

OFFICIAL DOCUMENTS

LOAN NUMBER 8902-MK

Loan Agreement

(Macedonia Social Services Improvement Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
(Borrower)

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between the BORROWER and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—LOAN

- 2.01. The Bank agrees to lend to the Borrower the amount of twenty-eight million seven hundred thousand Euro (€28,700,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.

ARTICLE III—PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project, through the MLSP, in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.



ARTICLE IV—EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) Project Operational Manual has been adopted by the Borrower in a manner acceptable to the Bank; and
 - (b) the PMU has been established in a manner acceptable to the Bank.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE V— REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is its Minister of Finance.
- 5.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower's address is:

Ministry of Finance
Dame Gruev 12
1000 Skopje; and

(b) the Borrower's Electronic Address is:

Facsimile:	E-mail:
+389 2 3255-721	finance@finance.gov.mk

- 5.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank's address is:


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

(b) the Bank's Electronic Address is:

Telex:	Facsimile:	E-mail:
248423(MCI) or 64145(MCI)	1-202-477-6391	mmantovanelli@worldbank.org

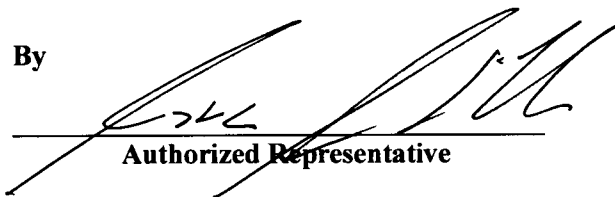
AGREED as of the Signature Date.

BORROWER

By 

Authorized Representative
Name: DRAGAN TEVDOSKI
Title: MINISTER OF FINANCE
Date: OCTOBER 2, 2018

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

By 

Authorized Representative
Name: MARCO MANTOVANELLI
Title: COUNTRY MANAGER
Date: OCTOBER 2, 2018



SCHEDULE 1

Project Description

The objective of the Project is to expand access to and improve the quality of social services, including preschool services, for Vulnerable Groups.

Part 1: Promoting social inclusion through improved access to social benefits and services

Strengthening the overall social protection delivery system for improved access to services by existing social assistance recipients and by Vulnerable Groups, through provision of:

- (a) technical assistance for social services policy development and implementation, including through the: (i) implementation of a needs assessment; (ii) development of standards and accreditation and licensing processes for social service providers; and (iii) development of social and child protection laws, regulations and guidelines;
- (b) (i) Grants for Social Services Subprojects designed to develop non-institutional social services including: immediate social service, assistance to a person or family, home care, day care, temporary care, placement in foster families, placement in a small group home, and assisted living and (ii) advice for the preparation of Social Services Subproject proposals and the carrying out of an assessment on municipal social services needs and demand;
- (c) support for the development of a social welfare information system that integrates CBMIS and LIRIKUS; and
- (d) support for the: (i) carrying out of capacity building activities on social assistance policy revisions and development; (ii) carrying out of capacity building activities including for the design, implementation, and analysis of evaluations and survey data; and (iii) carrying out rehabilitation works, including provision of relevant equipment, of selected offices within MLSP, CSW and other Borrower's agencies involved in the provision of social services.

Part 2: Expanding the access to and improving the quality of preschool services

Increasing the number of classrooms in preschools and improving the quality of preschool service delivery through provision of:

- (a) (i) Grants for Infrastructure Subprojects; (ii) advice to Selected Municipalities for the design of Infrastructure Subproject proposals; (iii) support for the construction of a selected number of pre-schools and rehabilitation of selected existing infrastructure to be used as preschools, including relevant equipment, teaching and learning materials; and (iv) advice for the development of a Grants Operational Manual;

- (b) support for the carrying out of construction or rehabilitation works, including provision of relevant equipment for about five (5) innovative preschool centers in the cities of Skopje, Tetovo, Stip, and Bitola;
- (c) support for the carrying out of outreach activities for families, including those belonging to Vulnerable Groups;
- (d) support for: (i) strengthening pre-service and in-service teacher capacity building programs, development of new preschool teachers' required competencies, and implementation of preschool teachers' capacity building program; (ii) carrying out capacity building activities for ECEC preschool administrators and other decision-makers; (iii) developing materials for age-appropriate teaching and learning; and (iv) enhancing ECEC quality assurance mechanisms; and
- (e) support for developing a per-student funding formula that improves teaching quality.

Part 3: Project management, monitoring and evaluation

Providing of support for carrying out Project management, and monitoring and evaluation activities including:

- (a) establishment and operation of the PMU including provision of Operating Costs;
- (b) development and implementation of a monitoring and evaluation system for the Project; and
- (c) development and carrying out of a public awareness campaign to inform Vulnerable Groups of available social assistance benefits and services, including the application process requirements.



SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall establish, operate and maintain, at all times during Project implementation, the PMU, with a structure, functions, resources and responsibilities (including the responsibility to assist in the implementation of the Project), all satisfactory to the Bank.
2. The Borrower shall ensure that the PMU is, at all times during Project implementation, adequately staffed, including headed by a Project Director, and assisted by, inter alia, a project manager, a procurement specialist, a financial management specialist, a monitoring and evaluation specialist, an environmental specialist, a social safeguards specialist, a grant coordinator, an information technology manager, two coordinators each for Part 1 and Part 2, a civil engineer and an architect, all with terms of reference, qualifications and experience acceptable to the Bank.
3. Not later than three months after the Effective Date, the Borrower, through MLSP, shall establish, and thereafter maintain throughout the implementation of the Project, a Grant Approval Committee 1, to be responsible for the evaluation of Social Services Subproject proposals and final selection of Social Services Sub projects with composition, functions, responsibilities and resources acceptable to the Bank, as further detailed in the Grants Operational Manual.
4. Not later than three months after the Effective Date, the Borrower, through MLSP, shall establish, and thereafter maintain throughout the implementation of the Project, a Grant Approval Committee 2, to be responsible for the evaluation of Infrastructure Subproject proposals and final selection of Infrastructure Subprojects of the Project, with composition, functions, responsibilities and resources acceptable to the Bank, as further detailed in the Grants Operational Manual.

B. Subprojects

1. The Borrower, through MLSP, shall make Infrastructure Grants and Social Services Grants to Selected Municipalities to carry out Subprojects in accordance with eligibility criteria and procedures acceptable to the Bank and detailed in the Grants Operational Manual which shall be prepared and adopted by the Borrower, through MLSP, including criteria, rules, methods, guidelines, standard documents and procedures for the implementation of the Grants for Subprojects ("Grants Operational Manual").
2. Subprojects involving: (a) acquisition of land; or (b) Involuntary Resettlement; or (c) acquisition of used or second-hand equipment and furniture shall not be eligible for financing under the Project, either by Loan or Borrower counterpart proceeds.

3. The Borrower, through MLSP, shall make each Grant under a Grant Agreement with the respective Selected Municipality on terms and conditions approved by the Bank, which shall include the following:
 - (a) The Selected Municipality shall ensure that the Grant funds are used exclusively for the purposes specified for a Subproject approved by the respective Grant Approval Committee;
 - (b) The Grants shall be denominated in *Denars*;
 - (c) The Borrower, through MLSP, shall obtain rights adequate to protect its interests and those of the Bank, including the right to:
 - (i) suspend or terminate the right of a Selected Municipality to use the proceeds of a Grant, or obtain a refund of all or any part of the amount of a Grant then withdrawn, upon the Selected Municipality's failure to perform any of its obligations under a Grant Agreement; and
 - (ii) require each Selected Municipality to:
 - (A) carry out the relevant Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental, and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of proceeds other than the Borrower, and with the Grants Operational Manual;
 - (B) provide, promptly as needed, the resources required for the purpose;
 - (C) procure the goods, works and services to be financed out of the Grant in accordance with the provisions of this Agreement and the Grants Operational Manual;
 - (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of a Subproject and the achievement of its objectives;
 - (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to a Subproject; and (2) at the Bank's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank;

- (F) enable the Borrower and the Bank to inspect the Subproject, its operation and any relevant records and documents;
 - (G) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing; and
 - (H) commit to: (1) provide reasonable maintenance; (2) carry out the connection of required utilities; (3) pay recurrent utility bills; and (4) assure adequate staffing in respect of any Infrastructure Subproject.
4. The Borrower, through MLSP, shall exercise its rights and carry out its objectives under each Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Grant Agreement or any of its provisions.

C. Project Operational Manual

1. The Borrower shall prepare and carry out the Project in accordance with the Grants Operational Manual and a separate manual satisfactory to the Association ("Project Operational Manual" or "POM"), which shall set forth rules, methods, guidelines, standard documents, and procedures for carrying out the Project, including, *inter alia*, the following provisions:
- (a) the detailed description of Project implementation activities, their sequencing and prospective timetable;
 - (b) the detailed institutional arrangements for the implementation of the Project;
 - (c) the Project administrative, financial management, disbursement, procurement, environmental, and social safeguards requirements and procedures;
 - (d) the Project performance indicators and the procedures for the monitoring and evaluation of the Project;
 - (e) the ESMF, and the RPF;
 - (f) the detailed arrangements and procedures for a grievance redress mechanism; and
 - (g) the code of conduct to be included in any agreement with contractors, sub-contractors or consultants hired to carry out activities under the Project.
2. In case of any conflict between the terms of the Project Operational Manual or Grants Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

D. Safeguards

1. The Borrower shall ensure that the Project is carried out with due regard to appropriate health, safety, social, and environmental standards and practices, and in accordance with the Safeguards Instruments.

2. The Borrower shall ensure that the obligation to comply with the relevant Safeguard Instruments is incorporated: (a) in the contracts between the Borrower and the relevant contractor[s] and any entity (including any engineer) supervising the Project's and the Subproject's civil works; and (b) in the contracts between the relevant contractor[s] and the contractors' subcontractors.

3. Except as the Bank shall otherwise agree, the Borrower shall ensure, and cause to ensure, that none of the provisions of the Safeguard Instruments is abrogated, amended, repealed, suspended or waived. In case of any inconsistencies between the provisions of any of the Safeguard Instruments and the provisions of this Agreement, the provisions of this Agreement shall prevail.

4. Without limitation upon its other reporting obligations under this Agreement, the Borrower shall:

- a) take all measures necessary on its part to regularly collect, compile, and submit to the Bank, and promptly in a separate report whenever the Bank may require, information on the status of compliance with the Safeguards Instruments. Such information shall include: (i) measures taken in furtherance of the Safeguards Instruments; (ii) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Safeguards Instruments; and (iii) remedial measures taken or required to be taken to address such conditions;
- b) promptly furnish to the Bank a copy of each quarterly progress report prepared and submitted by any entity (including any engineer) supervising the Project's civil works, the Project's contractors and/or subcontractors; and
- c) promptly upon receipt, the Borrower shall furnish to the Bank any notification received from any entity (including any engineer) supervising the Project's civil works, the Project's contractors and/or subcontractors regarding any incident that have might occurred during Project implementation.

5. The Borrower shall maintain, throughout Project implementation, and publicize the availability of a grievance redress mechanism, in form and substance satisfactory to the Bank, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Bank.

Section II. Project Monitoring, Reporting and Evaluation

The Borrower shall furnish to the Bank each Project Report not later than one month after the end of each calendar year, covering the calendar year.

Section III. Withdrawal of Loan Proceeds

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee and (ii) each Interest Rate Cap or Interest Rate Collar premium; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Loan Allocated (expressed in EURO)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, Training, consulting services and Operating Costs under the Project (except for Grants)	9,213,250	100%
(2) Grants	19,415,000	100%
(3) Front-end Fee	71,750	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 4.05 (c) of the General Conditions
TOTAL AMOUNT	28,700,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
 - (a) for payments made prior to the Signature Date; or
 - (b) under Category (2) unless the Grants Operational Manual has been adopted by the Borrower, through MLSP, in accordance with Section I.B.1 of this Schedule and acceptable to the Bank.
2. The Closing Date is June 30, 2024.

SCHEDULE 3

Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”).

Level Principal Repayments

Principal Payment Date	Installment Share
On each May 15 and November 15 Beginning November 15, 2023 through May 15, 2033	5%

APPENDIX

Section I. Definitions

1. “Affected Person” means a person or entity who, on account of the execution of the Project and/or Subprojects, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and, “Affected Persons”, means more than one such Affected Person.
2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
3. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
4. “CBMIS” means the Borrower’s Cash Benefit Management Information System.
5. “CSW” means Center for Social Work, the Borrower’s decentralized unit within MLSP in charge of administering social and child protection benefits and services, or any successor thereto acceptable to the Bank.
6. “Denars” means the Borrower’s lawful currency.
7. “ECEC” means early childhood education and care.
8. “Environmental and Social Management Framework” or “ESMF” means the instrument, prepared by the Borrower, satisfactory to the Bank, and disclosed on the Bank’s website on May 16, 2018 setting out the principles, rules, guidelines, and procedures to screen and assess the environmental and social impacts (including health and safety issues) of the Project (including Subprojects activities which will be identified and appraised during Project implementation) and containing measures and plans to avoid, minimize, mitigate and/or offset adverse impacts and/or reduce said adverse impacts to acceptable levels, and enhance positive impacts, provisions for estimating and budgeting the costs of such measures, and information on the agency or agencies responsible for addressing project impacts, as said instrument may be amended from time to time with the Bank’s prior written agreement.
9. “Environmental and Social Management Plan” or “ESMP” means the instrument prepared by the Borrower as required by the ESMF and satisfactory to the Bank, which details: (a) the measures to be taken during the implementation and operation of the Project to avoid, minimize, mitigate or offset adverse environmental and social impacts (including health and safety issues), or to reduce them to acceptable levels; and (b) the



actions needed to implement these measures, as said instrument may be amended from time to time with the Bank's prior written agreement.

10. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for IBRD Financing, Investment Project Financing", dated July 14, 2017.
11. "Grants" means collectively Infrastructure Grants and Social Services Grants and "Grant" means any such Grant.
12. "Grants Approval Committee" means the committee referred to in Section I.A.3 or 4, as applicable.
13. "Grants Operational Manual" means the manual to be adopted by the Borrower in a manner satisfactory to the Bank, through MLSP, in accordance with Section I.B.1 of Schedule 2 to this Agreement, as such manual may be amended from time to time with the prior written approval of the Bank.
14. "Infrastructure Grant" means a grant made or to be made by the Borrower, through the MLSP, to a Selected Municipality out of the proceeds of the Loan for the carrying out of an Infrastructure Subproject under Part 2(a)(i) of the Project.
15. "Infrastructure Subproject" means a specific activity to be financed under Part 2(a)(i) of the Project which is identified and appraised during the implementation of the Project, selected in accordance with the provisions of this Agreement and the Grants Operational Manual, and proposed to be financed with the proceeds of the Loan.
16. "Involuntary Resettlement" means the impact of an involuntary taking of land, which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently.
17. "Law on Social Protection" means the Borrower's law on social protection published in the Official Gazette No. 148/2013 dated October 29, 2013 as amended to present date.
18. "LIRIKUS" means *Lica Izlozeni na Rizik i Korinici na Uslugi*, the Borrower's information system for social services.
19. "MLSP" means the Borrower's Ministry of Labor and Social Policy, and any successor thereto.
20. "Operating Costs" means the incremental expenses incurred by the Project Management Unit, on account of Project implementation, which would not exist absent the Project, and includes the costs for office rent, operation and maintenance of vehicles, office equipment and supplies, communication costs, support for information systems, translations, bank charges, travel and *per diem* costs related to the Project, office administration costs, and

other reasonable expenditures directly associated with the carrying out of the Project, as agreed by the Bank; and based on an annual budget acceptable to the Bank.

21. "PMU" means the project management unit established within MLSP.
22. "Procurement Regulations" means, for purposes of paragraph 85 of the Appendix to the General Conditions, the "World Bank Procurement Regulations for IPF Borrowers", dated July 2016, revised November 2017.
23. "Project Operational Manual" means the Borrower's manual, satisfactory to the Bank, referred to in Section C.1 of Schedule 2 to this Agreement, as such manual may be amended from time to time with the prior written approval of the Bank.
24. "Resettlement Action Plan" or "RAP" means the instrument adopted by the Borrower as required by the RPF, satisfactory to the Bank, and disclosed on the Bank's website, which includes the principles, procedures, organizational arrangements and budget to implement the resettlement related activities under the Project, or under Parts of the Project including under Subprojects, as said resettlement action plan may be revised from time to time with the prior written agreement of the Bank; and "RAPs" means, collectively, all such RAPs.
25. "Resettlement Policy Framework" or "RPF" means the instrument prepared and adopted by the Borrower, satisfactory to the Bank, and disclosed on the Bank's website on May 14, 2018 which sets out the resettlement principles, organizational arrangements (including consultation and budget), and design criteria to be applied to resettlement related Project and Subproject activities to be prepared during Project implementation, as such framework may be amended from time to time with the prior written agreement of the Bank.
26. "Safeguards Instruments" means collectively the ESMF, the ESMPs, the RPF and the RAPs and "Safeguard Instrument" means any of such Safeguards Instruments.
27. "Selected Municipality" means a municipality selected to receive a Grant from the Borrower.
28. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to "the date of the Loan Agreement" in the General Conditions.
29. "Social Services Grant" means a grant made or to be made by the Borrower, through the MLSP, to a Selected Municipality out of the proceeds of the Loan for the carrying out of a Social Services Subproject under Part 1(b) of the Project.
30. "Social Services Subproject" means a specific activity to be financed under Part 1(b)(i) of the Project which is identified and appraised during the implementation of the Project, selected in accordance with the provisions of this Agreement and the Grants Operational Manual, and proposed to be financed with the proceeds of the Loan.



31. “Subprojects” means collectively Infrastructure Subprojects and Social Services Subprojects; and “Subproject” means any of such Subprojects.
32. “Training” means Project related study tours, training courses, seminars, workshops and other training activities not included under goods or service providers’ contracts, including training materials, space and equipment rental, travel, accommodation and *per diem* costs of trainees and trainers, trainers’ fees, and other training related miscellaneous inputs, as approved by the Bank.
33. “Vulnerable Group” means adults and children (0 to 6 years of age, particularly from disadvantaged backgrounds) who are social welfare beneficiaries or entitled to social services according to the Law on Social Protection and relevant regulations, including the Roma population.

