



DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

LOCAL AND REGIONAL COMPETITIVENESS PROJECT

APPROVED ON JANUARY 12, 2016

TO

GOVERNMENT OF THE REPUBLIC OF NORTH MACEDONIA

FINANCE, COMPETITIVENESS AND INNOVATION

EUROPE AND CENTRAL ASIA

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**I. BASIC DATA****Product Information**

Project ID P154263	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 12-Jan-2016	Current Closing Date 31-Dec-2020

**Organizations**

Borrower Government of the Republic of North Macedonia	Responsible Agency Cabinet of the Deputy Prime Minister for Economic Affairs
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**Project Development Objective (PDO)**

Original PDO

The Project Development Objective (PDO) is to enhance the contribution of tourism to local economic development and improve the capacity of the government and public entities to foster tourism growth and facilitate destination management.

**Summary Status of Financing (US\$, Millions)**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
TF-A1779	14-Jan-2016	14-Jan-2016	28-Jul-2016	31-Dec-2020	18.61	9.67	8.68



## Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

## I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

1. **Project background:** The project has four components. These include: Component 1. Technical assistance for Tourism Development” (World Bank executed); Component 2. Strengthening destination management & enabling environment (Recipient executed); Component 3. Investment in tourism-related infrastructure and linkages at destination (Recipient executed); and Component 4. Strengthening project management (Recipient executed). The project was approved on January 12, 2016 and became effective on July 28, 2016. The project was restructured once in October, 2019 to extend the project for one year. The first restructuring also changed one PDO indicator and a number of intermediate objective indicators, and it revised the disbursement schedule.
2. **Overall implementation:** Component 1 of the project is Bank-executed and aims to provide project supervision and implementation support, including advisory services, analytical assistance and policy advice to improve the capacity of institutions and business environment in support of tourism development at the national level, and Component 4 aims to strengthen project management and implementation by the Project Implementation Unit. The main project activities are included in Components 2 and 3 of the project which are summarized below:
  - a. **Component 2:** As per the Aide Memoire of February-March, 2020, all activities under Component 2 were put on hold due to the Covid-19 crisis. These include the statistics capacity-building, the training activities, as well as the destination management organization related work. The statistics and training activities had not yet initiated. The activities related to destination management organizations were ongoing and, as a result, the potential models for DMO for 3 selected pilot destinations were prepared prior to the COVID-19 crisis and draft destination management plans were prepared. Moreover, a legal expert was hired under this Sub-Component to conduct analysis on the necessary legislation changes in order to establish the local DMOs. The expert submitted draft legal changes needed for formation and financing of these DMOs. The next steps would have included the finalization of the destination management plans, financial plans as well as the legal structures for each of the three DMOs. However, these activities did not continue due to COVID-19.
  - b. **Component 3:** Out of a total of 60 sub-grants with municipalities, public entities, micro and small enterprises and associations, 1 subproject with municipalities has been completed, as well as 12 with associations and 8 with micro and small enterprises.
3. **Project Budget and Disbursements:** The total project cost is EUR 20,186,471. The Recipient-executed amount is EUR 18,936,471 for the implementation of Components 2, 3 and 4. Out of this total recipient-executed amount, EUR 15,760,000 is from the Grant, and EUR 3,176,471 from the National Contribution. The remainder of the funds are for the World Bank- executed activities under Component 1. The World Bank has, to date, disbursed EUR 8,411,296 to the Recipient for the execution of Components 2, 3 and 4. Out of this amount, the below have been spent by the Recipient to date:
  - Component 2. Strengthening destination management and enabling environment - EUR 263,435 (out of the total available budget of EUR 1,181,950);
  - Component 3. Investment in tourism-related infrastructure and linkages at destination - EUR 4,007,144 (out of a total available budget of EUR 13,260,000);



- Component 4. Strengthening project management - EUR 1,351,633 (out of a total available budget of EUR 1,318,050.00). The amount spent is higher than the originally-envisioned budget since the project was extended once in 2019 and additional resources were needed by the PIU for project management. During the 2019 restructuring, the World Bank and the PIU agreed that the PIU will be able to tap into the available resources under Component 2 to carry out its project management responsibilities under Component 4 (Components 2 and 4 are in the same expenditure category, namely Category 1).

4. Project's Moderately Unsatisfactory rating: During 2020, the implementation of the LRCP has been affected by the COVID-19 pandemic. Several activities under Component 2 had to stop given the difficulties in implementing them during the pandemic, and the implementation of sub-projects under Component 3 was slowed down. The LRCP implementation was affected by four other causes as well: (i) the project has gone through multiple changes in leadership within the government (four Deputy Prime Ministers in the span of the life of the project); (ii) for some months, the project faced challenges related to not having a signatory in place to sign procurement and contract extension documents. For a total of one year in the life of the project, the project was without a signatory (someone on behalf of the government who could sign contracts, payments and other important project documents); (iii) technical documentation, bills of quantities (listing of material and inputs needed for construction) are often of low quality and affect the design of the municipal subprojects under Component 3; (iv) municipalities lack capacity in project preparation (preparation of environmental and social safeguard plans), project implementation, etc. and (v) construction companies have often failed to comply with committed timelines (some due to challenges stemming from the health crisis).

5. Status of the Administrative Agreement: The extension to the Administrative Agreement has been signed with the European Union, which would allow the extension of the Project to the end of June, 2021.

6. Rationale for the extension: The government requested a 9-month extension (until the end of September, 2021). However, since this has been a problem project for some time, while the World Bank is cognizant of the reasons that generated the delays during the implementation, such extension is only being considered until June 30, 2020. The extension until the end of June, 2021 will provide enough time for the advancement of: 1) the infrastructure subprojects currently under implementation, which are financed by Component 3 (At least 13 municipal subprojects are expected to be completed by the end of June, 2021 and 8 are at the risk of not finishing by that date. In addition, up to 8 subprojects by associations and 10 subprojects by micro and small enterprises could be completed by the end of June, 2021); and 2) the preparation of 4 promotional videos, 2 for local tourism in low season and 2 for regional tourism, financed by Component 2. While these are ambitious objectives, if these objectives are achieved, an additional 6-9 million Euros may be spent by the Recipient by the end of June, 2021.

While recognizing the commitment and the dedication of the PIU staff, being aware of the workload that naturally tends to increase in proximity of projects closing, the World Bank team has recommended strengthening the PIU by hiring two consultants with the relevant technical backgrounds. This will complement the supervision support that the World Bank will provide by hiring individual consultants or a firm on the ground.

While the PDO indicators related to destination management (Component 2) may not be fully achieved, the PDO can still be considered achieved. The PDO currently reads as "The Project Development Objective (PDO) is to enhance the contribution of tourism to local economic development and improve the capacity of the government and public entities to foster tourism growth and facilitate destination management." The PDO indicator that measures the success of the part of the PDO related to facilitating destination management is "number of destination management partnerships formed". Activities related to destination management are covered under Component 2 of the project,



and all activities under Component 2 of the project were stopped in March, 2020 given the health crisis. As such, the PDO indicator related to the “number of destination management partnerships formed” will not be reached. However, a number of activities related to destination management organizations were already completed under the project up until March, 2020 (including dividing the country into "destination management" regions, preparing destination management development plans and preliminary action plans for the three destination management organizations supported under the project, and putting in place the public-private dialogue mechanism for the finalization of the partnerships). As such, given the activities that have been completed under this component already, the PDO as it relates to this activity (i.e. facilitating destination management) can still be considered as achieved even if the PDO indicator on the number of partnerships formed will not be achieved.

A number of intermediate indicators will be achieved and even likely exceed their targets. These include indicators such as "Destination management capacity built, as measured by public and private stakeholders trained in destination management and development"; "Number of tour experiences offered by tour operators (local and foreign) that include the project-supported destinations as a new offering"; "Private stakeholders that participate in project-supported capacity-building activities (e.g. training, supplier development, others)"; "Private enterprises that benefit from activities funded through the project’s grants"; and "Destination development plans agreed".

There are no overdue financial management audits under the project.

7. Obligations of the Client with respect to subprojects that have already started construction works and related activities but that may not be completed by the Project Closing Date: The Client has confirmed the commitment by the Municipalities to fund those infrastructure subprojects that will still be outstanding by the Project Closing Date. According to the Standard Conditions for Grants made by the World Bank out of Various Funds dated February 15, 2020, which are applicable to the Grant Agreement, the Recipient has an obligation to carry out all Project activities in accordance with the rules set forth in the Grant Agreement, Project Operational Manual and safeguards instruments until said activities have been completed, even beyond the Project Closing Date, including all safeguards and fiduciary obligations.

## II. DETAILED CHANGES

### LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
TF-A1779	Effective	31-Dec-2019	31-Dec-2020	30-Jun-2021	30-Oct-2021