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Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 14-Nov-2023 | Report No: PIDISDSA36795

**BASIC INFORMATION****A. Basic Project Data**

Country North Macedonia	Project ID P181422	Project Name Road Upgrading and Development Project	Parent Project ID (if any) P149955
Parent Project Name Road Upgrading and Development Project	Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 04-Dec-2023	Estimated Board Date 16-Jan-2024
Practice Area (Lead) Transport	Financing Instrument Investment Project Financing	Borrower(s) Public Enterprise for State Roads	Implementing Agency Public Enterprise for State Roads

Proposed Development Objective(s) Parent

The Project Development Objectives are to improve transport connectivity for road users along Corridor VIII between Skopje and DeveBair, and to improve the asset management and planning functions of Public Enterprise for State Roads.

Components

Construction along Corridor VIII: Rankovce - Kriva Palanka
Institutional and Project Implementation Support

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	34.00
Total Financing	34.00
of which IBRD/IDA	34.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	34.00
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Environmental Assessment Category

A-Full Assessment

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

Since independence, the Republic of North Macedonia has made tangible progress in terms of social, economic, and institutional development. Income per capita doubled, and the economy moved from lower middle-income to upper middle-income status. Thanks to its strategic location at the heart of the Western Balkans, a relatively cheap labor force, and generous tax credits, the Republic of North Macedonia has attracted considerable foreign direct investments, as evidenced by the more than doubling of the trade openness indicator in the past two decades (from 70 percent in 2003 to 170 percent in 2022)¹, currently the highest in the region. On the social side, living standards have improved, and extreme poverty and inequality have decreased, owing to the implementation of important social protection reforms, which have endowed the country with functioning systems to protect the most vulnerable, especially during recent crises.

Recent geopolitical fragmentation could potentially reverse the gains in per-capita income and poverty reduction that have been precipitated by trade deepening in recent years. Integration of trade, finance, and technological know-how have fostered an unprecedented income convergence in North Macedonia and narrowed the gap in living standards with the countries of the EU. However, the ongoing geopolitical fragmentation, exacerbated by Russia's invasion of Ukraine may trigger cross-border capital outflows, technological decoupling, sustained rise in prices, and erode overall allocative efficiency gains that can disproportionately affect the growth of economies that rely on trade and external financing, such as that of North Macedonia. At the same time, the reconfiguration of supply chains in the form of nearshoring given the geographical and cultural proximity of North Macedonia to EU countries provides an alternative path and can strengthen the resilience of growth going forward.

Anti-crisis measures have stretched public finances. General government deficit (with the Public Enterprise for State Roads finances included) increased to 8.6 percent of GDP and public and publicly guaranteed debt increased to 59.7 percent of GDP in 2020. Strong revenue performance helped to reduce the deficit in 2021 and 2022, which however will remain at around 5 percent of GDP on average in 2021-23 as a result of spending pressures to mitigate the costs of the energy crisis and advanced payments for the Corridors VIII and Xd highway construction project. Public and publicly guaranteed debt stayed roughly the same by mid-2023 while government arrears reached 3.2 percent of GDP. The country has been accessing the external capital market regularly but the five-fold increase in the cost of financing (with interest rates well above 6 percent) has shifted

¹ https://www.theglobaleconomy.com/rankings/trade_openness/



the focus to international finance institutions.

North Macedonia is highly vulnerable to climate change. The country is exposed to increasing intensity and frequency to both onset hazards (such as increases in temperature and changes in rainfall) and sudden hazards (such as more extreme weather events), placing high risk of urban and river flooding, landslides, and wildfires, in a context of water scarcity and overall geological vulnerability.² Disaster events recorded over the past two decades led to more than US\$409 million in direct damage, excluding the loss of human lives. The Systematic Country Diagnostic (SCD) notes that average annual damage to critical infrastructure from climate-related hazards could quintuple by 2080, with a major flood or other natural disaster potentially derailing economic growth, damaging agricultural incomes, and destroying critical infrastructure. The implementation of climate-change adaptation measures needs to be accelerated, including the implementation of a more robust national adaptation planning frameworks and the modernization of the existing infrastructure to make it more climate-resilient. Inadequate and poorly maintained road and rail networks continue to hinder economic development and slow regional economic integration.

Inadequate modernization and poor maintenance of the road, rail, energy, and digital networks, as well as increased vulnerability to natural disasters and extreme weather hinder economic development and slow regional economic integration. At least one-fifth of firms regard the quality of transportation and digital infrastructure as subpar, with logistics and connectivity problems contributing to high trade costs. The implementation of climate adaptation and decarbonization measures, as well as mitigation efforts made in the EU will be crucial to enhance North Macedonia's trade and competitiveness levels, as well as the influx of foreign direct investment (FDI).

Sectoral and Institutional Context

North Macedonia is crisscrossed by two main international corridors critically important for its connectivity and trade. Corridor X, over 1,500 km long (of which 176 km are in the country) runs north-south and connects the country to the Port of Thessaloniki in Greece in the south and to Austria and Hungary in the north, and Corridor VIII which is 660 km long (304 km in the country), runs east-west and connects the country to the seaports in Albania and Bulgaria. The 2013 European Union (EU) guidelines for the development of the trans-European transport network (TEN-T) confirmed that Corridors VIII and X continue to be considered an extension of the comprehensive network providing linkages to the neighboring countries and better integrating Europe. As a result, these corridors have received a significant share of the country's effort and financing in the past.

The development of the two main international corridors is however unbalanced. On Corridor X, the completion of the construction works in 2019 on the Demir Kapija-Smokvica section (started in 2013 with EBRD, EIB and EU grant assistance) has resulted in a full Corridor X motorway. Corridor VIII is only 46 percent upgraded and needs further upgrading. This big imbalance in the development of these two main corridors in the country and the current reliance on Corridor X are of great economic and strategic concern. The western section of Corridor VIII (to Albania) is currently being expanded to a motorway standard with financial assistance from the Chinese Exim Bank and EBRD and with funds from the state budget. The EU is supporting the rehabilitation of east Corridor VIII sections from the capital Skopje to Rankovce and EBRD is providing financial assistance for the

² Global Facility for Disaster Reduction and Recovery Think Hazard platform: <https://thinkhazard.org/en/report/241-fyr-of-macedonia>



section from Kriva Palanka to Deve Bair (border with Bulgaria), leaving the section from Rankovce to Kriva Palanka as the only single carriageway with a lane for each direction that has not been upgraded. This project is part of the government's phased approach to upgrade the entire corridor by 2028. All these investments in upgrading the infrastructure will need to be underpinned by comprehensive road asset management system and climate resilience considerations embedded in engineering practices.

C. Proposed Development Objective(s)

Original PDO

The Project Development Objectives are to improve transport connectivity for road users along Corridor VIII between Skopje and DeveBair, and to improve the asset management and planning functions of Public Enterprise for State Roads.

Current PDO

The Project Development Objectives are to improve transport connectivity for road users along Corridor VIII between Skopje and DeveBair, and to improve the asset management and planning functions of Public Enterprise for State Roads.

Key Results

The key indicators to measure successful achievement of the Project Development Objective are outlined below.

The indicators related to the connectivity component of the PDO are:

- a) Volume of freight along Corridor VIII (section Rankovce - Kriva Palanka).
- b) Market accessibility index along Corridor VIII (section Rankovce - Kriva Palanka).
- c) Reduction in vehicle operating cost for road users, in Euro per vehicle-km, along the project road section.

The indicator related to improved asset management and planning is:

- a) Bridge maintenance and investment program developed based on Bridge Management System (BMS).

D. Project Description

The project consists of two components:

- **Component I:** Construction of Corridor VIII: Construction of the express road along the eastern section of the Corridor VIII between Rankovce and Kriva Palanka (originally EUR 78 million). The component finances the upgrade of the strategic eastern section of Corridor VIII, connecting North Macedonia to Bulgaria (and therefore to the Black Sea Ports). The works include the construction of 22.8 km of express road and bridges across two lots.
- **Component II:** Establishment of Bridge Management System and Institutional Support (originally EUR 5 million). The component finances (i) Strengthening of the Borrower's institutional capacity to manage and maintain the Guarantor's bridge assets through, inter alia, the creation of a Bridge



Management System (BMS), including the development of a bridge maintenance and investment plan; and (ii) Support to the Borrower's capacity development and Project implementation through, inter alia, (a) the provision of technical assistance to strengthen the technical capacity of the Project Management Team (PMT) and (b) the carrying out of (i) independent technical audits of the civil works carried out under Part I; (ii) a beneficiary satisfaction survey; and (iii) mid-term and impact evaluation surveys.

E. Implementation

Institutional and Implementation Arrangements

The Project is implemented by the Public Enterprise for State Roads (PESR), who is the Borrower. PESR is an experienced entity with teams that have been working on World Bank financed projects for more than two decades. The internal capacity in PESR has been strengthened with technical experts engaged as part of the Project Management Team (PMT) established under the parent project.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

Environmental Safeguards: The project area includes green fields, and hilly and mountainous terrains along the eastern part of Corridor VIII connecting the country with Bulgaria. Component 1 supports a new construction, and in many instances road alignment passes through untouched natural landscapes which are a habitat for various animals. The new road alignment intersects the Osogovo-German Landscape Bio-corridor, a habitat for some large mammals. **Social Safeguards:** The proposed project road is passing through a lightly populated area. All the land acquisition has been completed during the implementation of the parent project. The remaining land transfer would be from the state-owned land to the Public Enterprise for State Roads.

G. Environmental and Social Safeguards Specialists on the Team

Gulana Enar Hajiyeva, Environmental Specialist
Bekim Imeri, Social Specialist



SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	Yes	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	Yes	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The construction of the new road Rankovce - Kriva Palanka can cause environmental and social risks associated with the disturbance to original landscape, surface and ground water, flora and fauna, air quality and to the soils in the project area. The proposed AF does not imply any change in the parent project design and scope, and is only to cover the financial gap. Thus, there is no change in the project EA Category. The Environmental and Social Impact Assessment and Environmental and Social Management Plan (ESIA and ESMP) prepared to identify and address the anticipated adverse impacts of the road construction, remain applicable for the AF. The identified impacts include:

- impacts on the natural landscape and aesthetics;
- impacts associated with the extraction and transportation of road construction materials, and disposal of excess materials. Due to the volume of materials that will need to be extracted and transported, this impact is considered to be one of the major risks by the project. Its significance is mitigated by the fact that the sites identified by ESIA have all been duly licensed and are regularly monitored, and both the licensing procedure and the results of monitoring are found acceptable;
- potential disturbance to the existing drainage systems;
- increased dust and emissions, degradation of air quality;
- impacts related to noise and vibration at selected sensitive sections of the roads in the vicinity of identified



settlements of T'Iminici, Ginovce, and Rankovce;

- disturbance to flora and fauna species in the sensitive area of Osogovo - German Landscape Biocorridor. The risk associated with this aspect is considered to be major, however, proper mitigation is envisaged through providing of passes for wildlife, the introduction of seasonal limitations for construction works to avoid critical disturbances during the nestling and breeding seasons for identified species, and maximum coordination of the design of the road with one of the railways which is planned to go in parallel with the preferred road alignment;
- impacts on forested areas and tree plantations at selected locations. Since the impact on the forested area is not found to be significant and/or causing degradation of the forest ecosystem, it will be mitigated by minimizing the areas to be cleared and through compensatory planting to be closely monitored by MoEPP and PE "Macedonian Forests". If properly managed, this impact will not present a major risk to local biodiversity and ecosystems;
- impacts related to the generation and disposal of liquid and solid wastes at the construction phase. Taking into account the overall poor waste management practice in the country, this impact could be significant, however, the ESIA has identified the sites that are found to be environmentally acceptable (landfill Zletovo and landfill Probishtip, the nearest sites with low environmental risks assessed by the MoEPP), and also provided detailed and clear guidance for Contractor on the management of all types of wastes expected to be generated;
- impacts related to the storage and disposal of materials;
- the potential impact on surface water (the Kriva River flowing in parallel with the road alignment at a distance of 850 m to 5 km, and Rankovska River to be crossed by the proposed road at one selected location);
- potential impacts on groundwater in the project area;
- impacts on soil which might be caused by spills and leaks of hazardous liquids, as well as soil compaction and erosion which might be caused by poorly managed excavation, use of construction machinery and other construction activities.

All the land acquisitions the planned ones and the unforeseen - the land acquisition for the cut slopes- have been completed during the implementation of the parent project. There will be no additional land acquisition with the AF activities.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

The long term impacts of the future activities in the project area are assessed to be positive as will significantly decrease the risks of traffic accidents and associated risks of potential spills of diesel, fuel and lubricants, and, consequently contamination of soil and water. The project will also provide improved drainage services to the area, which will greatly decrease the risks of seasonal floods currently causing deterioration of the Kriva River water.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Three alternatives have been considered for the parent project. 'No Project' Alternative has been rejected as it represents environmental risks specified in the section above. Among the other two alternatives, the alignment which allows for maximum coordination of the road design with the one of the railway which is located in parallel to the designed road, and provides for greater distance to the Kriva River, has been selected, as it is associated with less significant environmental concerns.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The implementing agency for the project is the Public Enterprise for State Roads (PESR). The PESR has undertaken the Environmental and Social Impact Assessment study and prepared the Environmental and Social Management Plan (ESIA and ESMP), which identified the main environmental and social impacts and determined adequate mitigation measures as well as implementation mechanisms for the implementation of those measures. The PESR has also



established a program to monitor the implementation of the ESMP. A biodiversity expert has been additionally hired to prepare and monitor the implementation of the Biodiversity Management Plan which addresses the potential impacts on the Osogovo-German Bio-corridor.

The parent project and AF is the fourth project implemented with a World Bank loan since 2008; therefore, the borrower is well familiar with the World Bank procedures and requirements. The implementing agency PESR established a department to deal with environmental and social aspects related to roads construction and rehabilitation. Besides the World Bank funded projects, the department also handles the projects supported by EBRD and is familiar with the respective performance standards as well. The staff of the department consists of two environmental specialists handling the social agenda as well. While the parent project and AF is governed by the World Bank Safeguard Policies, the staff of the department has been trained on the ESF ESSs and principles.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

During the preparation of the parent project two rounds of public consultations were conducted: the first one, dated May 14, 2014, was to discuss the Terms of Reference for environmental and social studies required for the project; and the second one, dated May 11, 2015, was to present and discuss the findings of the ESIA and ESMP as well as RPF. The documents in the Macedonian language have been made available to wide public in advance of the meeting. The detailed minutes of both consultation meetings have been duly recorded and enclosed to the ESIA and ESMP. The stakeholders invited to the public consultation meetings included representatives of local communities, local governments, and central and local environmental authorities. The Stakeholders Engagement Plan has also been developed to ensure the proper involvement of all potentially affected people throughout the life of the project. During the implementation of the parent project all the land acquisition was planned and the unforeseen - the cut slopes - was completed. For the upcoming additional finance works there will be no land acquisition.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
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"In country" Disclosure

Resettlement Action Plan/Framework/Policy Process

Date of receipt by the Bank	Date of submission for disclosure
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"In country" Disclosure

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

CONTACT POINT

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Borrower/Client/Recipient

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APPROVAL

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