MoTC, shall, and shall cause the Participating Municipalities to ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Bank.

2. Without limitation upon paragraph 1 above, the Borrower, through MoTC, shall and shall cause the Participating Municipalities to ensure that the Project is
implemented in accordance with the Environmental and Social Commitment Plan ("ESCP"), in a manner acceptable to the Bank. To this end, the Borrower, through MoTC, shall and shall cause the Participating Municipalities to ensure that:

(a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, and as further specified in the ESCP;

(b) sufficient funds are available to cover the costs of implementing the ESCP;

(c) policies, procedures and qualified staff are maintained to enable it to implement the ESCP, as further specified in the ESCP; and

(d) the ESCP or any provision thereof, is not amended, revised or waived, except as the Bank shall otherwise agree in writing and the Borrower has, thereafter, disclosed the revised ESCP.

In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.

3. The Borrower, through MoTC, shall:

(a) take all measures necessary on its part to collect, compile, and furnish to the Bank through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Bank, information on the status of compliance with the ESCP and the management tools and instruments referred to therein, all such reports in form and substance acceptable to the Bank, setting out, inter alia: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and

(b) promptly notify the Bank of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the instruments referenced therein and the Environmental and Social Standards.

4. The Borrower, through MoTC, shall maintain and publicize the availability of a grievance mechanism, in form and substance satisfactory to the Bank, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Bank.
Section II. **Project Monitoring, Reporting and Evaluation**

The Borrower, through MoTC, shall furnish to the Bank each Project Report not later than one month after the end of each calendar semester, covering the calendar semester.

Section III. **Withdrawal of Loan Proceeds**

A. **General**

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and (ii) each Interest Rate Cap or Interest Rate Collar premium, in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in EUR)</th>
<th>Percentage of Expenditures to be financed (exclusive of VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, non-consulting services, consulting services, Training and Operating Costs for the Project</td>
<td>69,825,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Emergency Expenditures under Part 4 of the Project</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Front-end Fee</td>
<td>175,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(4) Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
<td>Amount due pursuant to Section 4.05 (c) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>70,000,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:

   (a) for payments made prior to the Signature Date; or

   (b) for Emergency Expenditures under Category (2), unless and until the Bank is satisfied, and notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said expenditures:

      (i) the Borrower has determined that an Eligible Crisis or Emergency has occurred, has furnished to the Bank a request to include the proposed activities in the Emergency Response Part in order to respond to said crisis or emergency, and the Bank has agreed with such determination, accepted said request and notified the Borrower thereof;

      (ii) the Borrower, through MoTC, has ensured that all safeguard instruments required for said activities have been prepared and disclosed, and the Borrower has ensured that any actions which are required to be taken under said instruments have been implemented, all in accordance with the provisions of Section I.C of this Schedule;

      (iii) the entities in charge of coordinating and implementing the Emergency Response Part have adequate staff and resources, in accordance with the provisions of Section I.C of this Schedule, for the purposes of said activities; and

      (iv) the Borrower, through MoTC, has adopted the CER Manual, in form and substance acceptable to the Bank, and the provisions of the CER Manual remain — or have been updated in accordance with the provisions of Section I.C of this Schedule so as to be — appropriate for the inclusion and implementation of the Emergency Response Part.

2. The Closing Date is December 31, 2024.
SCHEDULE 3

Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share").

Level Principal Repayments

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 1 and September 1</td>
<td></td>
</tr>
<tr>
<td>Beginning March 1, 2025 through September 1, 2034</td>
<td>5%</td>
</tr>
</tbody>
</table>
APPENDIX

Definitions

1. "Anti-Corruption Guidelines" means, for purposes of paragraph 5 of the Appendix to the General Conditions, the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

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

3. "Contingency Emergency Response Manual" and the acronym "CER Manual" means the manual referred to in Section I.C of Schedule 2 to this Agreement, to be adopted by the Borrower for the Emergency Response Part and form part of the Project Operational Manual in accordance with the provisions of said Section.

4. "Eligible Crisis or Emergency" means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Borrower, associated with a natural or man-made crisis or disaster.

5. "Emergency Expenditure" means any of the eligible expenditures set forth in the Emergency Response Manual in accordance with the provisions of Section I.C of Schedule 2 to this Agreement, and required for the Emergency Response Part.

6. "Emergency Response Part" means a specific activity or activities to be carried out in the event of an Eligible Crisis or Emergency under Part 4 of the Project.

7. "Environmental and Social Commitment Plan" or the acronym "ESCP" means the Borrower's environmental and social commitment plan, acceptable to the Bank, dated November 15, 2019, which sets out a summary of the material measures and actions to address the potential environmental and social risks and impacts of the Project, including the timing of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any instruments to be prepared thereunder; as the ESCP may be revised from time to time, with prior written agreement of the Bank, and such term includes any annexes or schedules to such plan.

8. "Environmental and Social Standards" means, collectively: (i) "Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts"; (ii) "Environmental and Social Standard 2: Labor and Working Conditions"; (iii) "Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management"; (iv) "Environmental and Social Standard 4: Community Health and Safety"; (v) "Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary


10. “Implementation Agreement” means any of the agreements referred to in Section I.A.3 of Schedule 2 to this Agreement.

11. “MoTC” means the Borrower’s Ministry of Transport and Communications.

12. “MOU” means the memorandum of understanding referred to in Section I.A.2 of Schedule 2 to this Agreement.

13. “Municipality” means any municipality in the Borrower’s territory; and “Municipalities” means more than one Municipality.

14. “Operating Costs” means reasonable incremental expenses incurred on account of implementation of the Project, including, inter alia, office supplies and other consumable goods, office rent, internet and communications costs, support for information systems, translation costs, bank charges, utilities, travel, transportation, per diem, accommodation costs (lodging), salaries of PIU staff, and other reasonable expenditures directly associated with the implementation of the Project, on the basis of annual budgets acceptable to the Bank, excluding salaries of the civil service employees.

15. “Participating Municipality” means any Municipality selected to benefit from investments under Part 2.1 of the Project, in accordance with the criteria set forth in the Project Operational Manual; and “Participating Municipalities” means more than one Participating Municipality.


17. “Procurement Regulations” means, for purposes of paragraph 85 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017 and August 2018.
18. "Project Operational Manual" means the manual referred to in Section 1.B.1 of Schedule 2 to this Agreement.

19. "RAMS" means the simplified Road Asset Management System to be developed under Part 1 of the Project.

20. "Selected Communities" means any community within a Municipality which is selected and meets the eligibility criteria set forth in the Project Operational Manual to benefit for financing under Part 2.2 of the Project.

21. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to "the date of the Loan Agreement" in the General Conditions.

22. "Sub-project" means any of the rehabilitation works under Part 2.1 of the Project.

23. "Training" means the reasonable costs, as shall have been approved by the Bank, for training and workshops conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, study tours and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consultants' services).

24. "VAT" means value-added tax.