

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4861-MK

Loan Agreement

(Agriculture Strengthening and Accession Project)

between

former Yugoslav Republic of Macedonia (“Borrower”)

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 18, 2007

LOAN NUMBER 4861-MK

LOAN AGREEMENT

Agreement dated September 18, 2007, between the 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) constitute an integral 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.

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 fifteen million Euro (€15,000,000), 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 IV 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 February 15 and August 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 Agriculture, Forestry and Water Economy, and the Paying Agency, 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 - EFFECTIVENESS

- 4.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) the Borrower has finalized and adopted a plan for restructuring the MAFWE, including regional offices, satisfactory to the Bank.
 - (b) the law creating the Paying Agency has been adopted.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is the Minister of Finance.
- 5.02. The Borrower's Address is:

Ministry of Finance
Dame Gruev 14
1000 Skopje

Facsimile:

389 2 3117 280

- 5.03. 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, Macedonia, as of the day and year first above written.

BORROWER

By /s/ Trajko Slaveski
Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Markus Repnik
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the delivery of the Borrower's assistance to the agriculture sector in a manner consistent with the European Union's pre-accession requirements.

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 objective:

Part I: Strengthening of MAFWE's Capacity in Accordance With European Union Accession Requirements

1. Initiation of an integrated administration and control system within the MAFWE, through the supply and installation of information technology equipment and communications infrastructure, the conduct of aerial surveys and mapping in pilot regions, and the provision of technical assistance and Training to MAFWE staff.
2. Establishment of an agriculture information system within the MAFWE, through the supply and installation of information technology equipment and software, data collection and dissemination, logistical and operational support, and Training of MAFWE staff.
3. Strengthening of the agricultural inspection services within the MAFWE, through the provision and installation of information and communications technology, technical assistance, logistical and organizational support, and Training of MAFWE staff.
4. Improving MAFWE's capacity in the areas of agriculture policy analysis, project management, human resources development, and planning and organization, through the provision of information technology equipment, logistical support, technical assistance, Training of staff, and the renovation and refurbishment of MAFWE facilities, and Incremental Operating Costs.

Part II: Supporting the Borrower's Ability to Deliver European Union Rural Development Funds

1. Establishment of the Paying Agency (PA), through training of PA staff, technical assistance for the development of a fiduciary system, provision and installation of an information technology software and hardware platform, equipment, and the refurbishment of office space.

2. Improving the Paying Agency's capacity in the area of administration of payments, and of measures under the IPARD program, through the provision of equipment and Training.

3. Strengthening the Borrower's capacity to make IPARD advisory services available to beneficiaries of IPARD funds, through the provision of technical assistance and Training.

4. Improving the Borrower's capacity to design, implement, monitor and evaluate rural development policies, programs and strategies.

Part III: Developing Veterinary Capacity

1. Completion of a veterinary information system and a feasibility study for safe disposal of animal by-products, establishment of a disposal facility, conducting a public outreach campaign, and capacity building within the Veterinary Directorate, through the provision of information technology, Training, data collection and inspection equipment, and works.

2. Improvement and ISO certification of laboratories, through the provision of consultants' services and equipment.

Part IV: Completion of Irrigation Sector Reforms

1. Completion of liquidation of Selected Water Management Organizations, including the provision of Severance Payments.

2. Establishment of water economies, through the provision of consultants' services, equipment and Training.

3. Strengthening the management, monitoring and planning capacity of the Water Economy Directorate, through the provision of goods, Training, technical assistance and Incremental Operating Costs.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Steering Committee shall be responsible for overall Project oversight and coordination. To that end, the Borrower shall maintain the Steering Committee with terms of reference acceptable to the Bank.

2. The Ministry of Agriculture, Forestry and Water Economy shall be responsible for Project implementation. The Project Coordinator shall be responsible for day-to day management of the Project. Within the MAFWE, the Policy Analysis and Agriculture Information Systems Department shall be responsible for implementation of Part I of the Project. The Project Coordinator shall be responsible for implementation of Part II of the Project, subject to the covenant in paragraph 3 of this Section. The Veterinary Directorate within the MAFWE shall be responsible for implementation of Part III of the Project, and the Water Economy Directorate within the MAFWE shall be responsible for implementation of Part IV of the Project. To that end, the Borrower shall maintain adequate staff and resources for implementation of the Project, in a manner satisfactory to the Bank.

3. Once the Borrower has operationalized, adequately staffed and funded the Paying Agency, in a manner satisfactory to the Bank, the Paying Agency shall become responsible for implementation of Part II of the Project. The MAFWE shall remain responsible for financial management, procurement, disbursement, and monitoring and evaluation for the entire Project.

B. Implementation Covenants

1. The Borrower, through the MAFWE and the Paying Agency, shall carry out its obligations in accordance with the Operational Manual and the Environmental Management Plan, and shall not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual or the Environmental Management Plan without prior approval of the Bank.

2. The Borrower, through the MAFWE, shall, not later than December 1 of each year during the implementation of the Project, starting December 1, 2007, submit to the Bank for review and approval an annual work program for the following calendar year, including an update of the Procurement Plan, as well as an annual implementation progress report for the preceding calendar year.

3. The Borrower, through the Veterinary Directorate, shall, not later than September 1, 2007, adopt a medium term veterinary strategy, satisfactory to the Bank.
4. The Borrower shall ensure that Severance Payments under Part IV.1 of the Project are made in accordance with procedures acceptable to the Bank.

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower, through the MAFWE, 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 (1) calendar semester, 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, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about July 31, 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
 - (b) review with the Bank, by September 30, 2009, or such later date as the Bank shall determine, the report referred to in paragraph (a) 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.
3. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through the MAFWE, 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 III. 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 Section.
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 Section.
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.

Procurement Method
(a) National Competitive Bidding – with the modifications set forth in paragraph 3 below
(b) Shopping
(c) Direct Contracting

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 (1) 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.

Procurement Method
(a) Consultants Qualifications
(b) Least Cost Selection
(c) Individual Consultants
(d) Single Source

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 IV. 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.

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(1) Goods, works, consultants’ services, Training and Incremental Operating Costs	12,900,000	80%
(2) Severance Payments	2,100,000	100%
(3) Front-end Fee	0	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>15,000,000</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, except that withdrawals up to an aggregate amount not to exceed □150,000 equivalent may be made for payments made prior to this date but on or after March 1, 2007 for Eligible Expenditures under Category (1) in the table in Section IV.A of this Schedule; and

(b) in respect of payments under Category (2) in the table in Section IV.A of this Schedule, until the Borrower has financed all remaining severance package costs by qualifying former employees of the liquidated WMOs of Vodostopanstvo-Kumanovo-Kumanovo, Vodostopanstvo-Pelagonija-Bitola, Sterna-Prilep, Malesevsko Pole-Berovo, and Vodostopanstvo Vardar-Skopje.

2. The Closing Date is September 30, 2011.

SCHEDULE 3**Amortization Schedule**

<u>Principal Payment Date</u>	<u>Principal Amount of the Loan Payable (Expressed in Euro)*</u>
On each February 15 and August 15 beginning February 15, 2013 through August 15, 2024	625,000

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

APPENDIX**Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
3. “Environmental Management Plan” means the plan adopted by the Borrower on April 5, 2007, 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.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 15, 2006).
5. “Incremental Operating Costs” means the incremental expenses incurred by the MAFWE and the water economies established pursuant to Part IV.2 of the Project on account of the Project implementation, including the costs of communication, printing and publications, supplies, bank charges, local travel costs and field trip expenses.
6. “IPARD” means the European Union’s Instrument for Pre-Accession Assistance for Rural Development.
7. “ISO” means the International Standardization Organization.
8. “Ministry of Agriculture, Forestry and Water Economy” or “MAFWE” means the Borrower’s Ministry of Agriculture, Forestry and Water Economy, and includes any successor thereto.
9. “Ministry of Finance” or “MoF” means the Borrower’s Ministry of Finance and includes any successor thereto.
10. “Operational 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, including adequate measures for procurement and forensic audits, and monitoring and

evaluation arrangements; and (ii) the financial management manual setting forth the procedures for financial management under this Project.

11. “Paying Agency” or “PA” means the Borrower’s Agency for Financial Support in Agriculture and Rural Development to be accredited to administer IPARD funds.
12. “Policy Analysis and Agriculture Information Systems Department” means the department within the MAFWE charged with policy analysis and agriculture information systems, and includes any successor thereto.
13. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
14. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 19, 2007 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.
15. “Project Coordinator” means the person appointed by the Borrower to manage the Project, referred to in Section I.A.2 of Schedule 2 of this Agreement.
16. “Selected Water Management Organizations” means the Water Management Organization (“WMO”) Ohridsko-Ezero-Ohrid, the WMO Mantovo-Radovis, the WMO Strumiski sliv-Strumica, and the WMO Gevgelisko-Valandovsko Pole.
17. “Severance Payments” means payments under Part IV.1 of the Project, to retrenched employees arising from the liquidation of the Selected Water Management Organizations, undertaken in accordance with the Law of the Borrower on Water Economies dated December 31, 2003, and include salary and allowance arrears, pension payments, social contributions and severance pay.
18. “Steering Committee” means the committee referred to in Section I.A.1 of Schedule 2 to this Agreement, chaired by the Deputy Minister of Agriculture or such other person appointed by the Government of the Borrower, and comprising, *inter alia*, designated representatives from the MAFWE, the Ministry of Finance, the cabinet of the Deputy Prime Minister for Education and Agriculture, the cabinet of the Deputy Prime Minister for Economic Affairs, the Secretariat for European Integration Affairs, the Ministry of Health, the State Authority for Geodetic Works, and the State Statistical Office.
19. “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.

20. "Veterinary Directorate" means the department within the MAFWE charged with veterinary issues.
21. "Water Economy Directorate" means the directorate within the MAFWE charged with water economy issues.