

Public Disclosure Authorized

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF057107

Global Environment Facility Trust Fund Grant Agreement

(Sustainable Energy Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated February 26, 2007

GEF TRUST FUND GRANT NUMBER TF057107

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

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) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, *inter alia*, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2;

(D) Part B of the Project will be carried out by AD MEPSO with the Recipient's assistance and, as part of such assistance, the Recipient will make a portion of the proceeds of the GEF Trust Fund Grant available to AD MEPSO, as set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and AD MEPSO (the AD MEPSO Project Agreement); and

(E) Part C of the Project will be carried out by MBDP with the Recipient's assistance and, as part of such assistance, the Recipient will make a portion of the proceeds of the GEF Trust Fund Grant available to MBDP, as set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and MBDP (the MBDP Project Agreement).

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the AD MEPSO Project Agreement and the MBDP Project Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.01 (c), 12.03 and 12.04.

- (b) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if

the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(c) Section 6.03(c) of the general Conditions is amended to read as follows:

“(c) at any time, the Bank: (i) determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or a Project implementing entity (or the recipient of Loan proceeds) during the procurement or the execution of such contract, without the Borrower or the Project implementing entity (or the recipient of Loan proceeds) having taken timely and appropriate action satisfactory to the Bank to remedy the situation; and (ii) establishes that amount of expenditures under such contract which would otherwise have been eligible for financing out of the proceeds of the Loan,”

(d) The General Conditions shall be modified as follows:

- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
- (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vi) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”;

- (vii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) “AD MEPSO” means AD za prenos na elektricna energija i upravljanje so elektroenergetskiot sistem, vo drzavna sopstvenost, Skopje, a joint stock company established and operating pursuant to Resolution No. 23-3343/1 of the Government of the Recipient, dated September 27, 2004, whose Charter and By-laws were published in the Official Gazette of the Recipient, dated December 27, 2004, under Number 92/2004, and which was registered on December 31, 2004 in the Trade Register of Basic Court Skopje I under the number 02060952?-4-09-000 pursuant to Registration Resolution No. 5658/2004 issued by the Registration Court.

(b) “AD MEPSO Operational Manual” means the document forming part of the PIP, as hereinafter defined, adopted by AD MEPSO and satisfactory to the Bank, setting forth the rules and regulations for implementation of Part B of the Project, as the same may be amended from time to time with the agreement of the Bank.

(c) “AD MEPSO Project Agreement” means the agreement of even date herewith between the Bank and AD MEPSO, as such agreement may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(d) “AD MEPSO Subsidiary Financing Agreement” means the agreement to be entered into between the Recipient and AD MEPSO pursuant to Section 3.01(c) of this Agreement.

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

(f) “Beneficiary Loan” means the loan made by MBDP to a Beneficiary in accordance with a Beneficiary Loan Agreement (as hereinafter defined).

(g) “Beneficiary Loan Agreement” means the agreement between MBDP and a Beneficiary for the financing of an Energy Efficiency Investment or Renewable Energy investment (as hereinafter defined).

(h) “Eligibility Criteria” means the criteria adopted by AD MEPSO and ESCO (hereinafter defined), and included in the AD MEPSO Operational Manual, and by

MBDP (hereinafter defined), and included in the MBDP Operational Manual (hereinafter defined) for selection of Beneficiaries and Energy Efficiency Investments and Renewable Energy Investments (hereinafter defined), under Parts B and C of the Project.

(i) “Energy Agency” means the public entity established pursuant to the “Law on the Establishment of an Energy Agency for the Republic of Macedonia” dated July 21, 2005, published in Official Gazette No. 62/2005, responsible for the implementation of energy policy in the territory of the Recipient, and supervised by the Ministry of Economy of the Recipient.

(j) “Environmental Management Framework Document” or “EMFD” means the Environmental Management Framework Document prepared by the Recipient and submitted to the Bank on January 21, 2006, acceptable to the Bank, setting forth measures to minimize and mitigate negative environmental and social impacts of the Project on potentially affected individuals.

(k) “Energy Agency Operational Manual” means the document forming Part of the PIP (hereinafter defined), adopted by the Energy Agency and satisfactory to the Bank, setting forth the rules and regulations for implementation of the overall Project and Part A of the Project, as the same may be amended from time to time with the agreement of the Bank.

(l) “Energy Efficiency Investment” and “Renewable Energy Investment” means an investment made by a Beneficiary and eligible, in accordance with the Eligibility Criteria.

(m) “Energy Performance Service Contract” means a contract to be entered into between ESCO or the Energy Service Provider, as the case may be, and a Beneficiary, the content and terms and conditions of which are set forth in the AD MEPSO Operational Manual, as the same may be amended from time to time, and such term includes all schedules to any Energy Performance Service Contract.

(n) “Energy Service Providers” means commercial enterprises duly registered and operating in the territory of the Recipient and benefiting from commercial loans from Participating Banks under Part C.2 of the Project for the purposes of financing Energy Efficiency Investments meeting Eligibility Criteria.

(o) “ESCO” means the Energy Service Company to be established pursuant to Section 3(b) of Schedule 1 to this Agreement.

(p) “ESCO Subsidiary Grant Agreement” means the agreement to be entered into between AD MEPSO and ESCO pursuant to Section 2.01(b) of the AD MEPSO Project Agreement.

(q) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement.

(r) “Fiscal Year” means the period of time from January 1 to December 31.

(s) “Fund Manager” means the firm responsible for the daily operations of SEFF (as hereinafter defined).

(t) “Guarantee Facility” means the guarantee facility provided under Part C.1 of the Project.

(u) “Guarantee Facility Account” means the fund established by MBDP pursuant to paragraph 6 of Schedule 1 to the MBDP Project Agreement for the purposes of operating the Guarantee Facility under Part C.1 of the Project.

(v) “Guarantee Framework Agreement” means an agreement, the content and terms and conditions of which are set forth in the MBDP Operational Manual and which includes, without limitation, definitions of a guarantee holder, covered risks, default and other applicable terms, entered or to be entered into by MBDP and Participating Banks pursuant to Section 11 of Schedule 1 to the MBPD Project Agreement.

(w) “Loan Facility” means the loan facility provided under Part C.2 of the Project.

(x) “Loan Facility Account” means the fund established by MBDP pursuant to paragraph 18 of Schedule 1 to the MBDP Project Agreement for the purposes of operating the Loan Facility under Part C.2 of the Project.

(y) “Loan Framework Agreement” means an agreement, the content and terms and conditions of which are set forth in the MBDP Operational Manual, entered or to be entered into by MBDP and Participating Banks pursuant to Section 20 of Schedule 1 of the MBDP Project Agreement.

(z) “MBDP” means the Macedonian Bank for Development Promotion, established pursuant to the “Law on Establishing the Macedonian Bank for Development Promotion” dated May 28, 1998, published in Official Gazette No. 24/98, as amended per amendment of January 31, 2000, published in Official Gazette 6/2000, and per amendment of December 14, 2005, published in Official Gazette No. 109/2005.

(aa) “MBDP Operational Manual” means the document forming Part of the PIP (hereinafter defined), adopted by MBDP and satisfactory to the Bank, setting forth the rules and regulations for implementation of Part C of the Project, as the same may be amended from time to time with the agreement of the Bank.

(bb) “MBDP Project Agreement” means the agreement of even date herewith between the Bank and MBDP, as such agreement may be amended from time to time, and such term includes all schedules and agreements supplemental to the MBDP Project Agreement.

(cc) “MBDP Subsidiary Financing Agreement” means the agreement to be entered into between the Recipient and MBDP pursuant to Section 3.01(d) of this Agreement.

(dd) “Participating Bank” means a commercial bank duly established and operating in the territory of the Recipient, selected in accordance with the criteria and procedures in the MBDP Operational Manual.

(ee) “Procurement Plan” means the Recipient’s procurement plan, dated October 19, 2006, covering the entire period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement.

(ff) “PIP” means the Project Implementation Plan adopted by the Recipient and including the EA Operational Manual, the MBDP Operational Manual and the AD MEPSO Operational Manual, setting forth overall rules and procedures for implementation of the Project.

(gg) “Resettlement Policy Framework” means the Resettlement Policy Framework Document prepared by the Recipient and submitted to the Bank on July 11, 2006, acceptable to the Bank, setting forth resettlement principles, organizational arrangements, and design criteria to be applied to subprojects to be prepared during project implementation

(hh) “Special Accounts” means the accounts referred to in Section 2.02 (b) of this Agreement.

(ii) “Sub-loans” means sub-loans under Part B of the Project provided by ESCO to Beneficiaries for Energy Efficiency investments on the basis of Energy Performance Service Contracts in accordance with Section 3 (a) of Schedule 1 of the AD MEPSO Project Agreement and with the AD MEPSO Operational Manual.

(jj) “Supervisory Board” is the entity composed of at least five members, including representatives of the Recipient’s Government, MBDP, AD MEPSO and energy sector entities, and chaired by the Managing Director of the Energy Agency, charged with overall Project management and supervision as per Section B.2 of Schedule 4.

(kk) “Sustainable Energy Financing Framework” or “SEFF” means the program within MBDP to be created to carry out the activities under Part C of the Project.

(ll) “Sustainable Energy Unit” or “SEU” means the unit within the Energy Agency in charge of overall Project implementation, composed of the Project Manager and at least four other staff.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to five million and five hundred thousand Dollars (\$ 5,500,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

(b) The Recipient may, for the purposes of each of Parts A, B and C of the Project, open and maintain in Dollars three separate special deposit accounts, namely the Energy Agency Special Account, the AD MEPSO Special Account and the MBDP Special Account. The Energy Agency Special Account shall be opened in the National Bank of the Republic of Macedonia, and the AD MEPSO Special Account and MBDP Special Account shall be opened in commercial banks, 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 Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

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 Part A of the Project, through the Energy Agency; (ii) cause AD MEPSO to carry out Part B of the Project; and (iii) 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 AD MEPSO and 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 Energy Agency, shall carry out Part A of the Project, and shall cause AD MEPSO and MBDP to carry out Parts B and C of the Project, respectively, in accordance with the Implementation Program set forth in Schedule 4 to this Agreement and in accordance with the AD MEPSO Project Agreement and the MBDP Project Agreement.

(c) For the purposes of carrying out Part B of the Project, the Recipient shall make available the proceeds of the GEF Trust Fund Grant allocated from time to time to Categories (2) and (3) in the table set forth in paragraph 1 of Schedule 1 to this Agreement, as a grant, under the AD MEPSO Subsidiary Financing Agreement, to be entered into between the Recipient and AD MEPSO under terms and conditions which shall have been approved by the Bank, including, inter alia, the provisions of the AD MEPSO Project Agreement.

(d) 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 (4) and (5) 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.

(e) The Recipient shall exercise its rights under both the AD MEPSO Subsidiary Financing Agreement and 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 AD MEPSO Subsidiary Financing Agreement and 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 Parts A and C of 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) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for Part B of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 1

of the AD MEPSO Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan for the continued achievement of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Recipient on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the respective Parts of the Project.

(b) The Recipient shall:

(i) have the financial statements referred to in paragraph (a) of this Section, and financial statements (balance sheets, statements of income and expenses and related statements) for each Fiscal Year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

(d) The Recipient shall cause MBDP and AD MEPSO, respectively, to:

- (i) have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including, statements of income and related statements in respect of the Guarantee Facility Account, for each Fiscal Year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank and the Recipient as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (i) of this Section for such year as so audited; and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank and the Recipient such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the GEF Trust Fund Grant, and explains variances between the actual and planned uses of such funds.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The law establishing the Energy Agency or the Energy Agency's bylaws have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Energy Agency to perform any of its obligations under this Agreement;

(b) any action shall have been taken for the dissolution, disestablishment or suspension of operations of MBDP or AD MEPSO; and

(c) in the opinion of the Bank, the legal character, ownership or control of MBDP or AD MEPSO shall have changed from that prevailing as of the date of this agreement so as to materially and adversely affect: (i) the ability of the Recipient to perform any of its obligations under this agreement, or to achieve the objectives of the Project; or (ii) the ability of MBDP or AD MEPSO to perform any of their respective obligations arising under, or entered into pursuant to, this agreement, the MBDP Project Agreement, or the AD MEPSO Project Agreement, or to achieve the objectives of the Project.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Procurement Capacity Assessment of the SEU within the EA has been completed, with results satisfactory to the Bank;

(b) the PIP, including the Energy Agency Operational Manual and the MBDP Operational Manual, except for the AD MEPSO Operational Manual, has been adopted and is satisfactory to the Bank;

(c) the AD MEPSO Subsidiary Financing Agreement has been duly executed by the Recipient and AD MEPSO, on terms and conditions satisfactory to the Bank;

(d) the MBDP Subsidiary Financing Agreement has been duly executed by the Recipient and MBDP, on terms and conditions satisfactory to the Bank;

(e) a Loan Framework Agreement between MBDP and a Participating Bank has been duly authorized and executed in compliance with the provisions of this Agreement, the MBDP Project Agreement and the MBDP Operational Manual; and

(f) SEFF has been established in a manner satisfactory to the Bank, and the Fund Manager has been appointed.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions furnished to the Bank:

(a) the AD MEPSO Project Agreement and the MBDP Project Agreement have been duly executed and are legally binding upon AD MEPSO and MBDP respectively, in accordance with their respective terms; and

(b) the AD MEPSO Subsidiary Financing Agreement and the MBDP Subsidiary Financing Agreement have been duly executed by the Recipient and AD MEPSO and MBDP, respectively, and are legally binding on AD MEPSO and MBDP, respectively, in accordance with their terms.

Section 6.03. The date 90 days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
Dame Gruev 14
1000 Skopje

Cable address:	Telex:	Facsimile:
	51119	(389-2) 311-7280

For the Bank:

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) 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Skopje, as of the day and year first above written.

RECIPIENT

By /s/ Trajko Slaveski

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an Implementing Agency of the Global Environment
Facility**

By /s/ Sandra Bloemenkamp

Authorized Representative

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 <u>Dollars</u>)	% of Expenditures <u>to be Financed</u>
(1) Goods, Works, Consultants' services, Training and Incremental Operating Costs under Part A of the Project	1,000,000	100%
(2) Goods, Works, Consultants' services, Training and Incremental Operating Costs under Part B of the Project	450,000	100%
(3) Sub-loans under Part B of the Project	350,000	100%
(4) Guarantees under Part C.1 of the Project	1,200,000	100% of the amount of the Guarantee Liability Limit under each executed Guarantee Framework Agreement
(5) Loans under Part C.2 of the Project	<u>2,500,000</u>	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 SEU and AD MEPSO, respectively, on account of the 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 with 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;

(b) in respect of payments under Categories (2) and (3) in paragraph 1 of this Schedule until the Bank has been furnished with evidence satisfactory to the Bank that: (i) ESCO has been legally established and is operational, including the appointment of a managing director and key staff; and (ii) the AD MEPSO Operational Manual has been adopted by AD MEPSO and is acceptable to the Bank; and

(c) in respect of payments under Category (4) in paragraph 1 of this Schedule until the Bank has been furnished with evidence satisfactory to the Bank that: (i) a Guarantee Facility Account has been opened in a manner satisfactory to the Bank; and (ii) a Guarantee Framework Agreement between MBDP and a Participating Bank has been duly authorized and executed in compliance with the provisions of this Agreement, the MBDP Project Agreement and the MBDP Operational Manual.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures 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; (e) Sub-loans under Part B of the Project; and (f) Loans under Part C.2 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 AD MEPSO and MBDP to refund, when applicable, to the Bank, the GEF Trust Fund Grant proceeds disbursed by the Bank, and the investment income generated by the respective Guarantee Framework Agreement therefrom, 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 (or from the investment income generated therefrom) was used for any expenditure not consistent with the provisions of this Agreement;

(b) expenditures from the GEF Trust Fund Grant Account (or from the investment income generated therefrom) 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 (or from the investment income generated therefrom) 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 the EA, or AD MEPSO or MBDP during the procurement or execution of such contract, without the Recipient or AD MEPSO 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. Except for such portions thereof for which a refund to the Bank is required pursuant to the terms of this Agreement, the Recipient may, after the Closing Date of this Project, keep in perpetuity Grant proceeds disbursed to it but only for the purposes of: (i) continuing the Guarantee Facility as set forth in this Agreement, if the Project objectives under Part C.1 of the Project have been achieved, or (ii) continuing ESCO's activities as set forth in Part B of Schedule 2 to this Agreement, if the Project objectives under Parts B have been achieved, or (iii) if the Project objectives under Parts B and C have not been achieved, using such funds in accordance with a plan acceptable to the Bank and consistent with the objectives of reducing greenhouse gas emission on the territory of the Recipient.

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: Market Framework for Energy Efficiency and Renewable Energy

Provision of consultants' services and Training to the Energy Agency, AD MEPSO and MBDP for:

1. The design and implementation of policies and secondary legislation on the inclusion of renewable energy in the electricity sector, and the streamlining of permitting processes;
2. the development of a sustainable pipeline of potential Renewable Energy Investments and Energy Efficiency Investments for the SEFF and development of a stakeholder management strategy for such investments; and
3. project monitoring and evaluation, information dissemination and Project administration.

Part B: ESCO Investment Development and Investment Financing

1. Provision of consultants' services and Training to the Energy Services Company (ESCO) for business development activities, including the preparation of business and financing plans, the development of contractual and modeling tools, the identification of eligible Energy Efficiency Investments, energy auditing, and the preparation of investment-grade feasibility studies; and
2. provision of Sub-loans for financing and carrying out of Energy Efficiency Investments under Energy Performance Service Contracts meeting Eligibility Criteria.

Part C: Sustainable Energy Financing Facility Within MBDP

1. Establishment and operation of a Guarantee Facility as part of the SEFF to underwrite partial credit guarantees issued by MBDP for Participating Banks providing loans to Beneficiaries for Energy Efficiency Investments and Renewable Energy

Investments pursuant to criteria and procedures set forth in the MBDP Operational Manual; and

2. establishment and operation of a Loan Facility as part of the SEFF to co-finance initial Energy Efficiency Investments and Renewable Energy Investments under the Project pursuant to criteria and procedures set forth in the MBDP Operational Manual.

* * *

The Project is expected to be completed by September 30, 2010.

SCHEDULE 3**Procurement**Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

B. Other Procurement Procedures

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

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

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis

of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. 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.

SCHEDULE 4

Implementation Program

A. Project Management and Monitoring

1. The Recipient, through the Energy Agency, shall take, or cause to be taken, all measures necessary to ensure that the Project is implemented in accordance with the PIP, including the Energy Agency Operational Manual, in a timely manner, and shall cause MBDP and AD MEPSO to implement their respective Parts of the Project in accordance with the provisions agreed with the Bank and set forth in the PIP, including the MBDP Operational Manual and the AD MEPSO Operational Manual. The Recipient shall not amend, suspend, abrogate, repeal or waive any provision of the PIP, including the Energy Agency Operational Manual, the MBDP Operational Manual and the AD MEPSO Operational Manual, without prior approval of the Bank.

2. The Recipient, through the Energy Agency, 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 any provision of the EMFD or the Resettlement Policy Framework without prior approval of the Bank.

3. 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 10MW or less, and shall not require remedial works on - or the construction of - dams or other control structures.

4. The Recipient, through the Energy Agency, shall, and shall cause MBDP and AD MEPSO 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 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 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.

B. Overall Project Implementation

1. The Sustainable Energy Unit (SEU) within the Energy Agency shall be responsible for overall Project implementation, including reporting and monitoring and evaluation for the overall Project, and procurement under Parts A and C of the Project. To that end, the Recipient shall maintain, adequately staff and fund the EA and the SEU with terms of reference acceptable to the Bank. The Recipient shall take the necessary measures to establish a financial management capacity, satisfactory to the Bank, within the EA.

2. The Supervisory Board, shall be established, operational and adequately staffed no later than March 31, 2007, and, thereafter, maintained, adequately staffed and funded with terms of reference acceptable to the Bank. The Supervisory Board shall be responsible for overall management and supervision of the Project, including the supervision of SEFF strategic and governance issues.

C. Implementation of Part A of the Project

The SEU within the EA shall be responsible for implementation of Part A of the Project and shall implement Part A of the Project in accordance with the Energy Agency Operational Manual.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Category (1) in case of the Energy Agency Special Account, Categories (2) and (3) in case of the AD MEPSO Special Account, and Categories (4) and (5) in case of the MBDP Special Account 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; and

(c) the term “Authorized Allocation” means an amount equivalent to \$100,000 in respect of the Energy Agency Special Account, \$150,000 in respect of the AD MEPSO Special Account, and \$500,000 in respect of the MBDP Special Account, to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the respective Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the respective Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the respective Special Account, the Recipient shall furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or

payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the respective Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the GEF Trust Fund Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient, AD MEPSO, or MBDP shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the respective Authorized Allocation.

Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have

been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into any Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.