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CONFORMED COPY

LOAN NUMBER 4823 MK

Loan Agreement

(Legal and Judicial Implementation and Institutional Support Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 14, 2006

LOAN NUMBER 4823 MK

LOAN AGREEMENT

Agreement dated June 14, 2006, between FORMER YUGOSLAV REPUBLIC OF MACEDONIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - ENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan 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, on the terms and conditions set forth or referred to in this Agreement, the amount of ten million Euro (€10,000,000) (“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 V of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time.
- 2.06. The Payment Dates are March 15 and September 15 in each year.

- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in 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 shall carry out the Project, through the Ministry of Justice, in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) a situation shall have arisen which shall make it improbable that the Judicial Reform Strategy, or any part thereof, shall be implemented.
 - (b) any of the Laws establishing the Judicial Council, the Court Budget Council, the Chamber of Trustees, the Administrative Court or the Administrative Inspectorate, or any part thereof, is amended, suspended, abrogated, repealed or waived in a manner which, in the opinion of the Bank, would materially and adversely affect the ability of the Borrower to implement the Project.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01(b) of this Agreement shall occur and shall continue for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - EFFECTIVENESS

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) A director, a financial management specialist, and a procurement specialist of the Implementation Office have been appointed with terms and conditions satisfactory to the Bank.

- (b) The Project Operations Manual, satisfactory to the Bank, has been adopted by the Borrower.
- (c) The Project Steering Committee has been established in a manner satisfactory to the Bank.
- (d) The Implementation Agreement has been executed.
- (e) The Law establishing the Judicial Council has been adopted.

5.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the Minister of Finance.

6.02. The Borrower's Address is:

Ministry of Finance
Dame Gruev 14
1000 Skopje

Facsimile:

389 2 3117 280

6.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

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

BORROWER

By /s/ Nikola Popovski
Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Sandra Bloemenkamp
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to contribute to improving judicial efficiency and effectiveness, as well as the business climate by: (i) enhancing ministerial and judicial capacity to systematically implement the Judicial Reform Strategy and laws affecting the judiciary; and (ii) improving judicial infrastructure.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part I: Institutional Capacity Building

- A. Improving the quality of judicial management and the judiciary, including:
1. Provision of consultants' services and Training to support the Judicial Council in managing judicial selection, evaluation, promotion and discipline; administer specialized court departments; and prepare and publish public reports; and
 2. Provisions of works and goods to expand and renovate the Judicial Council's office space.
- B. Establishing an administrative dispute resolution system, including:
- Provision of consultants' services, Training and goods to:
1. Strengthen the capacity of the Administrative Inspectorate to oversee the implementation of administrative dispute resolution by public agencies;
 2. Establish and support the operation of the new Administrative Court;
 3. Increase public awareness of administrative rights and agency compliance with the legislative framework for administrative decisions and disputes; and
 4. Continue the strengthening of the legislative framework concerning the new administrative dispute and appeals processes, as necessary.

C. Improving the bankruptcy administration and supervision, including:

Provision of consultants' services, Training and goods to:

1. Strengthen the MoE's capacity to supervise the administration of bankruptcy cases;
2. Establish the Chamber of Trustees;
3. Develop training programs for trustees, commercial enterprises, creditor organizations and relevant state agencies in bankruptcy-related matters; and
4. Continue improvement of the legislative and regulatory framework for the bankruptcy system.

Part II: Improvement of Court Infrastructure

- A. Development of feasibility studies, investment and operation plans and guidelines for court buildings.
- B. Construction of a new court building in Skopje and rehabilitation of existing court buildings selected on the basis of agreed-upon criteria set forth in the Project Operations Manual.
- C. Provision of furniture and equipment for court buildings.

Part III: Enhancing Judicial Information and Technology Systems

- A. Provision of consultants' services, goods and Training to expand the computerization of the judicial system, through:
 1. Integrating and networking the various IT systems used within the judiciary;
 2. Expanding access to the searchable legal database information system to provide electronic access to the Borrower's laws, decrees, regulations and court decisions for justice system users;
 3. Establishing a functional court information system (CIS) and rollout and implementation of the CIS in approximately 25 courts; and
 4. Replacing and upgrading existing computerized systems and provision of staff training to use the systems.

- B. Provision of consultants' services and Training to strengthen the analytical capacity of the Administrative Office.

SCHEDULE 2

Project Execution

Section I. Institutional Arrangements

1. The Project Steering Committee shall be responsible for overall Project oversight and coordination. To that end, the Borrower shall maintain the Project Steering Committee with terms of reference acceptable to the Bank.
2. The Implementation Office within the MoJ shall be responsible for day-to-day Project implementation. To that end, the Borrower shall maintain the Implementation Office with terms of reference and adequate staff and resources satisfactory to the Bank.

Section II. Implementation Covenants

1. The Borrower shall carry out the obligations in accordance with the Project Operations Manual and the Environmental Management Plan, and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operations Manual or the Environmental Management Plan without prior approval of the Bank.
2. The Borrower shall ensure that: (a) adequate funds are allocated in the Borrower's annual budget to cover the Borrower's contribution to the financing of the Project; and (b) adequate funds are allocated in the annual court budgets to provide for the adequate maintenance and support for the Borrower's court buildings and infrastructure. The Borrower shall furnish to the Bank for its review and comment the proposed budget allocations referenced in the first sentence of this paragraph by December 1, 2006, and by November 15 of each year thereafter, starting November 15, 2007. The Bank shall provide its comments within ten (10) working days of receiving the draft budget allocations.
3. In carrying out Part II of the Project, the Borrower shall: (a) maintain within the Administrative Office an architect or engineer on terms of reference satisfactory to the Bank to assist with the procurement, design and civil works activities, including oversight and implementation of the Environmental Management Plan; (b) ensure that only such facilities be included in the construction activities for which the Borrower holds clear and undisputed legal title; and (c) ensure that newly constructed or renovated facilities will provide access for handicapped citizens.

4. The Borrower shall ensure that the Judicial Training Academy's curriculum shall include specialized courses for judges on bankruptcy, administrative and commercial law.

Section III. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester (period ending on June 30 and on December 31), and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.
2. Without limitation on the provisions in paragraph 1 of this Sub-section, the Borrower shall:
 - (a) prepare and furnish to the Bank, not later than November 1 in each year:
 - (i) an annual implementation progress report reflecting the progress achieved by the Project during the preceding 12-month period; and (ii) an annual work program outlining the anticipated Project activities for the following calendar year;
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2009, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (1) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
 - (c) review with the Bank, by July 31, 2009, or such later date as the Bank shall determine, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower, or such other period as agreed by the Bank. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section IV. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding – with the modifications set forth in paragraph 3 below
(b) Minor Works
(c) Shopping

3. The National Competitive Bidding procedures shall be subject to the following additional provisions:
- (a) Eligibility: Foreign bidders shall not be excluded from bidding and no preference of any kind shall be given to national bidders;
 - (b) Procedures: “Open Tendering” procedures shall be followed in all cases. Invitations to bid shall be advertised in at least one widely circulated national daily newspaper, allowing minimum of twenty-one (21) days for preparation and submission of bids.
 - (c) Participation by Government-owned enterprises: Government-owned enterprises shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the Borrower. Such enterprises shall be subject to the same bid and performance security requirements as other bidders.
 - (d) Bidding Documents: Appropriate standard bidding documents for procurement of goods and technical services shall be used, which shall include draft contract and conditions of contract, satisfactory to the Bank. The technical specifications contained in the bidding documents shall be precise and clearly written and describe the subject procurement in an objective, strictly functional and impartial manner.
 - (e) Submission of Bids: Bidders may, at their option, submit bids either in person, by courier services or by mail at any time prior to the deadline for submission of bids.

- (f) **Bid Opening and Evaluation:** Bids shall be opened immediately after the deadline for submission of bids and in public. The time and place for bid opening shall be announced in the bidding documents. Evaluation of bids shall be made in strict adherence to the bid evaluation criteria, expressed in quantifiable terms and disclosed in the bidding documents. The contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid. The bidder recommended for award of contract shall be required to comply with minimum experience and technical and financial requirements disclosed in the bidding documents. Negotiations shall not be allowed with lowest evaluated bidder or any other bidder.
- (g) **Rejection of Bids:** All bids shall not be rejected and new bids shall not be solicited without the Bank’s prior concurrence.
- (h) **Securities:** The bid securities shall not exceed 3% of the estimated cost of the contract. The performance securities shall not exceed 10% of the contract amount. No advance payment shall be made without a suitable advance payment security for the same amount.

C. Particular Methods of Procurement of Consultants’ Services

- 1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
- 2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Consultants’ Qualifications
(b) Individual Consultants
(c) Fixed Budget Selection

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section V. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank shall specify by notice to the Borrower to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.¹

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(1) Goods, Works, Consultants’ Services, Training and Operating Costs	9,605,000	84%
(2) Goods, Consultants’ Services and Training under Part III.A.3 of the Project	370,000	84%
(3) Front-end Fee	25,000	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>10,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement; or

- (b) for Eligible Expenditures under Category (2) unless the Borrower has provided evidence satisfactory to the Bank that adequate funding and staffing in the MoJ and the courts has been provided for the maintenance and support of the MoJ Information Technology (IT) Center and the IT systems operating throughout the courts.

- 2. The Closing Date is July 31, 2011.

SCHEDULE 3**Amortization Schedule**

<u>Principal Payment Date</u>	<u>Principal Amount of the Loan Payable (Expressed in Euro)</u>
On each March 15 and September 15	
beginning September 15, 2011	415,000
through September 15, 2022	
On March 15, 2023	455,000

APPENDIX**Definitions**

1. “Administrative Court” means the specialized court for administrative matters established pursuant to the Law on Courts adopted on May 5, 2006, and referred to in Section 4.01 (b) of this Agreement.
2. “Administrative Inspectorate” means the specialized unit within MoJ charged with reviewing administrative decisions by other government bodies, established pursuant to the Law on Administrative Inspectorate, Official Gazette No. 69/2004, dated October 7, 2004.
3. “Administrative Office” or “AO” means the Administrative Office within the Court Budget Council.
4. “Category” means a category set forth in the table in Section V of Schedule 2 to this Agreement.
5. “Chamber of Trustees” means the institution responsible for an ethics code, application of standards of conduct, effective discipline procedures and training, for bankruptcy trustees, established pursuant to the Bankruptcy Law, Official Gazette No. 34/2006, dated March 22, 2006.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
7. “Court Budget Council” means the body charged with overseeing the administration and financing of the court system, established pursuant to the Law on Judicial Budget, Official Gazette No. 60/2003, dated September 22, 2003, as amended per the amendment to the Law on Judicial Budget, published on the Official Gazette No. 37/2006, dated March 28, 2006.
8. “Environmental Management Plan” means the plan adopted by the Borrower on April 28, 2006, satisfactory to the Bank, consisting of the set of mitigation, monitoring, and institutional measures to be taken to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement these measures.
9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
10. “Implementation Agreement” means the agreement, satisfactory to the Bank, between the MoJ and the Court Budget Council on the division of responsibility

between the contracting duties of the IO, as hereinafter defined, and the contract administration duties of the AO for the implementation of activities under Part II of the Project.

11. “Implementation Office” or “IO” means the office within the Sector for Planning, Analysis and Finance within the Ministry of Justice.
12. “Judicial Council” or “JC” means the Judicial Council of the Republic of Macedonia, charged with overseeing the judiciary, established pursuant to the Law referenced in Section 5.01 (e) of this Agreement.
13. “Judicial Reform Strategy” means the *Strategy on the Reform of the Judicial System with Annexes Attached*, dated November 2004.
14. “Judicial Training Academy” means the training institution for the judiciary, established pursuant to the Law on Judicial Training, Official Gazette No. 13/2006, dated February 1, 2006.
15. “Ministry of Economy” or “MoE” means the Borrower’s Ministry of Economy and includes any successor thereto.
16. “Ministry of Finance” or “MoF” means the Borrower’s Ministry of Finance and includes any successor thereto.
17. “Ministry of Justice” or “MoJ” means the Borrower’s Ministry of Justice and includes any successor thereto.
18. “Operating Costs” means the incremental expenses incurred by the IO on account of the Project implementation including the costs of communication, printing and publications, supplies, bank charges, local travel costs and field trip expenses.
19. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
20. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 5, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
21. “Project Operations Manual” means the manual describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Borrower and including, *inter alia*: (i) procedures governing administrative, procurement, accounting, financial management, including adequate measures for procurement and forensic audits,

and monitoring and evaluation arrangements; (ii) the Environmental Management Plan; and (iii) the Financial Management Manual.

22. “Project Steering Committee” means the committee referred to in Section 5.01(c) of this Agreement, chaired by the Minister of Justice or an appointed high official from the MoJ, and comprising, *inter alia*, representatives of the Supreme Court, the Judicial Council, the MoE and the MoF.
23. “Training” means training activities (other than consultants’ services) to be carried out under the Project, as approved by the Bank on the basis of annual training and study tour plans acceptable to the Bank, including the reasonable and necessary local and international travel and visa expenses incurred by participants in training workshops, as well as lodging, subsistence, local and international per diem allowances according to the guidelines of the Borrower, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), translation and interpretation costs, facility rental costs, and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Bank.