

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
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June 29, 2010

H.E. Zoran Stavreski
Minister
Ministry of Finance
Dame Gruev 14
1000 Skopje

Re: Sustainable Energy Project
(Global Environment Facility Trust Fund Grant Number TF057107)
Amendments to the Global Environment Facility Trust Fund Grant Agreement

Dear Mr. Minister,

We refer to: (i) the Global Environment Facility Trust Fund Grant Agreement, dated February 26, 2007, between the Former Yugoslav Republic of Macedonia (the Recipient) and International Bank for Reconstruction and Development (the Bank), acting as an implementing agency of the Global Environment Facility (GEF) (the GEF Grant Agreement); (ii) the MBDP Project Agreement, dated February 26, 2007 between the Bank and Macedonian Bank for Development Promotion (MBDP) (the MBDP Project Agreement); and (iii) the AD MEPSO Project Agreement, dated February 26, 2007 between the Bank and Ad Prenos Na Elektricna Energija I Upravuvanje So Electroenergetskiot Sistem, Vo Drzavna Sopstvenost, Skopje (AD MEPSO) (the AD MEPSO Project Agreement), all for the above-referenced Project. We further refer to your letter dated June 7, 2010, on behalf of the Recipient, requesting a restructuring of the Project and an extension of its closing date to enable the Project to be implemented more effectively and reach its development objectives.

After due consideration, we concur with your request and, to give effect thereto, agree to amend the GEF Grant Agreement as follows:

1. Paragraph (D) of the Preamble to the GEF Grant Agreement is deleted and the succeeding paragraph re-numbered accordingly.
2. All references to "AD MEPSO", "AD MEPSO Operational Manual", "AD MEPSO Project Agreement" and "AD MEPSO Subsidiary Financing Agreement", throughout the GEF Grant Agreement are deleted; in particular, clauses (a), (b), (c) and (d) of Section 1.02 are deleted and succeeding clauses re-numbered accordingly.

3. All references to the “Energy Agency” and “Energy Agency Operational Manual” throughout the GEF Grant Agreement are deleted; in particular, clauses (i), (k), (jj) and (ll) of Section 1.02 are deleted and succeeding clauses re-numbered accordingly.

4. All references to “ESCO” and “ESCO Subsidiary Grant Agreement” throughout the GEF Grant Agreement are deleted; in particular, clauses (m), (o), (p) and (ii) of Section 1.02 are deleted and succeeding clauses re-numbered accordingly.

5. All references to the “Guarantee Facility”, “Guaranty Facility Account” and “Guaranty Framework Agreement” throughout the GEF Grant Agreement are deleted; in particular, clauses (t), (u) and (v) of Section 1.02 are deleted and succeeding clauses re-numbered accordingly.

6. The following clauses, as re-numbered, of Section 1.02 are amended to read as follows:

“(a) ‘Beneficiaries’ and ‘Beneficiary’ mean, collectively, the energy end users and, individually, the end user, including municipalities, meeting the respective Eligibility Criteria, as hereinafter defined, for assistance under Parts B and C of the Project.”

“(d) ‘Eligibility Criteria’ means the criteria adopted: (i) by MOE (hereinafter defined) and included in the PIP (hereinafter defined), for the selection of municipalities for the Energy Efficiency retrofitting of certain public buildings under Part B of the Project; and (ii) by MBDP (hereinafter defined) and included in the MBDP Operational Manual (hereinafter defined) for the selection of Beneficiaries and Energy Efficiency Investments and Renewable Energy Investments (hereinafter defined), under Part C of the Project.”

“(f) ‘Energy Efficiency Investment’ and ‘Renewable Energy Investment’ means an investment made (i) in the case of Part B of the Project, by the Recipient for the Energy Efficiency retrofitting of selected public buildings of municipalities eligible in accordance with the respective Eligibility Criteria; and (ii) in the case of Part C of the Project, by a Beneficiary and eligible in accordance with the respective Eligibility Criteria.”

“(v) ‘PIP’ means the Project Implementation Plan adopted by the Recipient setting forth overall rules and procedures for the implementation of the Project, including (i) specific sections on the implementation of Parts A and B of the Project by the PIU, and (ii) the MBDP Operational Manual for the implementation of Part C of the Project by MBDP.”

7. The following new clauses are included in Section 1.02 to read as follows:

“(r) ‘MOE’ means the Recipient’s Ministry of Economy, and any successor thereto.”

“(s) ‘National Program for Energy Efficiency in Public Buildings’ means the program to increase the level of efficiency of energy use in public buildings in the Recipient’s territory which is under preparation by an Inter-ministerial Working Group pursuant to a Decision dated February 16, 2010 by the Government of the Recipient.

“(w) ‘PIU’ means the Project Implementing Unit to be established within the Ministry of Economy, responsible for the overall management of the Project, and in particular for the implementation of Parts A and B of the Project, and referred to in paragraph 1 of Schedule 4 to this Agreement.”

8. All references to Part C.2 of the Project throughout the GEF Grant Agreement shall be read as references to Part C of the Project.

9. Clause (b) of Section 2.02 is amended to read as follows:

“(b) The Recipient may open and maintain in Dollars two (2) separate special deposit accounts, namely (i) the MOE Special Account for purposes of Parts A and B of the Project, and (ii) the MBDP Special Account for purposes of Part C of the Project. The MOE Special Account shall be opened in the National Bank of the Republic of Macedonia; and the MBDP Special Account shall be opened in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.”

10. Sections 3.01 and 3.02 of the GEF Grant Agreement are amended to read as follows:

“Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall: (i) carry out Parts A and B of the Project; and (ii) cause MBDP to carry out Part C of the Project, all with due diligence and efficiency and in conformity with appropriate financial, engineering and environmental practices and with due regard to ecological and environmental factors, and shall take or cause to be taken all action, including provision of funds, facilities, services and other resources required for the Project and necessary to enable MBDP to perform such obligations, and shall not take any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient through the PIU shall carry out Parts A and B of the Project, and shall cause MBDP to carry out Part C of the Project, in accordance with the Implementation Program set forth in Schedule 4 to this Agreement, and in accordance with the MBDP Project Agreement, respectively.

(c) For the purposes of carrying out Part C of the Project, the Recipient shall make available the proceeds of the GEF Trust Fund Grant allocated from time to time to Categories (3) and (4) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, to MBDP, as a grant, under the MBDP Subsidiary Financing Agreement, to be entered into between the Recipient and MBDP under terms and conditions which shall have been approved by the Bank, including, inter alia, the provisions of the MBDP Project Agreement.

(d) The Recipient shall exercise its right under the MBDP Subsidiary Financing Agreement in such manner as to protect the interests of the Recipient and the Bank, and, except as the Bank shall otherwise agree, the Recipient shall not assign, abrogate or waive the MBDP Subsidiary Financing Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient, through the PIU, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank for its approval.”

11. Clause (a) of Section 5.01 is deleted and the succeeding clauses re-numbered accordingly.

12. Schedules 1, 2 and 4 to the GEF Grant Agreement are amended and re-stated in their entirety in the forms of Attachments A, B and C to this letter of amendment.

13. Section II.B, Other Procurement Procedures, of Schedule 3 to the GEF Grant Agreement is amended to read in its entirety as follows:

“B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$200,000 equivalent per contract, required under Part B of the Project, may be procured through open tendering procedure of the new Public Procurement Law of Macedonia, published in the Official Gazette of the Republic of Macedonia No. 136/2007, and as a minimum shall comply with the conditions listed below:

(a) **Generalities**

- Bidding shall be conducted using “Open Procedure” as described in Section 1, Chapter V of the Public Procurement Law of Macedonia and its related provisions; restricted procedure shall not be used without the

express consent of the World Bank and is subject to the following conditions:

-- the contracting authority shall invite all the candidates that meet the selection criteria.

-- no maximum number of selected candidates shall apply.

(b) Registration

- Bidding shall not be restricted to pre-registered firms;
- Foreign bidders shall not be required to be registered with local authorities as a prerequisite for submitting bids.

(c) Advertising, time for submission of bids

- Invitations to bid shall be advertised in the official gazette and on the web site of the Public Procurement Bureau.

(d) Participation by Publicly-owned enterprises

- Publicly-owned enterprises shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

(e) Bidding Documents

- Procuring entities shall use the appropriate standard bidding documents acceptable to the World Bank.

(f) Bid Opening, Bid Evaluation and Contract Award

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

(g) Rejection of all bids

- All bids shall not be rejected and a new procurement process started without the World Bank’s prior concurrence.

(h) Right to inspect and audit

- Each contract financed from the proceeds of a [Loan/Credit] shall provide that the suppliers, contractors and subcontractors shall permit the Bank, at its request, to inspect their accounts and records relating to the procurement and performance of the contract and to have said accounts and records audited by auditors appointed by the Bank. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice

(i) Fraud & Corruption

- The Bank shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Bank, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the Bank.

2. Shopping. Goods and Works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Commercial Practices. Goods and Works, including Supply and Installation contracts, estimated to cost less than \$350,000 equivalent per contract, required under Part C of the Project, may be procured in accordance with commercial practices acceptable to the Bank.”

14. Paragraph 1 of Schedule 5, Special Accounts, is amended to read as follows:

“1. For the purposes of this Schedule:

(a) the term “eligible Categories” means: (i) in respect of the MOE Special Account, Categories (1) and (2); and (ii) in respect of the MBDP Special Account, Categories (3) and (4), set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement;

(c) the term “Authorized Allocation” means: (i) in respect of the MOE Special Account, an amount equivalent to \$200,000; and (ii) in respect of the MBDP Special Account, an amount equivalent to \$700,000, to be withdrawn from the GEF Trust

Fund Grant Account and deposited into the respective Special Accounts pursuant to paragraph 3 (a) of this Schedule.”

Moreover, the Bank concurs with your request for an extension of the closing date and establishes September 30, 2012 as the later date for purposes of Section 2.03 of the GEF Grant Agreement.

Except as specifically amended in accordance with the provisions of paragraphs 1 through 14 of this letter of amendment, all provisions, terms and conditions of the GEF Grant Agreement otherwise remain in full force and effect.

Please confirm your agreement to the foregoing by countersigning both copies of this letter of amendment and returning one of the countersigned copies to us. This letter of amendment shall become effective upon receipt by the Association of: (i) the copy of this letter of amendment countersigned by the authorized representative of the Recipient; (ii) the copy of the letter of amendment to the MBDP Project Agreement duly countersigned by the authorized representative of MBDP; (iii) the copy of the letter of agreement to terminate the AD MEPSO Project Agreement, duly countersigned by the authorized representative of AD MEPSO; and (iv) evidence satisfactory to the Bank that the PIU has been established in accordance with the provisions of paragraph 1 of Schedule 4 to the GEF Grant Agreement, as amended.

Sincerely,

/s/ Theodore O. Ahlers

Theodore O. Ahlers
Acting Country Director and Regional Coordinator
For Southeast Europe
Europe and Central Asia Region

**AGREED
RECIPIENT**

**By: /s/ Zoran Stavreski
Authorized Representative**

**Zoran Stavreski
Vice President of the Government
And Minister of Finance**

Date: June 30, 2010

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the GEF Trust Fund Grant, the allocation of the amounts of the GEF Trust Fund Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	Amount of the GEF Trust Fund Grant Allocated (Expressed in Dollars)	% of Expenditures to be <u>Financed</u>
(1) Goods, consultants' services, training and Incremental Operating Costs under Part A of the Project	1,750,000	100%
(2) Goods and works under Part B of the Project	2,200,000	100%
(3) Beneficiary Loans under Part C of the Project	1,500,000	100% of the amount of Beneficiary Loans disbursed
(4) Consultants' services under Part C of the Project	50,000	100%
TOTAL	<u>5,500,000</u>	

2. For purposes of paragraph 1, the term:

(a) "Incremental Operating Costs" means the incremental expenses incurred by the PIU on account of Project implementation, including the costs of communication, printing and publications, supplies, bank charges, local travel costs and field trip expenses; and

(b) "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 Recipient, 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 by the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement;
and

(b) in respect of payments made for expenditures under Category (1) until receipt by the Bank of satisfactory evidence that: (i) all outstanding contracts between the Energy Agency, or the Sustainable Energy Unit of the Energy Agency, and a third party for purposes of Part A of the Project have been transferred to, and the rights and obligations thereunder of the Energy Agency, or the Sustainable Energy Unit of the Energy Agency, have been assumed by the PIU; and (ii) said transfers and assumption of rights and obligations are legally valid and enforceable in accordance with their terms.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure under contracts for: (a) goods costing less than \$200,000 equivalent per contract; (b) works costing less than \$200,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms costing less than \$100,000 equivalent per contract; and (e) Beneficiary Loans under Part C of the Project, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. The Recipient shall promptly refund and/or cause MBDP to refund, when applicable, to the Bank, the GEF Trust Fund Grant proceeds disbursed by the Bank, in whole or in part, at the Bank's option, if:

(a) the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement;

(b) expenditures from the GEF Trust Fund Grant Account were made: (i) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (ii) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; or

(c) expenditures from the GEF Trust Fund Grant Account were made under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Recipient, including MBDP, during the procurement or execution of such contract, without the Recipient or MBDP having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

6. Refunds to the Bank of GEF Trust Fund Grant proceeds, made pursuant to paragraph 5 of this Schedule shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to develop a sustainable market for Energy Efficiency Investments and Renewable Energy Investments in the territory of the Recipient, through creation of and support for an enabling framework, institutional capacity and financing mechanisms.

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

Part A: Institutional Support, Project Management and Technical Assistance

1. Development of the framework for Renewable Energy through the carrying out of studies and activities related to Renewable Energy, including wind measurement activity.
2. Support for Project management, including, inter alia, support for procurement, supervision of contracts, financial management, social and environmental safeguards, Project monitoring and reporting, coordination of the Project with other related programs, including with the National Program for Energy Efficiency in Public Buildings.
3. Support for the administration and implementation of Part B of the Project, including the carrying out of energy audit of selected public buildings, supervision of construction, commissioning and quality control of Energy Efficiency measures for said buildings, and further development of the National Program for Energy Efficiency in Public Buildings.

Part B: Energy Efficiency in Public Buildings

Carry out a program of Energy Efficiency retrofitting of selected public buildings of eligible municipalities.

Part C: Sustainable Energy Financing Facility

Establishment and operation of a Sustainable Energy Financing Facility within the Macedonian Bank for Development Operation to co-finance initial Energy Efficiency Investments and Renewable Energy Investments pursuant to criteria and procedures set forth in the MBDP Operational Manual.

SCHEDULE 4

Implementation Program

1. The Recipient shall establish and, throughout the period of Project implementation, maintain a Project Implementation Unit within its Ministry of Economy, to be responsible for: (a) overall Project implementation, including overall financial management, monitoring, reporting and evaluation; and (b) more specifically, the implementation of Parts A and B of the Project, including procurement for said Parts. Said PIU shall be provided with adequate resources and office premises, under the direction of experienced managers and staffed with qualified personnel in sufficient number, including inter alia, a Project manager, a senior technical Energy Efficiency expert, a financial expert and a procurement specialist, all with qualifications, experience and under terms of reference acceptable to the Bank.
2. The Recipient through the PIU shall take, and cause to be taken, all necessary measures to ensure that the Project is implemented in accordance with the PIP, in a timely manner, and shall cause MBDP to implement Part C of the Project in accordance with the provisions agreed with the Bank and set forth in the PIP, including the MBDP Operational Manual. The Recipient shall not amend, suspend, abrogate, repeal or waive, nor allow to be amended, suspended, abrogated, repealed or waived, any provision of the PIP, including the MBDP Operational Manual, without prior approval of the Bank.
3. The Recipient, through the PIU, shall take, or cause to be taken, all measures necessary for the implementation of the EMFD and the Resettlement Policy Framework. The Recipient shall not amend suspend, abrogate, repeal or waive, nor allow to be amended, suspended, abrogated, repealed or waived, any provision of the EMFD or the Resettlement Policy Framework without the prior approval of the Bank.
4. The Recipient shall ensure that Renewable Energy Investments involving the rehabilitation or construction of small hydropower plants financed pursuant to Part C of the Project shall only include run-of-river plants with a capacity of 10 megawatts (MW) or less, and shall not require remedial works on – or the construction of – dams or other control structures.
5. The Recipient, through the PIU, shall, and shall cause MBDP to:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) 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 insure 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 March 31, 2009, or such later date as the Bank shall request, 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.

cc: H.E. Fatmir Besimi, Minister of Economy, Ministry of Economy
Mr. Dragan Martinovski, First General Manager, Macedonia Bank for Development
Promotion
Mr. Mr. Vladimir Zdravev, General Manager, AD MEPSO
Ms. Suzana Peneva, Head of EU Harmonization and International Finance Department,
Ministry of Finance
Mr. Rudolf Jan Treffers, Executive Director, World Bank