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Report No: 54055-MK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING  
OF  
SECOND TRADE AND TRANSPORT FACILITATION PROJECT  
LOAN

APRIL 30, 2010

IN THE INITIAL AMOUNT OF  
EURO 15.0 MILLION  
(US\$20.0 MILLION EQUIVALENT)

AND

A RESTRUCTURED AMOUNT OF  
EURO 15.0 MILLION  
(US\$20.0 MILLION EQUIVALENT)

TO THE

MACEDONIA FORMER YUGOSLAV REPUBLIC OF

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## ABBREVIATIONS AND ACRONYMS

ASR	Agency for State Roads
BCP	Border Crossing Point
EU	European Union
IT	Information Technology
MOF	Ministry of Finance
MOTC	Ministry of Transport and Communication
MCA	Macedonian Customs Administration
MZ	Macedonian Railways
MR-I	Public Enterprise Macedonian Railways Infrastructure
MR-T	Macedonian Railways Transport JSC
NCTS	New Computerized Transit System
PP	Project Paper
RAP	Resettlement Action Plan
SEETO	South East Europe Transport Observatory
TAF	Telematics Applications in Freight
TSI	Technical Specifications for Interoperability
TTFSE	Trade and Transport Facilitation in Southeast Europe

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**MACEDONIA FORMER YUGOSLAV REPUBLIC OF**  
**SECOND TRADE AND TRANSPORT FACILITATION PROJECT**

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**INSERT  
DATA SHEET  
HERE**

THE DATA SHEET SHOULD BE INSERTED IN THIS SECTION

MANUALLY IN HARD COPY

BEFORE SENDING A FINAL RP TO THE PRINT SHOP.

**DO NOT INCLUDE THIS INSTRUCTION PAGE IN THE RP SENT TO THE  
PRINT SHOP.**

NOTE: The Data Sheet can be found in the “Data Sheet” tab of the RP section of the Operations Portal. Information in it is updated whenever such information is manually changed in the “Data Sheet” tab at any stage during project restructuring. Prior to sending the final RP to the Print Shop, it is best practice to confirm the information in the data sheet before printing it out and inserting it here.

## **ANNEX 1: Proposed Changes**

- a. What are the proposed changes, as applicable, in the project's development objectives, outcomes, design, and/or scope?

There is no change in the project's development objective. Changes in the project scope are as follows:

1. Reduction of the scope of Component 3, by removing, at the request of the Government, the provision and installation of modern electronic tolling equipment, which will now be funded by the Government outside of the project as part of a larger motorway concession scheme. This requires reallocation of the related EUR 3.5 million. It is expected that the concession scheme will be carried out based on the technical and functional specifications developed under the project. In terms of the Loan Agreement, this change entails deleting Part III (ii) of the project description contained in Schedule 1 to the Loan Agreement. This triggers the following actions:

(i) deletion of key performance indicator (vi) *“significant reduction in leakages of toll revenue collection, facilitated by automated vehicle counts and classifications.”* This will require amending the supplemental letter on performance monitoring indicators and attaching revised indicators.

(ii) deletion of the implementation covenant contained in paragraph 3(b), Section II of Schedule 2 to the Loan Agreement, which requires the Borrower to *“prepare a public information and user consultation strategy for the toll modernization plan.”*

2. Reduction in the scope of Component 4 by removing the procurement of information technology (IT) equipment and procurement of software for data exchange. This is required to accommodate increase in the percentage of expenditures to be financed from the loan from 78% to 100%. This reduction in scope does not require a change in any of the project performance indicators.

3. Revision of the Resettlement Action Plan (RAP) to provide for compensation to be made to all affected people through: (i) for the Agency for State Roads (ASR), a special account into which it will deposit in full the money determined as required to compensate all affected people; and (ii) for the Macedonia Customs Administration (MCA), a dedicated budget line or, where compensation amount determined by the courts, the Treasury as the MCA is a unit of the Ministry of Finance (MOF). The RAP has been revised, ASR opened its special account and the MCA established the dedicated budget line.

4. No change to the existing Project Environmental Category, which remains as “B”, arising from the reallocation to Component 1 to make up for the shortfall for the civil works as well as the need to revise the RAP. This is because the existing Environmental Management Plan stipulates all needed requirements for carrying out all civil works and Component 3 of the initial project document did not include any civil works but only purchase of goods and provision of TA, and these have no environmental impacts.

b. What are the other complementary changes, as applicable:

Institutional arrangements No

If, yes, please explain:

Financing mechanism/Conduit Yes

If, yes, please explain:

The percentage of expenditures to be financed from the loan proceeds is changed from 78 to 100 percent.

Outputs Yes

If, yes, please explain:

The following outputs will not now be produced by the project:

- equipment to modernize the Road Toll Collection System,
- IT equipment to increase the operational level in Macedonian Railways (MZ),
- Software for harmonized rail communication and data collection system,
- Software for MCA data collection for freight transport in railways,
- IT equipment for MCA to improve the data communication and establish reliable system of freight and cargo information sharing between customs and railways,
- TA for specifying the software for harmonized rail communication and data collection system.

Project Costs and financing plan (include summary tables) Yes

If, yes, please explain:

The EUR 3.5 million allocated for the provision and installation of toll equipment is proposed to be reallocated as follows:

- (i) EUR 2.9 million to Component 1, Category 1 - the actual contract amount for the upgrade of the Tabanovce-Kumanovo road section is higher than the initial estimates. As a result, the amount to be financed from the loan is greater than initially allocated. The proposed reallocated amount is to make up the shortfall.
- (ii) EUR 0.5 million to Component 2, Category 2 - according to the latest cost estimates for the construction of the Blace Border Crossing Point (BCP) passenger terminal facilities, the initial estimated total cost of EUR 2.2 million will no longer be sufficient. The proposed reallocation is to cover the additional contribution to the total cost under the Loan.
- (iii) EUR 0.1 million to Component 3, category 1 – this will provide any further technical assistance relating to the toll concession.

At the Government's request, the percentage of expenditures to be financed from the loan is being increased from 78% to 100%. The revised allocation of Loan proceeds by project component is summarized below.

<b>Project Component</b>	<b>Original cost EUR (millions)</b>	<b>Revised cost EUR (millions)</b>
1. Upgrading of Road Corridor X Tabanovce – Kumanovo to Motorway Standard	7.10	11.79
2. Reconstruction of Blace Border Crossing Point	1.40	2.00
3. Modernization of Road Toll Collection System	3.50	0.12
4. Rail Corridor X Telecommunication and Software Improvement	2.60	0.99
5. Project Implementation Support	0.40	0.10
<b>Total Project Costs</b>	<b>15.00</b>	<b>15.00</b>

The categories of eligible expenditures are summarized in the table below.

<b>Category</b>	<b>Original Allocation (EUR)</b>	<b>Allocation After Restructuring (EUR)</b>	<b>Percentage of Expenditures to be financed from the Loan</b>	
			<b>Before</b>	<b>After*</b>
(1) Goods, works, consultants' services, Training and Incremental Operating Costs for Parts I, III (i) and V of the Project	7,350,000	10,350,000	78%	100%
(2) Goods, works and consultants' services for Parts II and IV (iii) of the Project	1,400,000	1,900,000	78%	100%
(3) Goods and consultants' services for Part III (ii) of the Project	3,500,000	0	78%	0%
(4) Goods and consultants' services for Part IV (i) and IV(ii) of the Project	2,750,000	Unchanged	78%	100%
(5) Front-end Fee	0	Unchanged	Unchanged	

\*Of the amount outstanding for payment upon restructuring of the project.

Financial management  
If, yes, please explain:

No

Disbursement arrangements  
If, yes, please explain:

Yes

Two changes are needed: (i) amendment of the disbursement table in paragraph 2 of Section V.A. of schedule 2 to the Loan Agreement to reflect the new allocation; and (ii) deletion of the withdrawal condition set forth in paragraph 1(b) of Section V.B. of Schedule 2 to the Loan Agreement and related to Category (3), requiring preparation of a toll collection system implementation and management plan.

Procurement

No

If, yes, please explain:

Closing date

No

If, yes, please explain:

Implementation schedule

No

If, yes, please explain:



**ANNEX 2:**  
**Appraisal Summary Update**

Do the proposed changes result in significant change of impact (from original Appraisal Summary of the PAD) in the following:

Economic and financial analysis	No
If, yes, please explain:	

Technical	No
If, yes, please explain:	

Social	No
If, yes, please explain:	

Environment	No
If, yes, please explain:	

Exceptions to Bank Policy	No
If, yes, please explain:	

**ANNEX 3:**  
**Updated Critical Risk Framework**

**New Risks Identified During Implementation/Restructuring That Might Jeopardize  
Achievement of the Restructured Project DOs or Outcome Targets:**

Risks	Risk Rating	Risk Mitigation Measures
Contract of 14 months duration for the Blace BCP not completed before project closing date due to delay in issuance of construction permit.	Low	Letter sent to Minister of Transport and Communication and Director of MCA on 8 April 2010 copied to Minister of Finance highlighting the issue and asking for it to be urgently addressed. Continued close follow up by the Bank team.

**ANNEX 4:**  
**Results Framework and Monitoring**

**MACEDONIA FORMER YUGOSLAV REPUBLIC OF: SECOND TRADE AND TRANSPORT FACILITATION PROJECT**  
**Results Framework**

PDO		Project Outcome Indicators		Use of Project Outcome Information	
Current	Proposed	Current	Proposed	Current	Proposed
To facilitate the movement of trade between the Borrower and neighboring countries in South East Europe, through the removal of selected border-zone infrastructure bottlenecks and improving the efficiency and quality of road and rail services along the Trans-European Transport Corridor X on the territory of the Borrower.	No change	1. Percentage of reduction in border crossing time for cars and buses per lane at Blace border crossing point (BCP).	No change	1. The information will be used to benchmark the performance of trade and transport facilitation measures, both at national (border agencies) and regional (RSC, SEETO) level.	No change
		2. Elimination of freight train processing delays additional to scheduled 90 minutes processing time at rail Corridor X border stations.	No change	2. Modernized rail Corridor X telecommunication and information systems will form the basis for further interconnection with regional and EU data systems (NCTS, TAF-TSI).	No change.

Intermediate Outcomes		Intermediate Outcome Indicators		Use of Intermediate Outcome Monitoring	
Current	Proposed	Current	Proposed	Current	Proposed
<b>Component 1:</b> Increased road capacity on Corridor X, Tabanovce-Kumanovo section	No change	Completion of physical works for upgrading of 7.3 km section to motorway standards, reduced queuing of trucks, and improving traffic safety in the Tabanovce border zone by full segregation of directional traffic, vehicle types, as well as local traffic.	No change	The information will be used by MoF, ASR, and Makedonija Pat to monitor implementation progress and to design remedial actions in case of congestion and traffic accidents	No change
<b>Component 2:</b> Fully upgraded passenger border crossing at Blace	No change	(i) Percentage of completed physical works for border crossing restructuring  (ii) Percentage of improved throughput for cars and buses per lane at border crossing Blace (Veh/hr).	No change  No change	The information will be used by MoF, MCA and other agencies to monitor implementation progress and to prepare action plans to improve delays.	No change
<b>Component 3:</b> Modernized road toll collection	Detailed implementation and operational	(i) Detailed implementation and operational plan for	Detailed implementation and operational plan for new toll system	Information will be used by MoF, MOTC, and ASR	No change

system	plan for new toll system	new toll system (ii) Leakage of potential toll revenue collection reduced	Deleted	for appropriate road maintenance, budgeting and programming	
<b>Component 4:</b> Integrated communication and data harmonization solutions applied by MCA and MZ for freight transport corridor X.	No change.	(i) Modern railways telecommunication system connecting with Serbia, Greece, Kosovo, Tabanovce, Skopje, Volkovo and Gevgelija.  (ii) Procedures, protocols, and technology to share relevant data and information agreed upon by Customs and Railways and Interface established	No change  No change	The information will be used by MoF, Customs, Railways and other stakeholders to monitor progress in information sharing and harmonization and to reduce processing delays at rail border crossings	No change