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Report No: 37971-MK

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

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

TO THE

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

FOR A

SECOND TRADE AND TRANSPORT FACILITATION PROJECT

April 16, 2007

Sustainable Development Department
Southeast Europe Country Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 21, 2007

Currency Unit	=	EURO
EURO 0.77	=	US$1
US$1	=	EURO 1.3

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AADT	Average Annual Daily Traffic
APL	Adaptable Program Lending
BCP	Border Crossing Point
CAS	Country Assistance Strategy
CPS	Country Partnership Strategy
CEFTA	Central European Free Trade Agreement
CFAA	Country Financial Accountability Assessment
CMU	Country Management Unit
DG TREN	Energy and Transport Directorate General
EA	Environmental Assessment
EAR	European Agency for Reconstruction
EC	European Commission
ECA	Europe and Central Asia
EDI	Electronic Data Interchange
EIRR	Economic Internal Rate of Return
EMP	Environmental Management Plan
EU	European Union
FB	Fixed Budget
FM	Financial Management
FDI	Foreign Direct Investments
FMR	Financial Management Report
FMS	Financial management Specialist
FNRR	Fund for National and Regional Roads
FRR	Financial Rate of Return
GATT	General Agreement on Tariffs and Trade
GoM	Government of Macedonia
ICB	International Competitive Bidding
IBM	Integrated Border Management
IFR	International Financial Reporting
IT	Information Technology
MCA	Macedonian Customs Administration
MoU	Memorandum of Understanding
MoT	Ministry of Transport

MP	Makedonija Pat
MZ	Macedonian Railways
NBRM	National Bank of the Republic of Macedonia
NCB	National Competitive Bidding
NCTS	New Computerized Transit System
NPV	Net Present Value
PCU	Project Coordination Unit (within FNRR)
PEH	Public Enterprise for Housing
QCBS	Quality and Cost Based Selection
RAP	Resettlement Action Plan
SAO	State Auditor's Office
SEE	Southeast Europe
SEETO	Southeast Europe Transport Observatory
SIL	Specific Investment Loan
TAF	Telematics Applications in Freight
TOR	Terms of Reference
TSI	Technical Specifications for Interoperability
TTFSE I	Trade and Transport Facilitation in Southeast Europe Project
TTFSE II	Second Trade and Transport Facilitation Project
WB	World Bank

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FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

CONTENTS

IBRD No. 35347

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

SECOND TRADE AND TRANSPORT FACILITATION PROJECT

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

ECSSD

Date: April 16, 2007	Team Leader: Paulus A. Guitink
Country Director: Orsalia Kalantzopoulos	Sectors: General transportation sector (100%)
Sector Manager/Director: Motoo Konishi/ Peter Thomson	Themes: Trade facilitation and market access (P);Small and medium enterprise support (S);Other accountability/anti-corruption (S)
Project ID: P091723	Environmental screening category: Partial Assessment
Lending Instrument: Specific Investment Loan	

Project Financing Data

[X] Loan [ ] Credit [ ] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Total Bank financing (US$m.): 20.00
Proposed terms: Variable Spread Loan (VSL) with a 17-year maturity, including a five-year grace period

Financing Plan (US$m)

Source	Local	Foreign	Total
Borrower	2.7	2.3	5.0
International Bank for Reconstruction and Development	11.0	9.0	20.0
Total	13.7	11.3	25.0

Borrower:
Former Yugoslav Republic of Macedonia

Responsible Agency:
Fund for National and Regional Roads
Dame Gruev No. 14
Skopje
Macedonia, former Yugoslav Republic of
1000
Tel: +389 2 3228 454 Fax: +389 2 3220 535
natasav@roads.org.mk

Estimated Disbursements (Bank FY/US$m)									
FY	2007	2008	2009	2010	2011				
Annual	1.00	7.50	8.00	2.50	1.00				
Cumulative	1.00	8.50	16.50	19.00	20.00				

Project implementation period: Start October 15, 2007 End December 31, 2011
Expected effectiveness date: October 14, 2007
Expected closing date: December 31, 2011

Does the project depart from the CAS in content or other significant respects? ***Ref. PAD A.3***	[ ]Yes [X] No
Does the project require any exceptions from Bank policies? ***Ref. PAD D.7***	[ ]Yes [X] No
Have these been approved by Bank management?	[ ]Yes [ ] No
Is approval for any policy exception sought from the Board?	[ ]Yes [ ] No
Does the project include any critical risks rated "substantial" or "high"? ***Ref. PAD C.5***	[X]Yes [ ] No
Does the project meet the Regional criteria for readiness for implementation? ***Ref. PAD D.7***	[X]Yes [ ] No

Project development objective ***Ref. PAD B.2, Technical Annex 3***
Facilitate the movement of trade between the Borrower and neighboring countries in South East Europe, through removal of selected border-zone bottlenecks, and improving the efficiency and quality of road and rail services along Trans-European Transport Corridor X in fYR Macedonia.

Project description *[one-sentence summary of each component]* ***Ref. PAD B.3.a, Technical Annex 4***
The project will include (i) upgrading to motorway standards of the road corridor X section border crossing Tabanovce to Kumanovo; (ii) modernization of the road-passenger border crossing at the Blace border crossing with Kosovo; (iii) modernization of the road toll collection system along main transport corridors; (iv) creating a rail communication system on Corridor X and designing an electronic data interchange (EDI) based solution for freight and freight train management information sharing between customs and railways, and (v) services required to support the successful implementation of the project.

Which safeguard policies are triggered, if any? ***Ref. PAD D.6, Technical Annex 10***
Environmental Assessment (OP/BP/GP 4.01)
Involuntary Resettlement (OP/BP 4.12)
Cultural Resources (OP/BP 4.11)

Significant, non-standard conditions, **if any**, for:
Ref. PAD C.7
Board presentation: May 29, 2007

Loan/credit effectiveness: The Project Operational Manual has been adopted by the Borrower.

A. STRATEGIC CONTEXT AND RATIONALE

1. Country and Sector Issues

1. In the 1990's, political and military conflicts led to the disintegration of Yugoslavia into a number of new states. Some other states in the region (Bulgaria, Romania), had become fully independent from the Soviet bloc only a few years before the break up of Yugoslavia, while others (Slovakia, Moldova), achieved full independence in the 1990's. This resulted in a breakdown of traditional links between economic units located in the South Eastern Europe region. What before had been domestic transactions in the same currency governed by the same laws and procedures became international trade; what before had been largely transactions between countries with close and long-standing cultural and economic ties, was now expanded to include new regional (e.g. European Union) and global markets.

2. Today, most South Eastern European countries seek European Union (EU) membership, and this remains the major goal of fYR Macedonia. On 17 December 2005, the European Council granted candidate status to the country in recognition of its progress in post conflict development and its path to EU integration. The country currently awaits a decision by the EU on a date to begin accession negotiations, and the latest Progress Report of the European Commission notes that fYR Macedonia is well advanced in establishing a functioning market economy, having maintained a broad consensus on the essentials of economic policies. However, sustained efforts will remain critical to enable the country to cope with competitive pressure and market forces within the Union in the medium term.

3. Apart from a further market expansion, Southeast Europe forms an important transit area for the EU and as a result, its transport infrastructure is included in the Pan-European network of transport corridors. The EU has identified Corridor X[1] ("Ten") as one of the five most important European strategic transport routes, and prioritizes investment and development of this corridor so it can be incorporated into the existing trans-European networks among member states. Corridor X begins in Norway, and runs through Finland, Poland, Czech Republic, Slovakia, Austria, Slovenia, Croatia, Serbia, Macedonia, and Greece, with branches to Bulgaria, Turkey/Central Asia and the Middle East.

4. fYR Macedonia is a landlocked country at the crossroads of transport Corridor X, and the less used west-east regional transport Corridor VIII (Durres – Tirana – Skopje – Sofia – Burgas/Varna). The Corridor X section Nis – Skopje – Thessaloniki, provides deep-water access to several SEE countries via the Greek EU port of Thessaloniki. Taking into consideration the rapid traffic growth along Corridor X between the EU and Turkey, it can also provide a good alternative route between Nis and Istanbul for the route via Sofia, relieving congestion at various bottlenecks along this route. In order to preserve and strengthen these functions of the Nis-Skopje-Thessaloniki section, physical and operational conditions (both in road and rail) must be improved. Potential benefits would include a reduction in transport costs (which can be up to 15 percent higher for landlocked countries), and other trade related transaction costs, such as customs and other border agency processing. This would lead to higher reliability and predictability of transport movements, making Foreign Direct Investments (FDI) and transiting

[1] Corridor X = Belgrade - Nis - BCP Tabanovce - Skopje - BCP Bogorodica - Thesaloniki and branch Xd = Pristina - BCP Blace - Skopje.

more attractive. Substantial positive spin-offs would include provision of logistics, repair, fueling, and other services.

5. To ensure sustainability of main transport corridor infrastructure maintenance and investments, the law on Public Roads stipulates three sources of financing: (i) a portion of the excise tax on oil derivates; (ii) supplemental charges on vehicle registration fees; (iii) charges for the use of motorways; and (iv) road tax on foreign buses and trucks. The Borrower is currently charging motorway usage through an open toll system on Corridors X and VIII. The system has been in use since 1987, and modernization of the system is one of the Government's highest priorities, to reduce leakages in revenue collection, and reduce waiting times and queuing at toll stations. The Government sees the toll collection system modernization as a first step in the medium-term process of road infrastructure management reform, which will focus on restructuring of the Fund for National and Regional Roads (FNRR) and Makedonija Pat (MP), the agency responsible for the maintenance of roads. Main benefits will be the reduction in toll collection 'leakages', as well as improved revenue collection by electronically linking toll collection, vehicle counting, and vehicle classification, and thus reducing opportunities for fraud, corruption, and toll evasion. Recent surveys estimate annual toll collection 'leakages' between 30 percent and 65 percent of potential revenue, amounting to an estimated Euro 7 million annually.

6. Regarding the EU **transport *acquis***, which requires a commitment to strengthen and further develop trans-European networks, including road transport, inland waterways transport and rail transport, the country is making limited progress. The majority of transport legislation is not in line with the *acquis*, and when it is, rules are rarely applied. Particular efforts are suggested[2] that are related to issues on market access, technical rules, fiscal provisions in road transport, and alignment of railways with the railway packages. The overall capacity of the administrative structures involved in the transport sector is low and requires significant strengthening.

7. **Customs legislation** is assessed[3] to be considerably in line with the EU *acquis*, with further study necessary in the areas of transit, simplified procedures, and tariff quotas. The new Customs Code[4], which came into force in January 2006, represents a further alignment of the customs procedures with EU standards[5]. Customs efficiency has been strengthened through the implementation of selectivity and risk analysis, together with post-clearance controls. However, the European Commission has concluded that full implementation of these methods has not been achieved and still requires further strengthening. Improvements in information technology still need to be intensified, to allow full interconnectivity with the EU's computerized systems.

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[2] See Analytical Report for the Opinion on the application from the former Yugoslav Republic of Macedonia for EU membership, COM (2005) 562, 9 November 2005 (page 83)

[3] See Analytical Report for the Opinion on the application from the former Yugoslav Republic of Macedonia for EU membership, COM (2005) 562, 9 November 2005 (page 127)

[4] Adopted in May 2005.

[5] See Analytical Report for the Opinion on the application from the former Yugoslav Republic of Macedonia for EU membership, COM (2005) 562, 9 November 2005 (page 128)

8. With regard to trade issues, the Borrower has continuously liberalized its trade regimes and integrated into the world economy[6], particularly following its accession to the WTO in April 2003. The country is a member of the Central European Free Trade Agreement[7] (CEFTA 2006), which beginning from May 1, 2007 will include all countries in the Western Balkans, and Moldova, and consequently will replace current bilateral free trade agreements between the SEE countries. In addition to signing the Stabilization and Association Agreement[8] with the EU, Macedonia also signed an Interim Agreement on Trade and Trade-Related Matters[9], which allows gradual liberalization of trade in industrial and agricultural products with the EU.

9. Exports have been increasing since 2002 and in 2005 and have shown a record rise of 22 percent compared to the previous year. Despite these positive trends and improved access of the country's products to European markets, there is still a significant need to improve the competitiveness of the national economy in these markets. High transaction costs and the uncertainties of uninterrupted trade have significantly constrained further economic development. While EU accession will improve greatly the access to local products to the European markets, the EC still recommends a further enhancing of competitiveness to increase access to those markets. The Borrower also faces increasing competition from other exporters, such as China, India and Southeast Asia, which threatens not only its European market share, but also within its domestic market. High transaction costs and the uncertainties of uninterrupted trade have been major constraints on economic development in the SEE region.

10. The proposed Second Macedonia Trade and Transport Facilitation project (TTFSE II) supports the efforts of the Government to improve its border crossing facilities and procedures to make them more efficient. More specifically, the project will support the Ministry of Finance in enhancing working conditions and efficiency of border agencies at Blace border crossing with Kosovo. Under the project, the Ministry of Transport and Communication will address railway border-crossing bottlenecks and take actions to increase the competitiveness of the railway operations. All border-crossing agencies will benefit directly or indirectly from the project through improved interagency cooperation and modernization of procedures to enhance efficiency.

11. Together with all SEE countries, the Borrower now recognizes that solutions to trade and transport facilitation issues based on uncoordinated national approaches are neither capable nor desirable as a means to eliminate non-tariff barriers to trade. Building upon their regional cooperation under the first Trade and Transport Facilitation in Southeast Europe (TTFSE I) program, and in recognition of the proven gains from improved trade and transport systems efficiency, the governments of the SEE countries embarked on several trade and transport related regional initiatives.

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[6] This was confirmed in the 2003 Report on the international liberalization undertaken by the Italian "International Academy for interdisciplinary studies" which ranked the country in40th place, among 141 countries analyzed.

[7] Agreement on Amendment of and Accession to the Central European Free Trade Agreement, Bucharest, 19 December 2006.

[8] Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and the former Yugoslav Republic of Macedonia, of the other part, Brussels, 26 March 2001, (in force since 1 April 2004).

[9] Interim Agreement on trade and trade-related matters between the European Community, of the one part, and the former Yugoslav Republic of Macedonia, of the other part - Annexes – Protocols, *Official Journal L 124 , 04/05/2001 P. 0002 – 0196* (In force since 1 June 2001).

2. Rationale for Bank Involvement

12. The first Trade and Transport Facilitation Project in Southeast Europe (TTFSE I)[10] significantly improved the performance of the Borrower's border agencies, reducing border crossing times, increasing customs efficiency and revenue collection, and supporting customs integrity. This has provided a solid foundation for further Bank involvement in the sector, and the Government has requested the Bank to scale up and expand its activities through a second project.

13. The World Bank has worldwide experience in trade and transport facilitation through its projects in Eastern Europe, Asia, Africa and Latin America, and is in a unique position to support the Government's request. Building on the knowledge acquired during the implementation of TTFSE I, it can continue to enhance the innovative mechanisms and procedures that were developed. The Bank's experience in promoting trade and improving logistics would allow it to assist the Government and the private sector with strategies and investments to strengthen Macedonian producers in the global market.

14. A horizontal Adaptable Program Loan (APL) would have provided more flexibility by allowing a sequential entry of potential TTFSE II countries into the program, while at the same time emphasizing the regional dimension of the program. However, the different states of readiness of Western Balkan countries and the accession of Bulgaria and Romania to the EU on January 1, 2007, would have made determination of scope, value, and the timeframe of participation in a regional APL highly speculative. By taking a corridor approach, selecting components that are relevant from a regional transport and infrastructure development perspective, the project maintains the regional dimension. If additional Western Balkan countries express readiness for joining trade and transport facilitation activities, the proposed project can be restructured to form part of a regional APL program.

15. The proposed project would supplement the aid already provided by the EU for the improvement of border procedures through its Integrated Border Management (IBM) program. However, whereas the IBM program focuses on the border control aspects of passengers, TTFSE II would focus on facilitating trade by enhancing the flow of goods and services. The broader focus on corridors under TTFSE II would emphasize delivery to the market, which extends beyond specific concerns regarding individual routes, modes and border crossings. This would be consistent with the country strategy and regional frameworks, such as the Stability Pact for South Eastern Europe.

3. Higher Level Objectives to which the Project Contributes

16. The new Country Partnership Strategy (March 27, 2007) recognizes that supply of efficient transport and infrastructure is needed to spur growth, increase international trade and improve the business climate more generally. International transport links are crucial for the country, and fYR Macedonia's active participation in the core transport network strengthening between the EU and its neighboring countries is imperative. The proposed TTFSE II project will

[10] Closed on December 31, 2005.

support the development of an efficient and effective transport system, reducing the economic distance to markets. The project will promote electronic inter-agency and cross-border exchange of trade data, and strengthen the functioning of key transport corridors.

17. The proposed activities are oriented towards compliance with EU pre-accession requirements. They also reflect the commitments agreed in the Memorandum of Understanding (MoU) for the development of the core transport network between the European Commission and the Western Balkan countries (Luxemburg, June 2004). In its Progress Report for 2006, the European Commission notes that fYR Macedonia has made reasonable progress in the area of transport networks (Chapter 21), especially through its participation in the Southeast Europe Transport Observatory (SEETO) and the development of its core regional transport network, especially Corridor X.

18. The Borrower's development strategies give a high priority to increasing employment, investments, exports (food, agriculture), and to making local companies more competitive. Taking into account the relatively small internal market, enhancing the Borrower's business environment, will have to include improving the efficiency of international transport and trade processes. This encompasses the streamlining of border crossing procedures, the improvement of inter- and cross-border agency coordination, and the removal of bottlenecks on core infrastructure networks.

19. The EU initiated the 1999 Stability Pact for South Eastern Europe, which stresses the important role of infrastructure and the private sector in improving regional cohesion and stability. The World Bank's regional strategy paper – The Road to Stability and Prosperity in South Eastern Europe (World Bank, 2000) – considered trade integration an important, if not leading, component of the broader longer-term integration of SEE countries into EU structures. More recently, an EC high-level group, chaired by former Commission Vice President, Ms. Loyola de Palacio, recommended in its final report (Networks for Peace and Development, December 7, 2005) that there needed to be better integration of national networks to foster regional cooperation between the EU and its neighbors, as well as between the neighboring countries themselves. TTFSE II fully supports this recommendation. In addition, the project supports the country's compliance with relevant GATT requirements including: transit issues (Article V); import and export related fees and formalities (Article VIII); and transparency of trade regulations (Article X).

B. PROJECT DESCRIPTION

1. Lending Instrument

20. The lending instrument proposed for this project is a Specific Investment Loan (SIL). The Borrower is the Former Yugoslav Republic of Macedonia and the representative of the Borrower is the Ministry of Finance. The Borrower has selected a Euro-denominated Variable Spread Loan (VSL) with a 17-year maturity, including a five-year grace period.

2. Project Development Objective and Key Indicators

21. The development objective of the TTFSE II is to facilitate the movement of trade between the Borrower and neighboring countries in South East Europe, through the removal of selected border-zone bottlenecks, and improving the efficiency and quality of road and rail services along Trans-European Transport corridor X[11] in fYR Macedonia. This corridor forms the backbone of Western Balkans transport infrastructure, connecting Bosnia-Herzegovina, Croatia, fYR Macedonia, Kosovo and Serbia with Western Europe, Greece (deep-sea port of Thessaloniki), Turkey and Central Asia. The Project will: (i) remove selected physical infrastructure bottlenecks on road Corridor X between Tabanovce and Kumanovo; (ii) improve the main border crossing between fYR Macedonia and Kosovo; (iii) enhance the sustainability of road corridor investments by modernizing the toll collection system; (iv) support harmonization of rail freight data requirements between railways and customs, and improve telecommunications infrastructure to facilitate freight information flows and advance train information along rail Corridor X; and (v) support project implementation. Reduction of non-tariff constraints is expected to result in lower transport and trade transaction costs, and consequently, the reduction of the economic distance to markets for exporters/traders. While tariff incidences are reducing in most SEE countries due to trade agreements, transport costs remain high and can exceed 10 percent of the value of goods, especially for landlocked countries or when multiple border crossings are necessary.

22. Key indicators of performance would include: (i) percentage of reduction in border-crossing waiting time for passenger cars and buses at the Blace Border Crossing Point (BCP); (ii) eliminating border-crossing waiting times for freight trains above the scheduled processing time; (iii) completion of physical works for upgrading of the 7.3 km section to motorway standards; (iv) percentage of completed physical works for border crossing restructuring; (v) percentage of improved throughput for cars and buses at border crossing Blace (veh/hr); (vi) significant reduction in leakages of toll revenue collection, facilitated by automated vehicle counts and classification; (vii) procedures, protocols, and technology required to share relevant data and information agreed upon by Customs and Railways and implemented; and (viii) modern railways telecommunication system in place linking Kumanovo, Skopje, Volkovo and Gevgelija.

3. Project Components

Component 1: Upgrading road corridor X section BCP of Tabanovce-Kumanovo to motorway standards (EURO 10.7 million including contingencies)

23. The project will support upgrading to motorway standards of a 7.3 km road section, which forms part of the E-75, better known as European Transport Corridor X. Detailed designs, following German DIN standards[12] for 4-lane motorways, were prepared in 1995 and have been revised and updated in preparation of the proposed project, as requested by the Bank. The component will support construction of a new one-directional carriageway with a width of 11 meters, parallel to the existing road, separated from it by a 4-meter median. The existing parallel

[11] Corridor X = Belgrade - Nis - BCP Tabanovce - Skopje - BCP Bogorodica - Thesaloniki and branch Xd = Pristina - BCP Blace – Skopje.
[12] Deutsches Institut für Normung.

road will be made one-directional, and will be widened from the actual 7.5 meters to 11 meters. The design includes adequate provisions for traffic management in the approach to the Tabanovce border crossing station, eliminating mixed queuing of trucks, buses, and passenger vehicles, as well as mitigating traffic accident risks resulting from queuing vehicles. The investment will include two sub-components: (i) construction of the additional lanes, and (ii) supervision of construction. The upgrading to motorway standards will require acquisition of agricultural land, as detailed in Annex 10, triggering the Bank's safeguard policy on Environmental Assessment (OP/BP/GP 4.01). Some parcels of land will be acquired in full, triggering the Bank policy on Involuntary Resettlement (OP/BP 4.12), although no physical resettlement of people or demolition of permanent structures will occur or be necessary.

Component 2: Upgrading the passenger terminal at the Blace border crossing point with Kosovo (EURO 1.7 million including contingencies)

24. The component will improve the passenger border crossing point Blace to Kosovo. It includes the removal of temporary facilities, replacing them with permanent control, inspection, and administrative structures. In addition, it will enlarge the capacity of the passenger border crossing by increasing the facility from 2x2 to 2x3 lanes, adding a separate bus inspection lane for buses entering Macedonia from Kosovo. The component will be comprised of two sub-components: (i) construction of necessary facilities for the customs, border police and other related agencies at the border, and (ii) supervision of the civil works. The proposed design is based on inputs from beneficiary border agencies provided through a dedicated working group. Main benefits will be improved traffic throughput, resulting in reduced waiting times (especially for intra-regional traffic in morning and evening peak hours), increased security, and improved working conditions for border personnel.

Component 3: Modernizing the Road Toll Collection System (EURO 4.5 million including contingencies)

25. The modernization of the road toll collection system is the highest Government priority.[13] USAID has financed a comparative analysis of toll collection systems in Europe by the Borrower and the component builds on this analysis and the resulting toll modernization proposal which has been prepared by FNRR with technical assistance of USAID specialists. The specialists visited several European countries that have automated toll systems in full operation, based on technical applications similar to the proposed solution which will use existing functional technologies. In addition, FNRR experts coordinate with Serbia, which is piloting an automated tolling system, as well as with Croatia and Slovenia to ensure that the selected technology can be adapted to full interoperability with other tolling systems along Corridor X. Taking into account the characteristics of the actual road infrastructure, the existing 'open' operating system will be maintained but the 13 corridor toll stations will be gradually retrofitted with new equipment that allows for both cash and non-cash (electronic) payments. The electronic vehicle classification system classifies vehicles in one of four categories with an accuracy rate of more than 95 percent. The component will support independent technical assistance to develop the specifications for the equipment that meets the system requirements, as well as preparation of

[13] As of 2006, "leakages" of potential toll revenues was estimated at greater than 40 percent.

the procurement documents for such modern electronic tolling equipment, based on open competition requirements.

Component 4: Support completion of telecommunication system modernization along rail Corridor X and support harmonization of freight data software applications by Railways and Customs (EURO 3.1 million including contingencies)

26. The proposed component has two inter-related subcomponents. One sub-component will support Macedonian Railways (MZ) in the completion of a modernized railway telecommunication system that will allow the use of electronic train management applications along rail corridor X, including the provision of the most essential software modules, as specified in Annex 4. The other sub-component will support the Macedonia Customs Administration (MCA) in the modernization of hardware, system equipment, and software applications that will allow electronic rail freight data processing using data from the selected Railways software application through an interface with the MCA information systems. MCA and MZ freight data sharing will speed up the processing and electronic recording of freight customs declarations, etc. The implementation of component 4 will be coordinated by the Customs-Railways project working group, which was established for the preparation and implementation of the component.

27. The requirements and capabilities of the software solutions have been agreed upon by the inter-agency working group, taking into account, from a Customs perspective, the EU Integrated Border Management requirements, and from a Railways perspective, the EU Directives on Technical Specifications for Interoperability for freight. A consultant will assist in defining the software and interface specifications, and will support the preparation of the bidding documents for the procurement of the selected software.

28. The main benefit of this component will be the more efficient processing of international trade and transport documentation, which will enhance transparency of transactions and reduce duplications and overlaps. The elimination of freight train processing delays, currently ranging between 250 – 420 minutes, and adhering to the scheduled 90 minutes for freight train processing, will reduce rail traffic congestion and increase competitiveness of rail freight transport. In addition, by reducing congestion the Project will enable an increase in rail cargo traffic, which otherwise would be either foregone or directed to more expensive alternative maritime or inland corridors. This transit traffic will generate an economic surplus for the country through increased year-round economic direct and indirect activity.

29. The proposed completion of the fiber-optic spinal Corridor X network would not only provide a modern telecommunications solution to Railways, but would also be used by other border agencies (Customs, Border Police). The network would connect major urban centers, and would be connected to the global network of Southeast European countries. Several other government agencies and private sector entities have shown interest in renting part of this network capacity.

Component 5 : Project implementation support (EURO 0.4 million)

30. This component includes the goods and services required to support the successful implementation of the Project. The component will cover (i) audit services; (ii) project

management, financial management, and procurement; (iii) technical services required for preparation and supervision of Project components; (v) any training necessary for the completion of these tasks; and (vi) incremental operating costs.

4. Lessons Learned and Reflected in the Project Design

31. The first TTFSE project has been successful in reducing non-tariff costs for trade and transport, but also has demonstrated that further reductions can be achieved by taking a more holistic, multi-agency, corridor approach. The following lessons were drawn from TTFSE and similar projects elsewhere.

32. **Corridor Approach.** The main characteristics of international cargo traffic using transnational transport corridors in the Balkan region are long-distance, transiting several countries, with destinations primarily in Western and Central Europe on one side, and Turkey and Greece on the other. To optimize the benefits of trade and transport facilitation, proposed activities must be coordinated at both sides of the border and, ideally, along the full transport corridor. Transport Corridor X, the backbone of the western Balkan transport system, traverses Slovenia, Croatia, Serbia, and Bulgaria/Macedonia before entering Turkey/Greece. While travel time through each of these countries can add up to 3-10 hours, border crossing waiting times frequently double these times. The project builds on achievements toward regional integration, such as the Southeast Europe Transport Observatory (SEETO), and supports regional cooperation in infrastructure improvement, transport interoperability, and trade data harmonization as included in the Memorandum of Understanding on the development of the South East Europe Core Regional Transport Network[14].

33. **Inter-agency Cooperation.** Good cooperation within agencies, between various agencies within the country, and cross-border agency cooperation, is essential for accomplishing the objectives of improving trade and transport flows along main transport corridors. While Customs is the key agency for cargo processing and management of border crossing facilities, many other stakeholders are involved, such as Border Police, Ministry of Transport, phyto-sanitary inspection, etc. These agencies regularly meet within the framework of EU promoted Integrated Border Management as an independent State Commission for border management. In addition, to ensure efficient and effective preparation and implementation of the project, the Government agreed to establish a high level Steering Committee that is chaired by the Deputy Prime Minister for Economic Affairs, and includes representatives of the Ministry of Finance, Ministry of Transport, Macedonian Customs Administration (MCA), Macedonian Railways (MZ), FNRR, and the Public Enterprise for Housing. At the regional level, coordination activities are facilitated through SEETO, and its Working Groups on Trade and Transport Facilitation, the SEETO Working Group on Rail Interoperability, and occasionally, the European Commission's Directorate General for Transport and Energy (DG TREN).

34. **Regional Institutions.** SEETO, which was recently established with EU support under the Luxemburg MoU as the Western Balkans' own transport coordination platform, provides a valuable mechanism for a broad-based dialogue on regional trade and transport priorities and

[14] Memorandum of Understanding on the development of the South East Europe Core Regional Transport Network, Luxembourg, 11 June 2004.

programming. Its Working Group on Railways and Interoperability includes border crossing facilitation activities, and comprises representatives of all Western Balkan countries, the European Commission, the Community of European Railways, and Bulgaria, Romania, Croatia, Slovenia and the World Bank. The harmonization of freight train data-sharing between Customs and Railways (Component 4) benefits from MZ's participation in SEETO's Railways and Interoperability working group, which provides a unique opportunity to align proposed software applications at the regional or corridor level.

5. Alternatives Considered and Reasons for Rejection

35. **Continuation of TTFSE I, focused primarily on modernization of Customs.** The proposed project could have been more narrowly targeted to issues related to customs. This approach would have been simpler, but would have neglected one of the key lessons of the first TTFSE project, i.e. trade facilitation involves various border agencies, which all have a role to play in border crossing processing of passenger, services and freight. Without an integrated approach, physical, administrative and operational border crossing bottlenecks will persist and cause significant delays. Taking into account the EU acquis requirements, the project takes a multi-faceted approach, which involves various agencies.

36. **Adaptable Program Lending (APL) approach.** A regional TTFSE II program, using a horizontal Adaptable Program Lending (APL) facility, was carefully considered and discussed with the responsible Country Management Unit (CMU) and potential TTFSE II countries during the project preparation stage. A horizontal APL would have provided more flexibility by allowing a sequential entry of potential TTFSE II countries into the program, while at the same time emphasizing the regional dimension of the program. However, a horizontal APL approach proved to be unrealistic for the following reasons:

- There was a different state of readiness of individual SEE countries to embark on a regional TTFSE II. Implementation of the first TTFSE was completed in some countries, but continuing in other countries. In addition, a follow-up TTFSE II project was not anticipated in what would have been considered a reasonable amount of time and was not included in the Country Assistance Strategy (CAS) or the Country Partnership Strategy (CPS) for most countries, resulting in programming problems. In such cases, any determination of scope, value, and timeframe of participation in a regional APL would have been highly speculative;
- The status of the EU accession process of some SEE countries (Bulgaria and Romania in particular) put into question the integrity of a Southeast Europe-wide regional approach; such an approach could arguably compromise obligations of accession countries as EU member states, most specifically in the area of external EU border requirements in goods and passenger processing;
- Merging trade facilitation into comprehensive country transport strategies and policy frameworks has proven to be a viable option to optimize the benefits of country specific transport activities (e.g. Croatia Trade and Transport Integration Project). Such benefits may prevail over the benefits of a regional approach as embedded in targeted national activities that do not rely on more lengthy and cumbersome regional commitments and coordination; and

- Macedonia, together with Bulgaria, requested Bank assistance in preparing follow-up TTFSE II projects and further delay to accommodate a regional program design would have frustrated the Bank's responsiveness to client needs.

C. IMPLEMENTATION

1. Institutional and Implementation Arrangements

37. The project will be implemented by a Project Coordination Unit (PCU), which forms part of the Fund for National and Regional Roads (FNRR). The Project Coordinator is the Director of the FNRR, who is also a member of the Project Steering Committee, established to facilitate coordination and cooperation between the various agencies during preparation and implementation of the project. As mentioned above, the Deputy Prime Minister for Economic Affairs chairs the Project Steering Committee, which also includes the Minister of Transport and Communications, the Director General of FNRR, the Director General of the Public Enterprise for Housing (PEH), the Director General of MZ, the Director General of the MCA, and a representative of the Ministry of Finance.

38. Though FNRR will have sole responsibility for coordinating and implementing the Project, two different Government agencies will provide assistance to FNRR in the implementation of different components, such that:

- Upgrading of Road Corridor X will be implemented by FNRR;
- Modernizing the Road Toll Collection System will be implemented by FNRR;
- Upgrading of Passenger Terminal at Blace Border Crossing will be implemented by FNRR with the assistance of MCA;
- Support to the modernization of the telecommunication system along rail Corridor X, and to the harmonization of freight-data software applications will be implemented FNRR with the assistance of MCA and MZ; and
- Project Implementation will be coordinated by FNRR.

39. For components one, three, and five, implementation will be straightforward; the PCU will work directly within FNRR to complete all activities related to these components, (as well as performing their overall project responsibilities). PCU activities will include planning, disbursement, financial management, procurement tasks such as the preparation of bidding documents, terms of references, sign-offs at key junctures in the tendering process, contracting of auditors, monitoring and evaluation, and supervising the implementation of the Environmental Mitigation Plan. Further details on these arrangements are provided in Annex 6, Implementation Arrangements.

40. Components 2 and 4 will require close coordination between the other two agencies and the PCU. In each case, the PCU will consult regularly with the agency and will only initiate activities upon agreement between the PCU and the agency. The PCU will prepare a specific procurement notice (SPN) to notify bidders; the PCU will also be the recipient of incoming expressions of interest. Whereas the PCU will compile the tender package, it will ensure that the respective agency prepares the initial drafts of the bidding documents, including terms of

reference, specifications or other technical documentation for the contract. Furthermore, it will be the agency, which establishes and manages the evaluation committees, which will select consultants. The benefiting agency will provide the bidding package to the PCU, who will ensure that it includes all necessary information, and is in the proper format, etc. It will be the PCU, which handles all official communications with the Bank, including requests for no objection. Detailed procurement procedures consistent with the PAD will form part of the Operations Manual.

41. As a condition of Effectiveness, the Government will prepare the Project Operational Manual, satisfactory to the Bank, describing procedures for implementation of the project, including among others: (i) procedures governing administrative procedures, such as those listed above, (ii) targets to be achieved under the project; and (iii) sample formats for required project reports. The PCU will be staffed by designated staff from FNRR and additional staff to be contracted. As agreed by the Steering Committee, MCA and MZ will appoint component coordinators and provide relevant expertise as deemed necessary. Although management and fiduciary skills exist in FNRR from previous Bank projects, the increased volume of activities will require recruitment of additional staff, as well as the provision of training, in order to strengthen capacity in financial management, procurement, and in monitoring environmental and social aspects of project implementation. Detailed fiduciary procedures consistent with the PAD will be included in the Operations Manual.

2. Monitoring and Evaluation of Outcomes/Results

42. Project monitoring during the course of project implementation and after the project completion will be undertaken by PCU staff, with active participation from the FNRR, MCA and MZ. This will entail regular updating of project monitoring indicators for the duration of the project, as per the agreed indicators in Annex 3, as well as financial, procurement, and other progress reports as specified in the Financing Agreement. While baseline data for most component indicators exist, for other components these will be established during the first year of the project implementation by FNRR. Each Progress Report will cover the period of one calendar quarter and will be furnished to the Bank not later than forty-five days after the end of the period, covered by such report. The progress reports will focus on results rather than providing process related information.

3. Sustainability

43. Reduction of leakages in toll revenue collection will diminish the gap between available corridor maintenance funding and corridor maintenance needs. Improved passenger and services processing at the principal border crossing between Macedonia and Kosovo (Blace) will promote intra-regional cross-border trade, contributing to improving the business environment and economic growth. Improved telecommunication and harmonized freight train and cargo data processing between railways and customs will significantly reduce freight train processing time on corridor X borders, supporting rail freight operators to better address competition from other modes, and increase their share in the freight transport market. The investment in technology, infrastructure, and data processing included in the proposed project will enable beneficiary agencies to cope with trade and traffic growth, technological advance, and meeting EU interoperability standards for toll, customs, and rail freight operations.

4. Critical Risks and Possible Controversial Aspects

Risk	Rating	Risk Mitigation Measure
Insufficient political commitment	N	Government has declared the project a national priority and the Deputy Prime Minister for Economic Affairs is supervising project preparation
Instances of government and/or non-government corruption will threaten aspects of implementation	S	Measures will include close monitoring and supervision of implementation, especially procurement processes, detailed financial management reports (FMRs) and progress reporting, and strict adherence to the new World Bank Guidelines on Corruption
Lack of coordination between beneficiary entities	M	Deputy Prime Minister for Economic Affairs chairs a Steering Committee for project preparation and implementation. A Customs and Railways working group has been set up to define harmonized trade data system requirements. Customs will implement Blace border modernization, anticipating that Government policy will transfer border crossing facilities management from Public Enterprise for Housing to Customs
Social resistance to modernization of toll collection system	S	This risk is expected to be reduced through a well prepared public information campaign, consultation with transport associations and road users, and a phased implementation strategy
Toll system modernization not placed within framework of road sector management reforms	N	FNRR has requested Bank technical assistance for road sector management reforms, including enhanced transparency in accountability and roles of MoT, FNRR, MakedoniaPat and other stakeholders

N = Negligible; M = Moderate; H = High; S = Substantial

5. Loan Conditions and Covenants

A. Effectiveness Conditions

- A Project Operational Manual, satisfactory to the Bank, has been adopted by the Borrower. Describing procedures for implementation of the project, including among others: (i) procedures governing administrative procedures, such as those listed above, (ii) targets to be achieved under the project; and (iii) sample formats for required project reports.

B. Disbursement Conditions

- Preparation of a toll collection system implementation and operational plan, satisfactory to the Bank, is a condition for disbursement under component 3 of the project.

- Preparation of an operational plan for a rail communication system on Corridor X and an EDI based solution for freight and freight train management information sharing between customs and railways, satisfactory to the Bank, is a condition for disbursement under component 3 of the project.

C. Project Covenants

- Following the FNRR recommendations on reforms in road assets management, the Borrower will provide the Bank an opportunity to comment and exchange views on the proposed restructuring of relevant entities, including review of regulatory, administrative, and executive frameworks.
- The Borrower will maintain at all times during the course of project implementation, the Project Steering Committee to oversee project implementation, as well as overall coordination.
- The Borrower shall ensure that the PCU, acting under the Project Coordinator (Director FNRR), and in coordination with the Macedonian Customs Authority coordinator, will perform all technical responsibilities for project implementation, including: (i) preparation of an Annual Plan for Project implementation, (ii) preparation of bidding and contract documents under the Project, (iii) maintenance of Project financial records and accounts, and arranging for the audit thereof, (iv) preparation of the Project Reports referred to in Section II A. of Schedule 2 to the Loan Agreement, and (v) monitoring and evaluation of progress of Project implementation. The PCU shall be maintained until the completion of the project with staff, functions, terms of reference and resources satisfactory to the Bank.
- The Borrower shall ensure that, until completion of the project: (i) the Project Coordinator position is maintained with functions and terms of reference satisfactory to the Bank; and (ii) the MCA project coordinator, and the MZ project coordinator, are maintained with functions and terms of reference satisfactory to the Bank, and that each coordinates with the FNRR PCU with respect of the activities of MCA and MZ, respectively, under the Project.
- By January 1, 2009, the FNRR PCU consultant positions, financed through the project, will be converted into regular FNRR positions to ensure sustainability and strengthening of FNRR capabilities in road sector management.
- The implementing entity will maintain a financial management system acceptable to the Bank. The project financial statements and the Designated Account will be audited by independent auditors acceptable to the Bank with terms of reference acceptable to the Bank. The annual audited project financial statements and audit report will be provided to the Bank within six months of the end of each fiscal year. The Macedonia Railways entity audit will be submitted to the Bank within six months of the end of each fiscal year as already required under Railways Reform project.
- The audits will be conducted in accordance with International Standards on Auditing (ISA) as issued by the IFAC and on terms of reference acceptable to the Bank.
- The Borrower shall take all necessary measures to ensure that the Project is implemented in accordance with the Environmental management Plan and the Resettlement Action Plan.
- The Borrower, through the FNRR, shall, not later than December 31, 2007:
  1. prepare and submit to the Bank for review and comment a draft strategy on road management reform; and

2. prepare a public information and user consultation strategy for the toll-modernization implementation plan.

D. APPRAISAL SUMMARY

1. Economic and Financial Analyses

44. Economic: Cost-Benefit Analysis (see Annex 9)

NPV @ 12% = €131.60 million
EIRR = 144.28 %

45. The project as a whole (i.e. comprising the three components and excluding the Blace passenger terminal) is economically viable and is sufficiently robust. The project is expected to yield €131.60 million NPV and 144.28% EIRR. On the pessimistic case with no traffic growth and simultaneously with an increased 10% investment cost in all three components, the project is robust to withstand this scenario yielding €109.28 million NPV and 130.45% EIRR.

46. The project's three investment components are varied, separable and would require separate component-by-component cost-benefit analyses to be integrated properly into an overall economic evaluation of the project. Benefits that were quantified for the overall project were:

(i) Component 1 (Road-to-motorway upgrading): Savings on vehicle operating costs, travel time savings, traffic accidents costs reduction, and maintenance savings;
(ii) Component 2 (Blace border passenger terminal): Data for benefit evaluation (such as waiting time and passenger throughput) cannot be obtained for this component. No evaluation can be completed;
(iii) Component 3 (Road Toll Collection System): Increased toll collections; and
(iv) Component 4 (Railways-Customs Communication System): Reduction of Value of Time costs and increased trade expansion for freight transport.

47. Net benefit (NPV at 12%) and the internal rate of return (EIRR) on the base case for each component and for the overall project are as follows:

Ranking of components in terms of NPV and EIRR	Component Name	NPV at 12% (Euro millions)	EIRR (%)
1.	Road Toll Collection System	116.82	190.84
2.	Railways-Customs Communication System	16.39	91.30
3.	Road-to-motorway Upgrading	0.16	12.25
	Overall Project (i.e. integrated with the above 3 components)	131.60	144.28

48. The cost-benefit analysis indicates that the integrated project of three components would have a significant economic impact and is sufficiently robust as indicated by the sensitivity analysis from increased costs and simultaneously decreased benefits, and as indicated from switching values. The road-to-motorway upgrading component, on a stand-alone basis, without taking account of potential traffic from Serbia, is not substantially robust: a 1.0% decrease in traffic growth rate from the base case would result in NPV being zero. However, considering the rapid increase in local and regional traffic and the strategic positioning of this component in Trans-European Corridor Corridor X, a lowering of traffic growth rate from base case is not expected.

2. Financial and Fiscal

49. The fiscal impact of the project is expected to be positive. The improved performance of border crossings, of communication and information systems, and from road upgrading to motorway standards should provide the basis for a significant expansion of the official volume of trade, generate additional customs duties, and excise taxes.

50. IBRD will finance all foreign costs and, particularly for the civil works, a small part of local costs in keeping with general World Bank practice in fYR Macedonia. The Government will fund all other local costs, as well as all taxes, customs duties, and land acquisition costs when applicable.

51. Provision of local funds for the project should be acceptable as it represents, on average, about Euro1.5 million equivalent per annum or less than 0.1% percent of the annual state budget (see Annex 5 on Project Costs). Debt servicing responsibilities will be fulfilled by the MOF.

3. Technical

52. The toll system described in Component 3 (Modernizing the Road Toll Collection System) is similar to systems currently in operation in Slovenia and Croatia, while Serbia is also piloting a similar program. (Technical Specifications, to be included in the Bidding Documents currently under preparation, will be reviewed by a toll system specialist.)

53. Similarly, software required for Component 4 (Creating a communication system on rail corridor X and designing an EDI solution that allows for cargo and freight) to harmonize rail freight software will be based on systems in operation, for example the Slovenian Railway's software Mapper U500 or the HACON Railways (Hannover, Germany) RADIS Management system.

4. Fiduciary

54. The FNRR will be solely in charge of implementation of the project through the Project Coordination Unit (PCU), which is established within the FNRR and specifically assigned to implement the project.

55. An assessment of the financial management arrangements for the project was undertaken and finalized in March 2007, at which time it was assessed that the system of internal

controls needs further strengthening; a draft Financial Manual is an integral part of the draft Operations Manual, the completion of which is a condition of Effectiveness.

56. The overall financial management risk for the project is substantial before mitigation measures, and with adequate mitigation measures agreed, the financial management residual risk is rated moderate.

57. The annual audited project financial statements will be provided to the Bank within six months of the end of each fiscal year and at the closing of the project. A Macedonia Railways entity audit will be submitted to the Bank within six months of the end of each fiscal year as already required under the Railways Reform project. There are no overdue audits at this time in this sector in Macedonia

58. The PCU will submit a full set of interim un-audited financial reports (IFRs) consolidated for all components and sources of funding for each calendar quarter throughout the life of the project. Treasury reporting will serve as a primary source of financial information for the project. However, as the FNRR has prior experience of using GRNAROV software for implementation of previous World Bank financed projects, this software will supplement the Treasury reports and will be used to generate quarterly IFRs and annual project financial statements.

59. The latest Country Financial Accountability Assessment (CFAA) confirms that improvement is required in the management of public expenditures, especially for the improvement in internal control for budget users and strengthening of internal and external audits. Policies and procedures instituted by the FNRR mitigate the above risk to a certain extent. However, further mitigating measures shall include the Bank's supervision and the use of a private auditor for the audit of the project accounts. No reliance will be placed on the internal audit nor the external audit conducted by the State Audit Office (SAO).

60. Macedonia has a very highly perceived corruption as measured by Transparency International. Macedonia is ranked as number 105 with a score of 2.7 out of 10 in the 2006 index and with a lower rank than the rest of Southeast Europe, except Albania. The fight against corruption is considered essential and measures are planned in the new government's program for the period 2006 to 2010. Institution building and improvements of standards in the areas of the judiciary, police, health, and customs are targeted as well as strengthening of controls and punishments for those who do not respect laws and regulations. The measures mentioned are also supported by the Bank, for example through its support to the judiciary, as well as through support from EAR and other donors. Even if more transparency is introduced and civil society engaged in this fight as planned by the Government, the level of corruption will remain a huge challenge. The ongoing improvements in the areas of public procurement, internal audit, and strengthening of the role of the State Auditor's Office (SAO) will contribute to the fight against corruption. On the project level, financial management measures to be taken in order to mitigate the risk of corruption include strengthening the system of internal controls for the project described in a Financial Management (FM) Manual. Application of these controls and procedures described in the Manual will be verified during Bank FM supervision. Further measures include use of a private audit firm for auditing the project and regular supervision by the Bank's Financial Management Specialist.

61. The National Bank of the Republic of Macedonia (NBRM), where the Designated Account will be opened, is maintaining the Single Treasury Account and appropriate reporting will be carried out from this system. (See Annex 7 for additional details.)

62. The main instrument governing the conduct of public procurement in Macedonia is the Law on Public Procurement (Official Gazette No. 19/04 issued April 2004 and 109/05 issued December 2005).

63. The law provides a basis for public procurement. Its scope of application encompasses all procurement carried out with public funds for state needs, but excluding procurement in pursuance of international agreements. The Public Procurement Bureau, established under the provision of this Law, with assistance of consultants financed by European Agency for Reconstruction, has also developed bylaws and a set of Sample Bidding Documents. A Country Procurement Assessment Review (CPAR) was carried out in June 2002 by the Bank, and a Country Fiduciary Assessment (CFA) was carried out in February 2007. Although the final report of the CFA is still not ready, the main areas of concern in the procurement environment are recognized as follows: (i) although the legal framework is improved in comparison with the previous Law on Public Procurement, there are still areas for enhancement, such as procedures, reporting, control and audit budget resource management related to public procurement etc, (ii) regulatory functions are still weak, (iii) enforcement regime is weak, (iv) with few exceptions, public sector institutions which conduct procurement are ill-equipped and insufficiently trained.

64. Measured against the above parameters the environment for conducting public procurement in Macedonia was characterized as "a high level of risk".

65. As all the procurement for this project will be carried out following Bank Guidelines and based on Standard Bidding/Proposal Documents of the Bank, such deficiencies are not applicable.

5. Social

66. The project is expected to contribute to economic growth and job creation by reducing the economic distance to regional and global markets through lowering non-tariff trade and transaction costs. The project will also reduce opportunities for fraud and corruption in road toll collection. There is no expectation of any involuntary retrenchment caused by toll equipment modernization, because of phased implementation of the new system and continued cash transactions on selected lanes, albeit these will be linked to electronic vehicle classification and other control devices to reduce opportunities for fraud and corruption. Expansion of the capacity of Blace passenger border crossing will require additional Customs and Border Police staff on duty, possibly providing new employment opportunities.

67. The project will also have an indirect impact on the poor. The reduction in border crossing waiting times for passengers and freight trains will reduce trade and transport costs, and in turn, also the costs of imported goods, leading to benefits for consumers and lower costs of inputs for local manufacturing.

6. Environment

68. As mentioned before, one of the objectives of the proposed project is to speed up the movement of cross-border traffic by removing selected physical infrastructure bottlenecks on Corridor X (mainly by upgrading the section between Tabanovce and Kumanovo) and by modernizing the main border crossing between fYR Macedonia and Kosovo (Corridor Xd). These interventions involve conversion of the existing 7.3 KM stretch between Tabanovce and Kumanovo into a 4-lane motorway, by adding two additional lanes parallel to the existing road (Component 1) and replacing the existing temporary facilities at Blace border crossing point with a permanent and modern inspection, passport control and administrative facilities (Component 2).

69. Considering the proposed types of interventions and findings from the Environmental Assessment (EA) studies carried out by the borrower, which were later confirmed during site visits by Bank staff, potential environmental impacts are likely to be construction-related, reversible in nature, and can easily be minimized or mitigated by adopting relevant design and construction standards. Potential positive environmental impacts include: (i) less traffic congestion at morning and evening peak hours, (ii) reduced traffic accidents because of directional lane separation and construction of new over-and-underpasses, (iii) reduced vehicular emissions because of less idling/waiting at the border crossing, (iv) reduced noise levels because of construction of noise barriers at Tabavnoce village, and (v) improved sanitary conditions for border staff and visitors.

7. Safeguards

70. Considering the potential environmental and social impacts of the proposed interventions, mainly the investment components 1 and 2, the following safeguards policies are triggered: Environmental Assessment (OP/BP 4.01), Physical Cultural Resources (OP/BP 4.11) and Involuntary Resettlement (OP/BP 4.12).

71. **Environmental Safeguards:** As mentioned earlier, potential impacts are not likely to be significant, will be mostly construction related and reversible in nature, which can easily be mitigated or minimized. In view of this, the proposed project is categorized as an environmental category "B" project and FNRR has prepared separate Environmental Assessment reports, including Environmental Management Plans (EMPs), for components 1 and 2, in accordance with OP 4.01 Environmental Assessment. These documents have been approved by the Ministry of Environment and Spatial Planning, Republic of Macedonia, and are satisfactory to the Bank. Further details of potential impacts and proposed EMPs are discussed in Annex 10.

72. In addition to environmental impacts, a small portion of a graveyard currently used by Tabanovce village will be affected by the proposed expansion of the existing road corridor and, as a result, seventeen graves (20-50 years old) have been relocated to a nearby site identified by the local community in accordance with OP/BP 4.11 Physical Cultural Resources. The project will assist the local communities in purchasing a new piece of land, close to the existing graveyard.

73. **Social Safeguard Issues.** Component 1 requires land acquisition for the construction of the additional carriageway, triggering the World Bank policy on Involuntary Resettlement (OP 4.12). A Resettlement Action Plan (RAP), consistent with OP 4.12 has been prepared and agreed upon to ensure that the involuntary taking of land complies with national laws and WB policies. No permanent structures (houses, businesses) need to be removed and no archeological sites or other sensitive areas are affected by the land acquisition. The RAP, available in English and local language, was disclosed and consultations were held with stakeholders and the public, which is properly documented in the project files. The Borrower will pay for compensation costs, estimated to amount to Euro 1.5 million, which is accounted for in the 2007 budget.

74. The World Bank policy on Natural Habitats (OP/BP 4.04) is not being triggered by the proposed project. All affected lands have already been converted at the time of construction of the existing infrastructure facilities, which have been in service for decades.

8. Safeguard Policies

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[X]	[ ]
Natural Habitats (OP/BP 4.04)	[ ]	[X]
Pest Management (OP 4.09)	[ ]	[X]
Cultural Property (OPN 11.03, being revised as OP 4.11)	[X]	[]
Involuntary Resettlement (OP/BP 4.12)	[X]	[]
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	[ ]	[X]
Forests (OP/BP 4.36)	[ ]	[X]
Safety of Dams (OP/BP 4.37)	[ ]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[ ]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[ ]	[X]

9. Policy Exceptions and Readiness

- The Project complies with all applicable Bank policies.
- The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- Procurement documents for the first year's activities are complete and ready for the start of project implementation.
- The draft Operational Manual has been reviewed and was found to be realistic and of satisfactory quality.

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas.*

Annex 1: Country and Sector Background

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

A central objective of the Borrower continues to be EU membership. On 17 December 2005, the European Council granted candidate status to the country, which is awaiting a decision by the EU on when accession negotiations can begin. Now expected in 2007, the Commission continues to monitor progress on political, economic and other reforms in the country, as negotiations are contingent on whether the country has reached a sufficient degree of compliance with membership criteria.

Customs legislation is assessed[15] to be considerably in line with the EU *acquis*, though further progress is necessary in the areas of transit, simplified procedures and tariff quotas. The new Customs Code[16], which came into force in January 2006, represents further alignment of the customs procedures with EU standards[17]. Customs practice has increasingly involved risk analysis and selectivity, together with post-clearance controls. However, the European Commission assessed that full implementation of these methods has still not been achieved. Furthermore, the Macedonian Customs Administration (MCA) requires continued strengthening, which should increase its human resources capacity and improve the effectiveness of its anti-corruption policy. Improvements in information technology still need to be intensified to allow full interconnectivity with the EU's computerized systems.

Regarding the **transport *acquis***, which includes commitments on trans-European networks, road transport, aviation, inland waterways transport and rail transport, the Borrower has made progress in the aviation and railways sector, but is making limited progress in the roads sector. Particular efforts are suggested[18] on issues regarding market access, technical rules, fiscal provisions in road transport, and alignment with railway packages. The overall capacity of all administrative structures involved in the transport sector is low and requires significant strengthening.

The country is located at the crossroads of two Southeast Europe (SEE) Core Regional Transport Corridors[19] connecting the region with the Pan-European Transport Network:

- Corridor VIII (Dures – Tirana - Skopje - Sofia – Varna/Burgas); and
- Corridor X (Belgrade – Skopje – Gevgelija – Thessaloniki) with its branch (Pristina – Skopje).

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[15] See Commission Staff Final Progress report on the former Yugoslav Republic of Macedonia for EU membership, COM (2006) 649 8 November 2006.
[16] Customs Code, Official Journal of the Republic of Macedonia, 39/05.
[17] See Commission Staff Final Progress report on former Yugoslav Republic of Macedonia for EU membership, COM (2006) 649, 8 November 2006.
[18] See Commission Staff Final Progress report on the former Yugoslav Republic of Macedonia for EU membership, COM (2006 649), 8 November 2006.

These sections have been subject to some investment and modernization efforts, but upgrading still needs to be intensified and completed. Limited maintenance during the last two decades has led to deterioration of the existing network.

Corridor X carries the vast majority of trade and transit in the country. On this corridor, the Macedonia-Serbia border (BCP Tabanovce) in 2005 had an average monthly truck traffic (incoming and outgoing) of over 40,000 vehicles, while at the Macedonia-Greece border (BCP Bogorodica) average monthly truck traffic amounted to 25,000 vehicles. A comparison with 2001 shows a growth of almost 150 percent for Tabanovce in total traffic volume.

Despite this rise in traffic and continuous demand[20] for transport opportunities and previous investments, Corridor X suffers from a series of remaining deficiencies which include: (i) several remaining 2-lane sections; (ii) temporary administrative and inspection facilities and inadequate capacity at the passenger border crossing with Kosovo (BCP Blace); and (iii) lack of a modern rail telecommunication system, constraining the development of EDI-based harmonized railways and customs freight train data processing. The lack of an integrated railways-customs freight data processing system leads to duplication of freight data processing of international freight trains, resulting in long delays which have a negative effect on railways' competitiveness with road transport.

Underinvestment in road transport infrastructure and deferred maintenance are also key constraints to reaching the full potential of transport and trade integration of Macedonia with its neighbors and the EU. Institutional reforms are needed to enhance accountability, efficiency and effectiveness of the road infrastructure investment and maintenance program, but must go hand-in-hand with more transparent budgeting of various activities. The road user charging toll system is outdated and fails to collect revenues that would be expected given the amount of traffic. The system is human-factor dependent and operates on a cash-only basis, without built-in automated verification mechanisms, which therefore makes not only time-inefficient but also susceptible to fraud and corruption. Recent studies estimate toll 'leakages' to amount to 40-60 percent of potential toll revenues.

With regard to trade issues, Macedonia has continuously liberalized its trade regimes and integrated into the world economy[21], particularly following its accession to the WTO in April 2003. The country has free trade agreements with all countries in the SEE region, including Kosovo. The country is a full member of the recently amended and expanded Central European Free Trade Agreement (CEFTA), which incorporates all previous bilateral FTAs of signatory countries. With the signing of the Stabilization and Association Agreement[22] with the EU, the country also signed an Interim Agreement on Trade and Trade-Related Matters[23], which allows gradual liberalization of trade in industrial and agricultural products with the EU.

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[20] The REBIS study (COWI, 2003) estimated that road traffic will increase by 200-300 percent over the period 2001-2025; similarly, the TIR study (Louis Berger, 2002) estimated that road traffic would increase by between 168-260percent over the period 2000-2015.

[21] This was confirmed in the 2003 Report on the international liberalization undertaken by the Italian "International Academy for interdisciplinary studies" which ranked the country in40th place, among 141 countries analyzed.

[22] Signed 2001 (in force since 1 April 2004).

[23] (in force since 1 June 2001).

Despite these positive tendencies and the fact that EU accession will improve greatly the access of Macedonian products to the European markets, there is still a significant need to improve the competitiveness of the national economy in those markets. The country faces increasing competition from other exporters, such as China, India and Southeast Asia, not only for market share in European markets but also within its own domestic market. High transaction costs and the uncertainties of uninterrupted trade flows have been major constraints on economic development of the SEE region.

The proposed Trade and Transport Facilitation in Southeast Europe II project (TTFSE II) supports the efforts of the Government to improve its border crossing facilities to make border-crossing procedures more efficient. More specifically, the Ministry of Finance aims at enhancing the efficiency of customs control and discipline to fight the grey economy. The Ministry of Transport and Communication will address some of the railway border-crossing bottlenecks and take actions to increase the competitiveness of the railway operations. All border-crossing agencies will be able to benefit directly or indirectly from the project in improving their interagency cooperation and efficiency.

Non-tariff import, export, and transit requirements, together with their associated compliance costs, continue to be a serious burden to the business community as well as a barrier to the development of intra-regional and international trade. Businesses involved in cross-border trade must submit large volumes of information and documents to several agencies, each with their own specific (manual or automated) systems and paper forms. At the same time, inadequate border-crossing control and inspection facilities, as well as poor traffic management in border zones, augment the already long waiting times caused by outdated document processing.

Together with all SEE countries, the Borrower now recognizes that solutions to trade and transport facilitation issues based on isolated national approaches are neither capable nor desirable as a means to eliminate non-tariff barriers to trade. Building upon their experience of cooperation under the first Trade and Transport Facilitation in Southeast Europe (TTFSE I) program, and in recognition of potential gains from improved trade and transport systems efficiency, the governments of the SEE countries embarked on several regional initiatives:

- Memorandum of Understanding on Trade and Transport Facilitation in Southeast Europe, which committed the participants to join the Regional Steering Committee of the TTFSE and to collaborate on the resolution of common problems constraining trade in the region, as well as to provide the basis for discussing best practices for the resolution of common trade and transport facilitation problems (Skopje, February 10, 2000);Core Regional Transport Network MoU between Albania, Bosnia and Herzegovina, Croatia, fYR Macedonia, Serbia and Montenegro, and the European Commission, which confirmed the desire to promote the regional and international transport of goods and passengers in SEE through development of a core regional transport network (Luxemburg, June 2004). The MoU committed the signatories to cooperate on the development of the main and ancillary infrastructure on the multimodal South East Europe Corridor Transport Network Within the framework of the core transport network, the MoU reconfirms the importance of cooperation in harmonization

of customs and border procedures and the commitment to carry out institutional reforms needed for efficient transport management in the region;

- High Level Meeting of TTFSE countries Albania, Bosnia and Herzegovina, Bulgaria, Croatia, fYR Macedonia, Romania, Serbia and Montenegro, and Moldova which reconfirmed the validity of a regional approach at this WB supported meeting (Zagreb, June 17, 2005);
- Regional Steering Group established and supported by the Southeast Europe Transport Observatory (SEETO) with a mandate to develop further primary SEE transport corridors taking into account the flow of goods. The Steering Committee members are senior civil servants, with the authority to represent their administrations and provide the continuity of commitment which may not be available from a political minister; and
- South East European Cooperation Process (SEECP), a non-institutionalized regional cooperation structure, was established in 1996 and includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, fYR Macedonia, Romania, Serbia and Montenegro, and Turkey. The SEECP provides a forum for political dialog and consultations, and is an important instrument for promoting the interest of the Participating States regarding the accession to the European and Euro-Atlantic political and economic structures.

The results of the recently closed TTFSE I project, which improved performance of the border agencies in terms of customs clearance times, made a significant reduction in border crossing times, increased customs efficiency and revenue collection and enhanced customs integrity, has provided a solid foundation for further Bank involvement in the sector. The Bank has worldwide experience in trade and transport facilitation through its projects in Eastern Europe, Asia, Africa and Latin America, and it is well positioned to provide assistance, both in technical areas and investment. Government representatives have expressed strong support for the first project's achievements and have requested that its activities be scaled up and extended in terms of transport modes and issues tackled. In June 2004 the necessity for and commitment to co-operate on the development of the main and ancillary infrastructure on the multimodal South East Europe Corridor Transport Network was confirmed with the signing of a MoU between the Ministries of Transport in the Balkan Region[24]. Within the framework of the core transport network development the MoU reconfirms the importance of co-operation in harmonization of customs and border procedures and commitment to carry out institutional reforms needed for efficient transport management in the region.

The TTFSE II is consistent with the country strategy and regional frameworks, such as the Stability Pact for South Eastern Europe. Over the past four years, the EU accession requirements have become a major motivator for change and all proposed strategies and policies have been a direct result of the *acquis* and are strongly supported by the EU.

The proposed TTFSE II project will supplement the aid provided by the EU for the improvement of border procedures through its Integrated Border Management (IBM) program. However, whereas the IBM program focuses on the border control aspects of passengers, TTFSE II would

[24] Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network, signed on June 11, 2004, in Luxembourg, by Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, and the European Commission.

focus on facilitating trade by enhancing the flow of goods and services. It would support the implementation of the EU requirements and would benefit from a recent EU-funded feasibility study for improvements of the border-crossing infrastructure and the equipment needed for strategic checkpoints on major transport corridors. The World Bank's wide experience in promoting trade and improving logistics would allow it to assist the Borrower and the private sector on strategies, procedures and investments to strengthen the country's producers in the global market. The broader focus of the TTFSE II on corridors would emphasize delivery to the market that extends beyond specific concerns with regard to individual routes, modes and border crossings.

The Bank, along with the EU and other financial partners, is in a unique position to provide support to further trade and transport facilitation programs because: (i) it can build on the innovative mechanisms, successes and ownership gained under TTFSE I, applying best practices and lessons learned; and (ii) it can complement the on-going sector assistance from the EU, using its worldwide experience in trade and transport facilitation; and (iii) in close collaboration with the European Commission the Bank can promote coherence in the support activities and coordinate its activities with other donors.

Annex 2: Major Related Projects Financed by the Bank and/or Other Agencies

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
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Related Projects Financed by the Bank. This will be the fifth project financed by the Bank since the country joined the Bank in 1995. The other projects in the Transport sector are:

- ***Transit Facilitation Project:*** approved April 1995, effective in June 1995 and closed in June 1999, in the amount of US$24.0 million equivalent. The main objectives were to: (i) address the crisis in the country caused by the closure of the Serbian and Greek borders through the facilitation of the East-West transit, to reduce transit costs; and, (ii) strengthen the road management capabilities of FNRR, the Ministry of Transport and Communications, and the Ministry of Urban Development, Civil Engineering and Environment, mostly in the areas of planning and pavement management. The ICR rated the project as highly satisfactory.
- ***Transport Sector Project:*** approved February 1999, effective July 1999, closed in September 2004, in the amount of €27 million (US$32.0 million equivalent). The main objective was to improve the efficiency of the road and railway systems. The railways component was instrumental in shaping the dialogue with the Government, leading to the restructuring process that is supported by the ongoing Railways Reform Project. The ICR rated the project satisfactory.

- ***Trade and Transport Facilitation in SEE:*** approved July 2000, effective in February 2001, closing date December 2005, total amount of SDR 7.0 million. This project forms part of a regional program for Trade and Transport Facilitation in Southeast Europe that aims to strengthen and modernize the customs administrations and other border control agencies in fYR Macedonia, Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FR Yugoslavia, Romania and Moldova. The Program, the result of a collaborative effort between the Government, IDA, the EU and the US, seeks two development objectives: (i) to reduce non-tariff costs to trade and transport; and (ii) to prevent smuggling and corruption at border crossings. The ICR rated the project satisfactory.

- ***Railways Reform Project:*** approved February 10, 2006, expected closing date is October 2009 in the total amount of €15 million. The Project development objective is to improve the financial viability, productivity, and effectiveness of railway operations through labor rationalization, separation of infrastructure from operations, increasing accountability for performance of the separated entities, introducing competition in rail operations, and restructuring and rationalization of passenger services.

Related Projects Financed by the Other International Agencies

- ***EBRD*** is financing two projects in the transport sector: (i) upgrading of the motorway section Gevgelija – Smokvica, a section of Corridor X, in the amount of €10 million, and (ii) construction of one half of the Skopje by-pass, at the intersection of Corridors VIII and X, in the amount of €30 million.

- ***EIB*** is financing two projects in the transport sector: (i) upgrading of the motorway section Negotino – Demir Kapija, a section of Corridor X, and (ii) construction of the second half of the Skopje by-pass, at the intersection of Corridors VIII and X, in the total amount of €60 million.

- ***NAMSA (NATO)*** is financing the renovation of 60 bridges on road Corridor X that were damaged by the heavy NATO vehicles during the Kosovo crisis. This NATO investment of Euro 35 million will support Macedonia's development to the standards of the EU and NATO by improving the road condition on Corridor X.

Annex 3: Results Framework and Monitoring

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

Results Framework

Performance Monitoring Indicators

PDO	Project Outcome Indicators	Use of Project Outcome Information
Facilitate the movement of trade between the Borrower and neighboring countries in South East Europe, through removal of selected border-zone bottlenecks, and improving the efficiency and quality of road and rail services along Trans-European transport corridor X in fYR Macedonia.	(i) Percentage of reduction in border crossing time for cars and buses per lane at Blace BCP (ii) Elimination of freight train processing delays additional to the scheduled 90 minutes processing time at rail Corridor X border stations	(i) 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 (ii) Modernized rail corridor X telecommunication and information systems will form the basis for further interconnection with regional and EU data systems (NCTS, TAF-TSI)
Intermediate Outcomes	**Intermediate Outcome Indicators**	**Use of Intermediate Outcome Monitoring**
Component 1: Increased road capacity on corridor X, Tabanovce – Kumanovo section	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	The information will be used by MoF, FNRR, and Makedonija Pat to monitor implementation progress and to design remedial actions in case of congestion and traffic accidents
Component 2: Fully upgraded passenger border crossing at Blace	(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)	The information will be used by MoF, MCA and other agencies to monitor implementation progress and to prepare action plans to improve delays

Component 3: Modernized road toll collection system	**Outcome 3:** (i) Detailed implementation and operational plan for new toll system (ii) Leakage of potential toll revenue collection reduced	Information will be used by MoF, MoT, and FNRR for appropriate road maintenance, budgeting and programming
Component 4: Integrated communication and data harmonization solutions applied by MCA and MZ for freight transport along rail corridor X	**Outcome 4:** (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	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

Project monitoring during the course of project implementation and after project closure will be carried out by PCU staff, with active participation and data input by Customs, Railways, and the entity responsible for toll collection. This will entail close supervision of the works, equipment, and consulting services under the project, as well as financial statements and monitoring of performance indicators during the life of the project. Close follow-up of the monitoring results will be particularly important to adhere to the project implementation plan and to flag potential delays or snags that may develop. In view of the selected indicators, regular data collection will be need to be an integral part of the management information systems of the beneficiary entities; some technical assistance and/or training to strengthen capacity may be necessary.

Project progress reports will be prepared by the FNRR-based Project Coordination Unit on a quarterly basis and submitted for the Bank's review. The progress reports will focus on results rather than providing process related information.

Arrangements for Results Monitoring

		Target Values					Data Collection and Reporting		
Project Outcome Indicators	**Baseline**	**2007**	**2008**	**2009**	**2010**	**2011**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
Percentage reduction in border crossing time[25] for cars and buses at Blace BCP	tbd			50%	75%	75%	Quarterly	Project monitoring reports	Customs, PCU
Elimination of freight train processing delays additional to the scheduled 90 minutes processing time at rail Corridor X border stations	450 minutes		360 minutes	270 minutes	120 minutes	90 minutes	Quarterly	Project Monitoring Reports	Railways, PCU
Intermediate Outcome Indicators									
Component1 Completion of physical works for upgrading of section to motorway standards		10%	60%	100%			Quarterly	Project Monitoring Reports	FNRR, PCU
Improved accessibility to Tabanovce border zone by full segregation of directional traffic, vehicle types, as well as local traffic	Only one mixed carriageway		Two carriageways including emergency lanes						FNRR, PCU
Component 2 Percentage of completed physical works for border		10%	60%	100%			Quarterly	Project Monitoring	MCA, PCU

[25] It is proposed to measure total crossing time that includes processing by all border agencies, plus waiting time. Same time/day of the week will be used to allow for comparable measurements.

crossing restructuring Percentage of increased throughput of cars and buses at border crossing Blace (veh/hr)	tbd							Reports	
Component 3 Detailed implementation and operational plan for new toll system Leakage of potential toll revenue collection reduced (in %, cross referencing vehicle counts and classification with revenue collected)	n/a larger than 40% (2006)		35% or less	25% or less	10% or less	10% or less		Project Monitoring Reports	FNRR, PCU, Makedoniapat or its successor
Component 4 Modern railways telecommunication system connecting with Serbia, Greece, Kosovo, Kumanovo, Skopje, Volkovo, Gevgelija Procedures, protocols, and technology to share relevant data and information agreed upon by Customs and Railways and Interface established	n/a		Fiber-optic cable installation completed	System operational at national level 1st phase operational	2nd phase operational	Fully operational	Quarterly	Project Monitoring reports	MCA, MZ, PCU

Annex 4: Detailed Project Description

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

The total project cost is estimated at EURO 20.0 million, with EURO 15.0 million from the World Bank and EURO 4.5 million from the State budget. The project includes five components: (i) upgrading of road Corridor X section, Border Crossing Tabanovce – Kumanovo (about 7.2 km) to motorway standards; (ii) replacing temporary structures with permanent structures and improving working conditions at the passenger terminal at the Blace border crossing with Kosovo; (iii) improve the telecommunication system along rail Corridor X and support the introduction of compatible Customs and Railways freight and train management software applications; (iv) modernize the road toll collection system; and (v) project implementation support.

Component 1: Upgrading of road Corridor X, section Border Crossing Tabanovce – Kumanovo to motorway standards (Euro 10.7 million, including contingencies). Corridor X is the 'backbone' of the South Eastern Europe transport network, linking countries together from Turkey and Greece through Bulgaria, fYR Macedonia, Serbia, Croatia and Slovenia to Austria and Western Europe. The present average annual daily traffic (AADT) of 15,000 is set to increase 6 percent per annum reaching over 20,000 by 2010 and 40,000 by 2020. In fYR of Macedonia, freight transport in rising rapidly: in Q3 of 2006, the volume of goods carried by freight road transport increased by 51.6percent y/y to 9.8 million tons and by 22percent y/y to1.95 billion ton-kilometers, compared to the previous year. Road Corridor X, or E75, is mostly a 4-lane motorway, tolled in Slovenia, Croatia, Serbia, and fYR Macedonia. This component encompasses upgrading of the existing 2-lane road section of 7.3 km to motorway standards by constructing an additional 2 lanes, plus emergency lane, in parallel to the existing alignment. This section represents one of two sections of road Corridor X in fYR Macedonia that does not meet motorway standards, and as such, its upgrading has the highest Government priority. Upgrading to motorway standards is also foreseen for the remaining Corridor X two 2-lane sections: Demir Kapija – Smokvica in fYR Macedonia and Leskovac - Presevo in Serbia. Construction of both sections will receive Greek support under the Hellenic Plan for Reconstruction of the Balkans, whereby Greece has committed Euro 50 million for the Demir Kapija – Smokvica section, to be supplemented by other co-financiers and the Government budget. Completion to motorway standards of Corridor X will have a cumulative effect on transit traffic and seasonal tourist traffic (which now frequently bypasses the Balkan region by taking a ferry from Italy to Greece). Upgrading of Corridor X to motorway standards will also be the underpinning of all transport infrastructure investments foreseen under the European Neighborhood Policy - Corridor X being one of the 5 major trans-European transport corridors (South Eastern Axis).

The proposed component will consist of new construction, as well as reconstruction and repair of existing lanes and exits/entries. In the approach to the Tabanovce border crossing, appropriate traffic management measures, such as separation of heavy vehicles and passenger cars and buses will be introduced to enhance accessibility, flow of traffic and traffic safety. The key recipient under this component would be the Fund for National and Regional Roads, while border-crossing agencies will benefit from enhanced traffic safety in the border crossing approach.

Component 2: Replacing temporary structures with permanent structures and improving working conditions for border personnel at the passenger terminal at the Blace border crossing with Kosovo (Euro 1.7 million including contingencies). The component will improve the passenger border crossing-point from Blace to Kosovo. It will encompass removal of the temporary facilities, replacing them with permanent control and administrative structures, as well as enlarging the capacity of the passenger border crossing by increasing the facility from 2x2 to 2x3 lanes, adding a separate bus inspection lane for buses entering Macedonia from Kosovo. The component will comprise two sub-components: (i) construction of necessary utilities for the customs, border police and other related agencies at the border, and (ii) supervision of the civil works. The Public Enterprise for Housing has completed the project documentation for the infrastructure and buildings, audited by the relevant institutions, and approved by the Ministry of Transportation and the Ministry of Environment. Preparation of the bidding documents has started and is expected to be completed by May 31, 2007. Since the border crossing has to remain open to traffic 24 hours per day, 7 days a week, the Bank has determined that preparation of a construction period traffic management plan will be critical. It was agreed that Customs will implement this component, with technical; assistance from the Public Enterprise for Housing, precluding on a Government decision to transfer management for all border facilities from the Public Enterprise for Housing and Business Space to Customs. Customs is well experienced in preparing such plans because of the recent modernization of the Tabanovce and Gevgelija border crossings on corridor X, which created only minor traffic disruptions.

Component 3: Modernize the road toll collection system (Euro 4.5million including contingencies). According to the Law on Public Roads, chapter "Financing of the public roads", the financial sources for the construction, rehabilitation, maintenance and protection of the public roads provided from three sources: (i) a portion of excise duties on oil derivates; (ii) fees for registration of transport and other vehicles; and (iii) user charges (tolls) for the use of motorways. To increase revenue collection from road tolls, the Government is putting a high priority on reducing 'toll leakages' from fraudulent handling of toll fees collected and from payment evasion.

The modernization of the road toll collection system is the highest Government priority. USAID has financed a comparative analysis of toll collection systems in Europe and the component builds on this analysis and the resulting toll modernization proposal prepared by FNRR with technical assistance of USAID specialists. FNRR specialists have visited several European countries that have toll systems in full operation that are similar to the one proposed. In addition, FNRR experts coordinate with Serbia, which is piloting a new tolling system, Croatia and Slovenia to achieve toll interoperability along Corridor X. The Government has endorsed an FNRR proposal to maintain the existing 'open' operating system, which is compliant with EU regulations. The modernization will encompass retrofitting of the 13 corridor toll stations with new equipment that allows for both cash and electronic payments (e.g. smart cards, credit cards, microwave transponders), replacing the exclusively cash-based system in place now. The new equipment will meet the EU interoperability requirements, allowing future harmonization of national systems. It will also encompass an electronic vehicle classification system at each toll lane, which categorizes vehicles in one of four categories with an accuracy rate of more than 95%. The component will support technical assistance to prepare the specifications for the new

equipment, as well as the procurement of modern electronic tolling equipment, to be installed in each traffic lane at toll stations, linked with automatic vehicle classification and traffic counting equipment. Main benefits will be the reduction in toll collection 'leakages', and improved revenues by electronically linking toll collection, vehicle counting, and vehicle classification, thus reducing opportunities for fraud, corruption, and toll evasion. Recent surveys that cross-referenced traffic counts on main road corridors with toll collection, resulted in finding annual toll collection 'leakages' between 30 percent and 65 percent of potential revenue, amounting to Euro 7 million annually.

Toll collection system modernization will encompass a number of technical measures to be implemented in parallel at all toll stations:

- All toll lanes must be equipped with new, efficient systems for counting and classifying all vehicles. The same technical equipment will be used for all lanes, regardless of cash or electronic payment;
- For each passing vehicle, the respective payment method shall be registered as: cash payment, electronic payment or fee-exempted vehicle;
- All lanes will be prepared for electronic toll collection (ETC);
- One lane per toll plaza and in each direction will be dedicated only to electronic toll collection;
- Video monitoring shall be installed in all lanes; and
- All toll stations will be electronically connected to a central database.

Toll collection system modernization also requires legal and institutional reforms:

- New legislation to accommodate operation of new toll collection systems;
- A new Operational Manual for the toll collection agency, including provisions for adequate maintenance of the equipment;
- Preparation of an efficient enforcement and penalty system for offenders, to be applied without exceptions; and
- Agreement with police on frequent and visible enforcement supervision.

Implementation of a new toll collection system is a sensitive issue (users will no longer be able to evade payment of user charges, which is likely to create some resistance). FNRR is preparing a public information campaign including consultation with transport associations. The consultancy for the preparation of the technical specifications for the equipment that meets the 'open system' requirements defined by FNRR, will also include preparation of an implementation strategy.

Component 4: Support completion of telecommunication system modernization along rail Corridor X and support harmonization of freight data software applications by Railways and Customs (Euro 3.1 million including contingencies). Present freight document processing at railway border crossings is very slow due to the incompatibility of current software applications, and other weaknesses, which result in double input (keying) of data, both by the Macedonian Custom Administration and Macedonian Railways officers. The actual applications do not allow upgrading to meet harmonized data processing requirements and personal computer equipment is outdated, requiring substantial resources (financial and human) for maintenance. As

a result, MCA cannot manage and control the flow of rail freight information efficiently, while the outdated system capacity prevents implementation of compatible software applications between railways and customs.

The proposed component has two inter-related subcomponents. For Macedonian Railways, the completion of a modernized railway telecommunication system that will allow various electronic train management applications along rail corridor X, including the provision of the most essential software modules, as specified in Annex 4. For Customs, the support encompasses modernization of hardware, system equipment, and software application for rail freight data processing. The selected Railways software application will also establish an interface with the Customs Administration information system. Establishing an interface between the Customs and Railways platforms will speed up the processing and electronic recording of freight customs declarations, etc. The implementation of the two sub-components will be coordinated by the Customs-Railways project working group, which was established for the preparation and implementation of the component.

The requirements and capabilities for the software solutions have been agreed upon by the working group, taking into account the Customs perspective (the EU Integrated Border Management requirements), and the Railways perspective (the EU Directives on Technical Specifications for Interoperability for freight). A consultant will assist in evaluating different 'off-the-shelf' alternatives, identify the most appropriate solution, and provide support in the preparation of the bidding documents for the procurement of the preferred software solution.

Macedonian Railways has commenced the installation of a USAID donated fiber-optic cable along the northern section of rail Corridor X to modernize its telecommunication system. The proposed project will support installation on the southern section of Corridor X, up to the border with Greece, which will complete the modernized network along Corridor X. Once completed, the fiber optic network will form the backbone IT network for the railways operations and data management system. Other agencies (Customs, FNRR) as well as private sector entities have expressed interest in renting part of the network capacity for their communication purposes.

The modernization will provide a secure and reliable network, adding the telecommunication dimension to Corridor X, in line with the EU corridor concept, and from a railway management perspective connecting:

- Rail border crossings and marshalling yards within the country;
- Rail border crossings and Railways Headquarters within the country;
- Marshalling yards and Railways Headquarters within the country; and
- Rail border crossings on both sides of the border (contingent upon mutual agreements for data exchange).

Once completed, this 'spine' will connect Serbia, Kosovo, and Greece, with railway nodes in the country (Skopje, Tabanovce, Volkovo and Gevgelija). Although the main focus of the project is on the rail border crossings, the IT network must be developed from a central location to feed each of the border crossings and marshalling yards with required information.

The Railways-Customs working group has agreed that the proposed software solutions should contain several modules, providing different functions, including tracking of train traffic, overview of rolling stock actually in operation in the system, interface with the Customs Administration information system, and several other, railway traffic related modules.

Telematics Applications for Rail Freight in the EU

In the field of rail information technology, the year 2005 has been crucial for the rail freight sector due to the completion in the EU of the legislative procedure on the Technical Specifications for Interoperability on Telematics Applications for Freight (TAF TSI). This highly technical regulation was adopted at the end of 2004, and after translation, was published one year later, on 18 January 2006, in the Official Journal of the European Communities.

The complex and challenging task of railway undertakings and infrastructure managers – as the implementers of TAF TSI – is now to organize the migration from their existing IT to telematic applications in accordance with the TSI requirements. To do this in a coordinated way, the railway sector will have to synchronize individual company plans to achieve a timely and efficient migration throughout the whole industry, as the US rail freight companies did 30 years ago with the introduction of the 'Railinc' system.

While Customs has a well trained and capable IT department, the Customs application for rail freight transit is distributed and hosted by old servers, and personal computers and other equipment are old and in need of replacement to facilitate introduction of EU standards of working and interoperability. Modernization of both the Customs and railways application and establishment of horizontal cooperation between the agencies will facilitate better national freight data exchange between rail operators and border agencies, and contribute to the definition of enhanced regional data exchange interfaces based on EU and UN standards. Identified urgent application modernization needs of the MCA – ICT sector include:

- Procurement of computers, servers, and printers, systems software and software licenses, as well as specialized training for MCA staff in operating systems, databases, networks and IT security, administration and troubleshooting;
- Procurement and implementation of new LAN and WAN network equipment;
- Procurement of ICT security equipment and procurement of AntiVirus, Anti-Spy, and Anti-Spam solutions for ICT systems;
- Procurement of software solutions that will provide authorized and authenticated access for MCA users;
- Procurement of software solutions that provide on-line access to Macedonia Railways IT system data and permanent data transfer into a Customs IT system;

- Procurement of software solutions that will provide mandatory presentation of rail freight transit data from departure and destination offices, containing customs information as a part of railway transport documents;
- Software solutions that will allow use of railways IT system data for customs procedures; and
- Software solutions that provides for data messaging and exchange, and software for preparation of statistics and analytical reports.

The proposed telemetric improvements and data harmonization support further rail corridor development, benefiting all key participants. The further rail corridor development revolves around for pillars: (i) the long term Railways strategy, focusing on increasing traffic and revenue; (ii) the Customs-Railways working group for freight data harmonization; (iii) development of systematic corridor performance measurement, to start in 2008; and (iv) regular management review in response to performance issues.

The main benefit of this component will be the more efficient processing of international trade and transport documentation, which will enhance transparency of transactions and reduce duplications and overlaps. The elimination of freight train processing delays, currently ranging between 250 – 420 minutes, adhering to the scheduled 90 minutes for freight train processing, will reduce traffic congestion and increase competitiveness of rail freight transport. In addition, the Project will enable the materialization of a forecasted increase in rail cargo traffic, otherwise either foregone or deviated to more expensive alternative maritime or inland corridors. This transit traffic will generate an economic surplus for the country through increased year-round economic direct and indirect activity.

Component 5: Project implementation support (Euro 0.4 million). This component includes incremental implementation costs as well as the services required to support the successful implementation, monitoring, evaluation and impact assessment of the project. This covers, in particular: (i) annual auditing services for the project; (ii) training on project management, procurement, and financial management, and (iii) technical services.

Annex 5: Project Costs

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

Project Cost By Component in Euros[26]	Local EURO (millions)	Foreign EURO (millions)	Total EURO (million)
1. Upgrading of Road Corridor X Tabanovce – Kumanovo to Motorway Standards	6.0	1.1	7.1
2. Reconstruction of Blace Passenger Border Crossing	0.9	0.5	1.4
3. Modernization of Road Toll Collection System	0.5	3.0	3.5
4. Rail Corridor X Telecommunication and Software Improvement	0.3	2.3	2.6
Railways software and hardware			
Customs software and hardware			
5. Project Implementation Support	0.4	0.0	0.4
Total Financing Required	8.1	6.9	**15.0**

Although the Country Financing Parameters for the Borrower, established in April 2005 allow for Bank financing of up to 100% of project costs, the Government agreed to a cost sharing of 25% to demonstrate ownership and commitment to the proposed project.

[26] Numbers may not add due to rounding.

Annex 6: Implementation Arrangements

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

Structure of the Project

The Project has five components: (1) Upgrading of Road Corridor X; (2) Upgrading Passenger Terminal at Blace Border Crossing; (3) Modernizing the Road Toll Collection System; (4) Improving the Telecommunication System along Corridor Ten and Introducing Compatible Customs and Railways Freight and Train Composition Software Applications; and (5) Project implementation support.

The Fund for National and Regional Roads (FNRR) will have sole responsibility for coordinating and implementing the Project. However, two other Government bodies will assist FNRR with implementation, such that:

- (1) Upgrading of Road Corridor X will be implemented by **FNRR**
- (2) Upgrading of Passenger Terminal at Blace Border Crossing by FNRR with the assistance of **Macedonian Customs Administration (MCA)**
- (3) Modernizing the Road Toll Collection System will be implemented by **FNRR**
- (4) Support completion of telecommunication system modernization along rail Corridor X and supporting harmonization of freight data software applications by FNRR with the assistance of **Railways and Customs and by Macedonian Railways (MZ) and by MCA**
- (5) Project Implementation will be coordinated by **FNRR**

Project Implementation

A high-level Steering Committee to guide the overall implementation of the Project and to strengthen the necessary inter-agency coordination and cooperation has been established. The Deputy Prime Minister for Economic Affairs chairs the committee, which further comprises the Minister of Transport and Communications, the Director General of FNRR, the Director General of the Public Enterprise for Housing, the Director General of the Director General of MCA, and a representative of the Ministry of Finance. The Steering Committee was established by the Borrower at a Government session on October 10, 2006, and a confirmation letter dated October 12, 2006, signed by the Deputy Prime Minister for Economic Affairs on behalf of the Government of Macedonia is included in the Project Files. A project covenant will ensure that the Committee will remain in place for the duration of the Project.

A Project Coordination Unit (PCU) will be established within FNRR which will have responsibility for coordinating all Project activities (see below), and will report to the Director of FNRR. The PCU will be staffed with three FNRR staff members supported by local consultants who will be funded under the Project. The supporting consultants will include an Assistant Project Coordinator, a Procurement Specialist, a Financial Management Specialist, one or two specialized engineers, and a lawyer to assist in the implementation of the Resettlement Action Plan and the tolling equipment. The PCU will be supported by an operational team with

component coordinators and relevant experts from the beneficiary agencies, in accordance with procedures provided by the Project Operational Manual.

Implementation of Components

For components one, three, and five, implementation will be straightforward; the PCU will prepare documentation and bidding documents and will work with FNRR to prepare all terms of references, sign-offs at key junctures in the tendering process, will monitor all component activities, and perform other necessary functions related to implementation.

Components 2 and 4 will require close coordination between MZ, MCA and the PCU. In each case, the PCU will consult regularly with the benefiting agency and will only initiate activities upon agreement between the PCU and the agency. The PCU will prepare a specific procurement notice (SPN) to notify bidders of a contract; the PCU will also be the recipient of incoming expressions of interest. The PCU will compile the tender package and ensure that the respective agency prepares the terms of reference, specifications or other technical documentation for the contract, as well as the initial drafts of the bidding documents. It will also be the benefiting agency, which establishes and manages the evaluation committees, which will select consultants. The agency will provide the technical documentation package to the PCU, who will ensure that it includes all necessary information, and is in the proper format, etc. It will be the PCU, which handles all official communications with the Bank, including requests for no objection. Detailed procurement procedures consistent with the PAD will form part of the Operations Manual.

The benefiting agency will evaluate the bids, and for this purpose, will form an Evaluation Committee, including representatives of FNRR and MoF. However, it will be the PCU who ensures that all evaluations are carried out according to World Bank procedures. As the FNRR Director is also the overall Project Coordinator, he/she will review key documents and sign off at critical stages, in accordance with procedures included in the Project Operational Manual and agreed between agencies.

Each respective agency has appointed a staff member as focal point to interface with the PCU – the component coordinator; this staff member will coordinate activities within the agency, as spelled out in the Project Operational Manual.

As Component four will have two benefiting agencies (Railways and Customs), the PCU will need to take additional steps to ensure coordination, just as it will be critical that Railways and Customs coordinate closely. To help ensure effective inter-agency coordination in the preparation of this component, Macedonian Customs and Railways have established a dedicated Working Group to agree upon harmonization of rail freight data requirements and the identification of compatible software, all within the framework of Integrated Border Management and other EU (NCTS, TAF-TSI) requirements and UN guidelines, laying the foundation for the establishment of a single electronic window environment.

Responsibilities of FNRR (and PCU)

As FNRR is the sole implementer of the Project, in the paragraphs below, FNRR is named as the implementer of the activities; however, all activities described below will be carried out by the PCU.

General Responsibilities of PCU within FNRR (a) preparation of an Annual Plan for Project implementation with input from MCA and MZ, (b) preparation of bidding and contract documents under the Project, (c) maintenance of the Project financial records and accounts, and arranging for the audit thereof, (d) preparation of the Project Reports referred to in Section II A. of Schedule 2 to the Loan Agreement, and (e) monitoring and evaluation of progress of Project implementation with input from MCA and MZ. The PCU shall be maintained until the completion of the project with staff, functions, terms for reference and resources satisfactory to the Bank.

Each Annual Plan for project implementation will be prepared after review between the Borrower and the Bank of progress in meeting the targets indicated in the Project Operational Manual. The inclusion of investments and other Project activities in the annual plan, as well as the procurement arrangements thereof, will be made in agreement between the Borrower and the Bank.

The Borrower will take all necessary measures to implement the Project in accordance with the Project Operational manual, the EMP and the RAP. Adequate information on the implementation of the EMP and the RAP will be included in the Project Reports.

Procurement. FNRR will be responsible for carrying out all procurement activities in a manner consistent with World Bank procurement guidelines for works, goods and consultant services. Responsibilities of the procurement specialist, under the supervision of the Assistant Project Coordinator, will be to carry out all steps in the tendering process, compiling tendering packages, ensuring timely delivery of documents, such as TORs from the respective agencies, preparing request for proposals, short-listing, ensure the proper negotiating of contracts, maintaining an adequate filing system, updating the procurement plan, etc. Training will be provided under the project as needed.

Financial Management. FNRR will be responsible for maintaining comprehensive files, records, financial statements, etc, of all Project activities, including statements from FNRR, Customs and Railways, in a manner consistent with World Bank guidelines. FNRR will also be responsible for ensuring the accurate flow of funds as described further below. FNRR will ensure that all agreed internal controls in processing of contractor bills are followed before submission of payment requests. Training will be provided to staff as needed.

Operational Manual. The completion of a Project Operational Manual (POM), satisfactory to the World Bank will be a Condition of Effectiveness of the Project. A draft Project Operational Manual, satisfactory to the Bank, was presented at appraisal. The POM will guide the project and serve as a roadmap for implementation. It will include comprehensive sections on all areas required for implementation such as detailed procedures for carrying out (i) procurement,

including a procurement plan, (ii) an implementation plan, (iii) financial management, (iv) monitoring and evaluation, (v) flow of funds, and (vi) any other steps necessary for implementation.

Contract Management. FNRR will be responsible for managing all contracts financed under the Project and will be involved in the management of those consultant contracts, along with the respective agencies.

Project Monitoring and Evaluation

The Government will be required to monitor Project indicators agreed at the time of Negotiations. The monitoring will be the responsibility of FNRR, and results will be included in the quarterly progress reports to be submitted to the Bank. Those reports will be prepared with inputs from MCA and MZ. Project monitoring during the course of project implementation and after the project has been completed will be undertaken by PCU staff, with active participation from the FNRR and MZ and MCA. This will entail regular updating of project monitoring indicators for the duration of the project, as per the agreed indicators in Annex 3, as well as financial, procurement, and other progress reports as specified in the Financing Agreement. While baseline data for some component indicators exist, for other components these will be established during the first year of the project by FNRR. Each Progress Report will cover the period of one calendar quarter and will be furnished to the Bank not later than forty-five days after the end of the period, covered by such report. The progress reports will focus on results rather than providing process related information.

Flow of Funds

Project funds will flow from: (i) the Bank, as an advance, via a Designated Account to be opened in the NBRM as a part of the Single Treasury Account, which will be replenished under a transaction-based disbursement method. It will be managed as described below in the section on disbursement arrangements; and (ii) GoM from the designated account where payments will be executed by order of the FNRR via the treasury system.

The transaction based disbursement method will be used for the Project. Once the Project becomes effective, a Designated Account will be opened in the NBRM, to which the funds will be transferred. The Designated Account will be managed and operated by the FNRR. For the Designated Account in foreign currency three mirror Denar transit accounts will be opened.

The funds will flow from the Designated Account through to the respective Denar account for the particular component, which is financed by the transaction. These accounts will serve as transit accounts for payments from the foreign currency accounts. *All payments to suppliers will be made by FNRR but will flow through one of the three Denar transit accounts, depending for what benefiting agency the payments is made (FNRR, railways or customs). The agencies do not control the funds flowing through the transit accounts: these are 'zero-accounts', which only pass on authorized specified payments to specific suppliers. The entities cannot allocate these specified payments for other purposes - only pass them on to the suppliers.*

The procedures relating to the flow of funds, including paths for authorization and approval of payments will be described in detail in the Financial Manual which forms part of the POM. The procedures will clearly describe all steps of the process. Treasury reports/Bank Statements indicating turnover and balance on the Denar transit accounts will be submitted directly or through the entity in whose name the account is opened to the PIU within the FNRR on a daily basis. Based on the Treasury reports/Bank Statements the PIU will record executed payments and perform due reconciliation of the bank balances. The PIU will include balances on all project related accounts in the interim un-audited financial reports.

The above approach ensures that payments under project are accounted for on the expenditures side of the relevant entity to which they relate.

The PCU within FNRR will maintain the financial management. The PCU will prepare and furnish to the Bank as part of the Project report, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

The PCU will have the Financial Statements audited. Each audit of the Financial Statement will cover the period of one fiscal year of the Borrower. The audited Financial Statements for each period will be furnished to the Bank not later than six months after the end of such period.

World Bank Supervision

The World Bank will devote about 20 staff-weeks per year and a total of about 120 staff-weeks through FY07 to FY11 to support the Government in implementing the project and supervise progress. Implementation support and supervision – with a minimum of two missions per annum, as well as indirect involvement of Skopje World Bank Country Office specialized staff, will in particular focus on performance of the PCU in managing contracts, procurement and financial matters, as well as in completing the agreed implementation plans.

The Borrower will carry out jointly with the Bank. A mid-term review of the progress made in carrying out the Project not later than 24 months after the loan Effective date. The mid-term review will cover among other things, (i) progress made in meeting the Project's objectives; and (ii) overall project performance against project performance indicators.

Annex 7: Financial Management and Disbursement Arrangements

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

Country Issues

The latest Country Financial Accountability Assessment (CFAA) confirms that improvement is required in the management of public expenditures, especially for the improvement in internal controls for budget-users and strengthening of internal and external audits. Policies and procedures instituted by the FNRR mitigate the above risk to a certain extent. However, further mitigating measures shall include the Bank's supervision and the use of a private auditor for the auditing of project accounts. No reliance will be placed on the internal audit or external audits conducted by the State Audit Office (SAO).

Risk Analysis

The overall financial management risk for the project is substantial before mitigation measures; with adequate mitigation measures agreed, the financial management residual risk is rated moderate. Table below summarizes the financial management assessment and risk ratings of this project:

Risk	Risk Rating	Risk Mitigation Measures	Risk Rating after Mitigation Measures
1. INHERENT RISK			
Country Level. Perceived corruption in the country is high. Capacity of State Audit Institution is low. Nevertheless, CFAA described that the Government has well functioning Treasury operations and exercise good control over spending of budget entities. The NBRM efficiently administers the Treasury Single Account (TSA) on behalf of the Government	S	Risk as described on the left allows that reporting is based on the Treasury and Designated account opened in the NBRM. Corruption risk will be mitigated by instituting additional procedures and strengthening system of internal controls. The internal controls to be applied in practice will be described in Financial Manual. Quarterly IFRs will be submitted to the Bank, and the Bank's FMS will perform on site supervision. Risk imposed by low capacity of SAO will be mitigated by using private auditor acceptable to the Bank for the project audit.	M
Entity Level. The implementation design is rather complex and involves three entities.	S	The risk is mitigated by the fact that there will be effectively only one implementing entity from financial management perspective which will execute controls over all financial management aspects of the project. In addition, all entities have prior experience in implementation of the World Bank financed projects. The risk will be additionally mitigated by instituting robust system of internal controls which will be described in	M

		details in FM Manual to be prepared prior to negotiations as per the agreed action plan.	
Project Level. Complexity of the project is significant as three different entities will be implementing different project components. Financial management for the project will be done by the PCU within FNRR for the whole project. Funds will flow from Designated Account through three transit Denar accounts to suppliers (see flow of funds section)	S	The risk will be mitigated by developing sound financial management system for the project, which clearly describes procedures and controls to be applied, including flow of funds and documentation and authorizations and approvals needed. This should all help integrating implementation of different project components and facilitate to the FNRR timely collection of all financial information and control over expenditures.	M
Overall Inherent Risk	**S**		**M**
2. CONTROL RISK			
1. *Budgeting and Planning.* Capacity for budgeting and planning is adequate, and there is substantial experience in this respect. However, care should be taken that variances of actual versus budgeted figures are monitored on regular basis and appropriately analyzed and followed up.	S	The PCU will document the follow up and corrective actions taken for any variances between budgeted and actual figures. The above will be verified by the Bank's FMS during supervision.	M
2. *Accounting*	M	No additional mitigation measures needed. Treasury accounting will be used for the project, supplemented by Grnarov software in order to generate quarterly IFRs in the agreed format.	M
3. *Internal controls* need further strengthening in order to ensure that project funds are used for intended purposes	S	Additional internal controls to be applied for the project will be instituted. Those will be described in Financial Manual that should be prepared for the project. Application of controls in practice will be verified during Bank's supervision.	M
4. *Funds Flow.* Funds will flow from Designated Account through three transit Denar accounts to suppliers	S	Flow of funds, including related procedures such as authorizations and approvals of payments will be clearly described in details in the FM Manual. Application of the procedures in practice will be verified during Bank's supervision.	M
5. *Financial Reporting*	M	No additional mitigation measures needed. Financial reporting will be based on the Treasury reports and supplemented by GRNAROV software.	M
6. *Auditing*	M	No additional mitigation measures needed. Private audit firm acceptable to the Bank will perform audit of the project.	M
7. Staffing	M	No additional mitigation measures needed. Qualified and experienced professional has been appointed to be in charge for financial management aspects of the implementation.	M
Overall Control Risk	**M**		**M**
OVERALL FM RISK	**S**		**M**

Strengths

Control of spending of budget entities from the side of the GoM represents the principal strength of the project's financial management arrangements. In addition, the implementing entity has prior experience in implementation of World Bank financed projects.

Weaknesses and Action Plan

Principal weaknesses are based on the fact that the system of internal controls in the implementing entity needs to be strengthened. Complexity of the project is significant, as three different entities will play a role in the implementation of the different components (FNRR on all components, and Customs and Railways assisting with components two and four.) Internal controls and procedures to be applied for project implementation that will mitigate risks imposed by the weaknesses explained above will be described in detail in the Financial Manual (as integral part of Project Operational Manual). Application of the controls and procedures in practice will be verified during Bank's supervision.

Significant Weakness	Action	Responsible	Completion Date
System of internal controls in the implementing entity needs further strengthening	Draft Financial Manual (as integral part of Project Operational Manual) describing in details internal controls and procedures to be applied during project implementation will be prepared.	FNRR	Negotiation

Implementing Entity

The FNRR will act as the sole implementing agency for the project through the PCU which is established with the specific assignment of coordinating and managing the project. The PCU will collect financial information and documentation from agencies assisting in implementation of the respective components. The PCU maintains accounting records for all project components and all sources of financing and prepares quarterly interim un-audited financial reports. The PCU is staffed among other functions with an experienced Financial Officer holding appropriate qualifications who will be assigned with financial management responsibilities for the project. The PCU also includes a procurement specialist, a technical specialist and Project Director. In addition, both Railways (MZ) and Customs (MCA) have appointed focal points/coordinators for their respective components.

The PCU publishes tenders for all components in the name of the entity assisting with implementing the respective component. The latter entity is signatory to the contract. After receiving an invoice, it is forwarded for verification to technical staff within the entity implementing the component or other institutions as relevant responsible for checking the quality and quantity of the delivery covered by the invoice. Independent consultants should also be contracted to perform verification works have been delivered to acceptable level prior to payments.

It has been agreed with the Ministry of Finance and FNRR to hire the following consultants to assist the PCU: (i) assistant project coordinator; (ii) assistant financial management specialist; (iii) assistant procurement specialist; (iv) lawyer to assist on relevant issues, e.g. the land acquisition, environmental mitigation, monitoring of project implementation, etc.; and (v) assistant for general project implementation.

The FNRR has prior experience in implementing World Bank financed projects.

Planning and Budgeting

The FNRR has adequate capacity for planning and budgeting in terms of human resources, availability of quality information and IT system. Staff has experience in budget preparation. However, it should be observed whether variances of actual versus budgeted figures are monitored on a regular basis and appropriately analyzed and followed up. The PCU will prepare single budget for all project components.

Accounting

Staffing

The PCU Financial Officer has been appointed. The financial officer is a professional possessing appropriate qualifications and experience. It is a person with prior experience in working for the World Bank financed projects.

Terms of Reference for the financial management staff with detailed description of duties will make part of the Financial Manual. The implementing entity is responsible for the project's financial management arrangements and its financial officer will provide supplementary expertise and time as will be required for the specificity of World Bank procedures for accounting, reporting, disbursement, and as necessary, procurement procedures.

Information Systems

The FNRR uses the treasury system for its accounting and reporting. The treasury system was assessed by the CFAA and found to be sound with reliable reporting and ex-ante controls. Treasury reporting will serve as primary source of financial information for the project. However, as the FNRR has prior experience of using GRNAROV software for implementation of previous World Bank financed project, this software will supplement the Treasury reports and will be used to generate quarterly IFRs and annual project financial statements.

Accounting Policies and Procedures

The accounting books and records are maintained on a cash basis with additional information on signed contracts. Project financial statements will be presented in Euro. The entity implementing the project applies in practice a set of accounting policies and procedures which are available in written documents such as manuals and rulebooks.

Additional accounting policies that to be applied on the project (besides standard accounting policies used for Budget agencies) will include the following major assumptions:

- cash accounting as the basis for recording transactions;
- reporting should be done in EURO (reporting currency);
- consolidated IFRs should be prepared for all components, including all donors funds; and
- all counterpart funds should be reflected in the financial reports.

Internal Controls and Internal Audit

The FM assessment concluded that internal controls within the implementing agency need to be strengthened. In addition, the ongoing update of the CFAA found that the internal controls in budget users in general are weak. Findings of both external audit and internal audit concluded that principal weaknesses in the public sector relate to deficiencies in internal controls. There is no appropriate segregation of duties or authorization path. Controls checks are not performed on regular basis.

Robust system of internal controls and procedures will be instituted for the project. The controls and procedures to be applied will be described in the Financial Manual, which will be developed as integral part of Operations Manual. Key internal controls to be applied for the project include:

- appropriate authorizations and approvals;
- segregation of duties;
- different persons being responsible for different phases of transaction;
- reconciliations between records and actual balances, as well as with third parties should be performed on regular basis; and
- complete original documentation should exist to support project transactions.

The FNRR publishes tenders for all components in the name and account of the entity implementing the respective component. The latter entity is signatory to the contract. After receiving an invoice, it is forward for verification to technical staff within the entity implementing the component or other institutions as relevant responsible for checking the quality and quantity of the delivery covered by the invoice. Independent consultants will be contracted to perform verification that works have been delivered to acceptable level prior to payments.

After the technical staff has approved the invoice in terms of quality and quantity of the work/service, the invoice is forwarded to the PCU, where a copy is filed in the project accounting system in accordance with the Project Operational Manual. The invoice is immediately given to the project accountant who registers the invoice in a simple log file with name of supplier, amount, and date of payment. He checks the invoice, the calculation of the invoice, and finds the appropriate budget from which the amount will be charged (contract number, item number and program (component). The accounting codes needs to be written on the invoice by the accountant. After putting his/her initials the invoice is given to the project procurement staff. The procurement staff checks the invoice against the relevant contract number, if necessary attaches a copy of the relevant paragraph on which the invoice is based from the contract and signs.

All relevant documentation shall be attached to the invoice enabling the Director to immediately evidence that the necessary checks have been performed. The invoice is finally received again by the project accountant. The receipt of the approved invoice is registered in the registry mentioned above ensuring that payment can be made as per the payment terms. Payment order and the invoice with all designated approvals and signatories (described in the Financial Manual) are submitted for payment, indicating which of the three Denar accounts will serve as transit account for executing the payment.

Detailed description of controls and procedures will be included in Financial Management Manual that will be developed for the project. The Manual sets out the financial management and internal control policies and procedures and is intended to guide staff and minimize the risk of errors and omissions, as well as delays in recording and reporting. These written standards also clarify responsibilities, including level of authority, clear control over assets, cash, and bank accounts, and it ensures timely and accurate financial reporting.

Internal audit function is established in FNRR. There is one specialist that performs tasks of internal audit. Internal auditor is reporting to the Director of FNRR, and annually to the Ministry of Finance where the central unit of internal audit function is located. Limiting factors relating to efficient work of internal audit comprise lack of human capacity to carry out tasks in meaningful manner, no follow up or actions taken based on recommendations of internal auditor, as well as lack of adequate planning and strategic direction for internal audit department. Due to aforementioned no reliance will be placed on the internal audit.

Reporting and Monitoring

Project management-oriented interim un-audited financial reports (IFRs) will be used for project monitoring and supervision. The format of the IFRs is to be agreed during negotiation and included in the Financial Manual. The FNRR will produce a full set of consolidated IFRs for all components and sources of funding for each calendar quarter throughout the life of the project. They will be due 45 days after each quarter end. The IFRs will comprise the following reports presented in the agreed format:

- Statement of Sources and Uses of Funds;
- Uses of Funds by Activity;
- Designated Account Statement;
- Unit of Output by Activity; and
- Narratives to the Reports.

The accounting for the project is cash basis with additional information provided for commitments on signed contracts.

External Audit

The FNRR is audited by the Macedonian State Audit Office (SAO) as any other budget user. However, as the capacity of the SAO for conducting efficient financial audit is still quite limited, the project's financial statements will be audited in accordance with terms of reference

acceptable to the Bank by a private sector audit firm acceptable to the Bank, and the audit report will be submitted to the Bank at the latest six months after the end of the period audited. The annual cost of the audits of the project will be covered by the project funds. Macedonia Railways entity audit will be submitted to the Bank within six months of the end of each fiscal year as already required under Railways Reform project.

The following chart identifies the audit reports that will be required to be submitted by the project implementation agency together with the due date for submission.

Audit Report	Due Date
Entity financial statements (Macedonia Railways)	Within six months of the end of each fiscal year
Project financial statements (PFS), including SOEs and Special/designated account. The PFSs include sources and uses of funds by category, by components and by financing source; SOE statements, Statement of designated account, notes to financial statements, and reconciliation statement.	Within six months of the end of each fiscal year and also at the closing of the project

Funds Flow and Disbursement Arrangements

Project payment funds will flow from: (i) the Bank, as an advance via a Designated Account to be opened in the NBRM as a part of the Single Treasury Account, which will be replenished under a transaction-based disbursement method, and managed as described below in the section on disbursement arrangements; and (ii) GoM, where payments will be executed by order of the FNRR via the treasury system.

The transaction based disbursement method will be used for the Project. Once the Project becomes effective, a Designated Account will be opened in the NBRM, to which the payment funds will be transferred. The Designated Account will be managed and operated by the FNRR. From the Designated Account in foreign currency three mirror Denar transit accounts will be opened. The funds will flow from the Designated Account through the respective Denar transit account for the particular component, which is financed by the transaction.

All payments to suppliers will be made by FNRR but will flow through one of the three Denar transit accounts, depending for what benefiting agency the payments is made (FNRR, railways or customs). The agencies do not control the funds flowing through the transit accounts: these are 'zero-accounts', which only pass on authorized specified payments to specific suppliers. The entities cannot allocate these specified payments for other purposes - only pass them on to suppliers.

The procedures relating to the flow of funds, including paths for authorization and approval of payments will be described in detail in the Financial Manual. The procedures will clearly describe all steps of the process. Treasury reports/Bank Statements indicating turnover and balance on the Denar transit accounts will be submitted directly or through the entity in whose name the account is opened to the PCU within the FNRR on daily basis. Based on the Treasury reports/Bank Statements the PCU will record executed payments and perform due reconciliation

of the bank balances. The PCU will include balances on all project related accounts in the interim un-audited financial reports.
The above approach ensures that payments under project are accounted for on the expenditures side of the relevant entity to which they relate.

The Ceiling for the Designated Account will be indicated in the disbursement letter. Applications for replenishment of the Designated Account will be submitted monthly or when one-third of the amount has been withdrawn, whichever occurs earlier. Documentation requirements for replenishment would follow standard Bank procedures as described in Disbursement Handbook. Monthly bank statements of the Designated Account, which have been reconciled, would accompany all replenishment requests.

To help facilitate early project start up, retroactive financing may be required to support activities such as PCU staffing, training, component preparation, etc.

Counterpart funding will be executed by using the Treasury single account, and Macedonia Railways operating bank account for the respective contribution.

Financial Conditions

Financial management actions to be completed prior to negotiation are presented in the table below:

Description	Responsible Entity
Financial Manual (as integral part of Operations Manual) describing in details internal controls and procedures to be applied during project implementation will be prepared. Draft Manual has already been prepared.	FNRR

Supervision Plan

During project implementation, the Bank will supervise the project's financial management arrangements in two main ways: (i) review the project's interim un-audited financial reports for each calendar quarter, as well as the project's annual audited financial statements and auditor's management letter; and (ii) perform on-site supervisions, review the project's financial management and disbursement arrangements to ensure compliance with the Bank's minimum requirements in accordance with the frequency and scope indicated in the RAPMAN. Supervision will be performed by the Bank accredited Financial Management Specialist.

Annex 8: Procurement Arrangements

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

General: Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Loan, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are to be agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement of Works: Works procured under this project would include: (i) upgrading the road corridor X section BCP Tabanovce-Kumanovo to Motorway standards, and (ii) upgrading the passenger terminal at Blace BCP with Kosovo. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB.

Procurement of Goods: Goods procured under this project would include: (i) equipment to modernize the Road Toll Collection System, (ii) equipment for improvement of the communication audit system on rail corridor X, (iii) software for harmonized rail freight and data collection system, (iv) software for CA data collection for freight transport in railways, and (v) IT equipment for CA to improve the data communication network and IT equipment. The Project also includes two smaller packages: (i) procurement for furniture for upgraded BCP Blace; and (ii) procurement for equipment for consultants planned as TA for the PCU. Goods estimated to cost Euro 75,000 or above per contract would be procured through ICB and those estimated to cost less than Euro 75,000 per contract may be procured through Shopping procedures.

Procurement of Non-consulting Services: No procurement of non-consulting services is foreseen in the project.

Selection of Consultants: Consultants' services procured under this project would include: (i) supervision of civil works for upgrading the road corridor X section BCP Tabanovce-Kumanovo, (ii) supervision of civil works for upgrading the passenger terminal at Blace BCP. Selection for these assignments will follow QCBS. Selection of consultants for: (i) TA for preparation of the technical specifications and bidding documents for procurement of equipment for modernized tolling system, (ii) TA for specifying the software for harmonized rail freight and MCA data collection system, and (iii) TA as support to the PCU, will follow CQS. The selection of the financial auditor will follow LCS. Short lists of consultants for services estimated to cost less than EURO 75,000 per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.
Other: No procurement of other services is foreseen in the project.

Assessment of the Agency's Capacity to Implement Procurement

Procurement activities will be carried out by Fund for National and Regional Roads. The agency is staffed by an English speaking procurement officer experienced in procurement financed by IFIs including the Bank, who will be assisted by a hired procurement assistant.

An assessment of the capacity of the Implementing Agency to implement procurement actions for the project has been carried out by Zarko Bogoev PAS, Operations Officer in March 2007. The assessment reviewed the organizational structure of FNRR for implementing the project and the interaction between the project's staff responsible for procurement Officer and the FNNR's relevant central unit for administration and finance.

The key issues and risks concerning procurement for implementation of the project have been identified and include:

- At the country level, a comprehensive analysis of the public procurement system in Macedonia was carried out during the Country Procurement Assessment Review (CPAR) in June 2002 and recently the Country Fiduciary Assessment (CFA) in February 2007. First Public Procurement Law (PPL) was adopted in June 1998, and amended In January 2002. The new PPL was adopted in April 2004 and amended in December 2005. Even though the new law responds many of the concerns and issues from 2002 CPAR it still contains number of weaknesses that reduce transparency in public procurement and decrease it's economy and efficiency. As a result to these findings, Macedonia is ranked as a high-risk country in respect of the public procurement system; and
- FNRR has long time experience in the implementation of the Bank financed projects, mainly from Transit Facilitation Project and the Transport Sector Project, but has a limited staff capacity, therefore the PCU in the FNRR will be supported by a procurement assistant who will be working day by day with the procurement specialist.

The corrective measures, which have been agreed, are as follows:

- During the pre-appraisal mission, PCU was given the new Bank Procurement Guidelines, and the link to the Bank procurement web-site, where the latest version of the standard bidding documents, manuals, templates of procurement notices, standard requests for proposal documents, evaluation reports formats, regional procurement documents etc.;
- The PCU will have a full time procurement staff assigned from within FNRR, who has been trained on Bank's procurement procedures. A procurement assistant will be as a full time support will be hired by the PCU;
- The procurement assistant will attend procurement trainings on Bank's procurement procedures organized by ILO in Turin and/or by the Bank in the initial period of the implementation of the project;
- Selected separate supervision consultants for the civil works under the component 1. and 2. will contribute to capacity building both in FNRR and MCA;
- Selection of two consultants for specifying the equipment in Component 3 and software in Component 4, and working together with the agencies staff will contribute to capacity building in FNRR, MCA and MR for procurement of equipment; and
- Bank procurement specialist will be a member of the project team throughout the project cycle, and will participate in the supervision missions.

The overall project risk for procurement is high.

C. Procurement Plan

The Borrower, at appraisal, prepared a procurement plan for project implementation, which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on March 28, 2007 and is available at FNRR in Skopje. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended supervision missions twice annually to carry out post review of procurement actions

E. Details of the Procurement Arrangements Involving International Competition

1. Goods, Works, and Non-Consulting Services

(a) Goods and Works

(b) All procurements under the ICB and first two shopping contracts will be subject of prior review.

(a) Consulting Assignments

(b) Consultancy services estimated to cost above Euro 75,000 equivalent per contract and single source selection of consultants' firms and for assignments estimated to cost above Euro 35,000 equivalent for individuals would be subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than Euro 75,000 equivalent per contract, may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

(d) All TORs for consultants' assignments will be subject to prior review.

See tables on the following pages.

1. List of Contract Packages to be Procured Following ICB and Shopping:

1	2	3	4	5	6	7	8	9	10	11	12
Ref. No	**Contract (Description)**	**Estimated Cost (mil EURO)**	**Procurement Method**	**P-Q**	**Domestic Preference (yes/no)**	**Review by Bank (Prior / Post)**	**Expected Bid-Opening Date**	**Bid Evaluation Report to the Bank**	**Contract Award**	**Contract Completion**	**Comments**
1.	Civil works to upgrade the section BCP Tabanovce-Kumanovo	8.55	ICB	No	No	Prior	Aug. 2007	Oct. 2007	Nov. 2007	Sept. 2009	
2.	Civil works to upgrade passenger terminal at Blace BCP	1.58	ICB	No	No	Prior	Dec. 07	Feb. 2008	April 2008	Oct. 2009	
3.	Procurement of equipment to modernize the Road Toll Collection System	4.5	ICB	No	No	Prior	Nov. 2007	Jan. 2008	Feb. 2008	Dec.2008	
4.	Procurement of fiber optic cable with the installation parts	0.27	ICB	No	No	Prior	Dec. 2007	Feb. 2008	April 2008	Jan. 2009	
5.	Procurement of multiplex equipment	0.7	ICB	No	No	Prior	Dec. 2007	Feb. 2008	April 2008	Feb. 2009	
6.	Procurement of IT equipment to increase the operational level in MZ	0.35	ICB	No	No	Prior	Dec. 2007	March 2008	May 2008	Dec. 2008	
7.	Procurement of software for freight rail data collection system	0.7	ICB	No	No	Prior	Jan. 2008	March 2008	April 2008	May 2009	
8.	Procurement of software for CA data collection for freight transport in railways	0.3	ICB	No	No	Prior	March 2008	May 2008	June 2008	July 2009	
9.	Procurement of the IT equipment for CA to improve the data communication and network and IT security	1.2	ICB	No	No	Prior	Dec. 2007	March 2008	May 2008	Dec 2008	
10.	Furniture for new BCP Blace utilities	0,1	ICB	No	No	Prior			Aug 2009	Oct 2009	
11.	Equipment for PCU	0.05	S	No	No	Prior/ex post					multiple

2. Consulting Services

1	2	3	4	5	6	7	8	9	10
Ref. No.	**Description of Assignment**	**Estimated Cost**	**Selection Method**	**Review by Bank (Prior / Post)**	**Expected Proposals Submission Date**	**Bid Evaluation Report to the Bank**	**Contract Award**	**Contract Completion**	**Comments**
1.	Supervision of civil works for upgrading the road corridor X section BCP Tabanovce-Kumanovo	0.65	QCBS	Prior	July 2007	Oct. 2007	Nov. 2007	Oct. 2009	
2.	Supervision of civil works for upgrading the passenger terminal at Blace BCP	0.12	QCBS	Prior	Dec. 2007	Feb. 2007	March 2008	Nov. 2009	
3.	TA for preparation of the bidding documents for modernized tolling system	0,03	SSS	Prior			June 2007	Sept. 2007	
4.	TA for specifying the SW for harmonized rail communication and CA data collection system	0,08	CQS	Prior	Sept. 2007	Oct. 2007	Nov. 2007	Jan. 2008	
5.	Financial Audit	0.1	LCS	Prior	Sept. 2008	Sept 2007	Oct. 2007	End of the project	
6.	TA to support PCU	0.1	CQS	Prior					Multiple

Annex 9: Economic and Financial Analysis

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

The Principles of the Economic Evaluation

The economic cost-benefit analysis compares the economic costs and benefits of the project over the implementation period and over an expected economic life. Each component of the project captures varying type of benefits and has different expected economic life; therefore a separate cost-benefit analysis is made for each component. No evaluation is made for Component 2 (Blace Passenger Terminal) as required data cannot be obtained. The cost-benefit analysis for each component was then integrated together for the overall project analysis.

Detailed calculations on costs and benefits are shown in Table 9.1 (Integrated Project analysis) and Table 9.2 through 9.4 (separately for each of the three project components). All costs and benefits are expressed in constant 2007 prices. All investment costs are net of taxes, import duties, price contingencies and land acquisition costs.

Costs

The project cost considered for the economic evaluation amounts to €16.8 million. It includes three components under Roads-to-motorway upgrade, Roads toll collection system and Railways-Customs communication system. It does not take into account the Blace passenger terminal component, as required data for evaluating benefits cannot be obtained. It does not take into account the cost of the PCU. It excludes taxes, import duties, price contingencies and land acquisition costs.

Benefits (i.e. Costs-Reduction)

The project as a whole (i.e. comprising the three components as indicated and excluding the Blace passenger terminal) is economically viable and is sufficiently robust. The project is expected to yield €131.60 million NPV and 144.28% EIRR. On the pessimistic case with no traffic growth **and** simultaneously with an increased 10% investment cost in all three components, the project is robust to withstand this scenario yielding €109.28 million NPV and 130.45% EIRR.

The project components are varied and separable; therefore, each component should be evaluated separately in order to determine the more viable component for this project and to determine which component might be more marginal.
Net benefit (NPV at 12%) and the internal rate of return (EIRR) on the base case for each component and for the overall project are as follows:

Ranking of Ccomponents in Terms of NPV and EIRR	Component Name	NPV at 12% (Euro millions)	EIRR (%)
1.	Road Toll Collection System	116.82	190.84
2.	Railways-Customs Communication System	16.39	91.30
3.	Road-to-motorway Upgrading	0.16	12.25
	Overall Project (i.e. integrated with the above 3 components)	131.60	144.28

Component 1: Roads-to-motorway Upgrading (see Table 9.2 below)

Most of the data for this component was sourced from Balkan Consultants (consultant to FNRR). The analysis of economic costs exploitation from existing road (section without investment) to the new motorway takes into account the following basic types of costs over the 25 years planned period:

(a) Vehicle Operating Costs: HDM-4 model was used for the calculation.

(b) Value of Time Costs: Basic equation was applied as follows:

$$C_{ij} = 365 * AADT\ L/S_{ij} * n_p * C_{vpi}$$

Where

365	=	Number of days during a year
$AADT_{ij}$	=	Average Annual Daily Traffic (per vehicle type – i) (per year – j)
N_p	=	Average vehicle occupancy
L	=	section length (km) = 7.3 km
S_{ij}	=	Average speed (per vehicle type – i) (per year – j) in km/h
C_{vpi}	=	Value of 1 passenger hour. The average net personal income (without taxes) as at 8/06 was €225, and computation based on 2000 working hours per year.

(c) Traffic Accident Costs at €10,730 as the expected value (averaged from fatal, injured, or only material damage) of economic losses caused by one traffic accident. This data was based on studies made in Serbia.

(d) Road Maintenance Costs provided for regular, for periodical, and for winter maintenance.

Other parameters input for calculating economic benefits of this component include:

(a) Average Annual Daily Traffic (AADT) for 2006 is 4,145 vpd (vehicles per day), from 5034 vpd (average summer daily traffic) to 2529 vpd (average winter daily traffic).

(b) Annual Traffic growth rate for base case averaged about 7.0%, being profiled at 8.0% for the initial forecasted period and 5.0% towards the end. These are based on estimated growth of GDP and elasticity factor on sensitivity of traffic growth (per vehicle category) to GDP growth. (GDP growth rate has averaged 4.4% p.a. over last three years and is expected to be 6.0% for 2007). Estimated elasticity factor varies from 1.15 (buses) to 1.25 (heavy trucks). Annual traffic growth rate for pessimistic case averaged about 6.0% and for optimistic case averaged about 8.0%.

(c) Induced Traffic average about 16% of Normal traffic and incremental benefits arising from this induced traffic accounts for about 9% of benefits under normal traffic. This computation of 1% induced traffic to 0.55% incremental benefit is reasonable. (Traffic induced by the road investment are traditionally valued at Half the difference in the change in transport costs).

(d) Twenty-five years planned economic operating period of this component.

(e) Construction is over four years from 2008-2011. In the last year in 2011, because only another 0.9 million Euro is to be expensed, it can be expected that the motorway in 2011 is already fully-operational and full benefits for that year is computed. However, for the third year of construction in 2010, only half of the expected annual benefit is computed.

Sensitivity Analysis on NPV and EIRR
This project component is viable with NPV 12% at €0.16 million and EIRR at 12.25%. However, based on the above parameters, the switching value is tight and the project is not substantially robust: NPV turns negative and the projected internal rate of return falls below 12% from either a slight decrease in traffic growth rate by 1.0% from the base case or a 10% increase in investment cost.

Modified Parameters	Change in NPV and EIRR	
	€ million	%
Traffic growth rate at 6% (lower by 1.0% from base case)	(0.74)	10.81
Investment Cost up by 10%	(0.54)	11.24
Traffic growth rate lower by 1.0% from base case and Investment Cost up by 10%	(1.44)	9.83

There is a high expectation of traffic that is not accounted for in the analysis for this motorway. The basis for the high expectation of traffic that should be accounted for is derived from 2 factors:

(a) The Serbian motorway from Leskovac to the Macedonian border (80km long, part of Corridor X route) is due to complete in 2011. Once completed, practically the whole corridor X up to Macedonia would be finished. This should create promising conditions for significant regional transit traffic growth on the corridor, including for this Tabanovce-Kumanovo section.

(b) On the M-1 road direction through Serbia (from Preshevo to the Macedonian border) the AADT in 2005 was 6,354 vpd: this is **50% more** than the AADT for the Tabanovce-Kumanovo section.

The above factors were not included in the traffic flows forecast for this project component over the 25 years period of evaluation. The optimistic traffic growth rate forecast in the model is

about 8.0% versus the base case forecast of 7.0%; this optimistic forecast should be reachable. With this optimistic forecast, the project component would be sufficiently robust to withstand a 10% increase in investment cost. The switching value where NPV is zero under the optimistic case is for investment cost to increase by 15.1%.

Component 2: Blace Passenger Terminal
Not evaluated as data cannot be obtained.

Component 3: Roads Toll Collection System (see Table 9.3 below)
Most data for this component was sourced from FNRR.

The benefits evaluation for this component is based solely on the capturing of leakages under existing manual collection of road tolls. Currently 70% of tolls is leaked: only €12 million per annum is collected instead of expected €40 million per annum. Tolls are currently collected under a cash-based system from 13 toll stations. With the implementation of modern electronic tolling equipment, linked with automatic vehicle classification and traffic counting equipment, these toll stations would be gradually retrofitted with new equipments allowing for electronic payments. Once operational, leakages should be reduced and additional €28 million of road tolls should be generated.

Progressive attainment of the additional road tolls from this component is assumed over the initial three years of operation: from current 70% leakage to 40% leakage in the first year of operation, to 20% leakage in the second year, and to 5% leakage in the third and subsequent years of operation. 5.3% p.a. traffic growth is assumed for the following reason:

- fYR Macedonia's real GDP growth over the last three years averaged **4.4% p.a.** Multiply the GDP growth by an elasticity factor >1 to derive the traffic growth rate. The elasticity for passenger car is 1.2, providing an expected growth rate of 5.3%.
- Balkan Consulting has profiled the Annual Normal Vehicles Traffic growth rate (base case) at 7.6% for the initial forecasted period and 5.1% towards the end. (For 2007, a real growth rate of 6.0% for fYR Macedonia is expected). Average would be 6.4% over the forecasted period.
- Conservatively, we assume the lower of the two, 5.3%, to be the growth rate throughout the period of evaluation.

Ten years operational life is assumed to compute benefits.

Sensitivity Analysis on NPV and EIRR.
This project component is viable with NPV at €116.82 and EIRR at 190.84%. The project is robust under various assumptions in the sensitivity analysis, including under both 0% traffic growth rate and 10% investment cost increase.

Modified Parameters	Change in NPV and EIRR	
	€ million	%
Traffic growth drop to 0%	99.56	187.79
Investment Cost up by 10%	116.44	180.14
Traffic growth drop to 0% and Investment Cost up by 10%	99.18	177.11

Component 4: Railways-Customs Communication System (see Table 9.4 below)
Most data for this component was sourced from Macedonian Railways.

Two incremental benefits are captured in the evaluation of this component:

(a) Reduction in waiting time at the border stations – Time savings of 120 minutes is expected (from current waiting time of 240 minutes to a permitted waiting time of 120 minutes). For the average 29 freight trains per day at an average time value of about €3300 per day per freight train, about €3 million of savings per annum can be expected. A base case of freight traffic growth of 5.3% p.a. is assumed (see component 3 above for rationale in determining traffic growth).

(b) Trade benefits from the reduction of waiting time – this is assumed to be at 20% of the benefits captured under reduction in waiting time (20%-30% would be acceptable practice).

Ten years operational life for this component is assumed to compute benefits.

Sensitivity Analysis on NPV and EIRR

This project component is viable with NPV €16.39 and EIRR 91.30%. The project is robust under various assumptions in the sensitivity analysis, including under both 0% freight traffic growth and 10% investment cost increase:

Modified Parameters	Change in NPV and EIRR	
	€ million	%
Traffic growth drop to 0%	13.02	86.99
Investment Cost up by 10%	16.13	84.70
Traffic growth drop to 0% and Investment Cost up by 10%	12.76	80.36

Table 9.1

Economic Cost-Benefit Analysis

Macedonia TTFSE 2 Project: Integrated Project (with 3 components)
(millions of Euros in 2007 prices, unless otherwise stated)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Investment Costs																	
Component 1: Road-to-Motorway Upgrading	0	1.6	3.3	3.4	0.9	0	0	0	0	0	0	0	0	0	0	0	0
Component 3: Road Toll Collection System	2	2.5	0	0	0	0	0	0	0	0	0	0					
Component 4: Railways-Custom Communication System	0	1	2.1	0	0	0	0	0	0	0	0	0	0				
Total Investment Costs of Project	2	5.1	5.4	3.4	0.9	0	0	0	0	0	0	0	0	0	0	0	0
Benefits:																	
Component 1: Road-to-Motorway Upgrading	0.00	0.00	0.00	0.35	0.75	0.81	0.87	0.93	1.00	1.07	1.14	1.22	1.31	1.40	1.49	1.58	1.67
Component 3: Road Toll Collection System	0.00	0.00	12.00	21.06	26.71	28.12	29.61	31.18	32.84	34.58	36.41	38.34					
Component 4: Railways-Custom Communication System	0.00	0.00	0.00	3.46	3.64	3.84	4.04	4.25	4.48	4.72	4.97	5.23	5.51				
Total Benefits from Project	0.00	0.00	12.00	24.87	31.10	32.77	34.52	36.37	38.32	40.36	42.52	44.79	6.81	1.40	1.49	1.58	1.67
Net Benefits from Project	-2.00	-5.10	6.60	21.47	30.20	32.77	34.52	36.37	38.32	40.36	42.52	44.79	6.81	1.40	1.49	1.58	1.67

Table 9.2

Economic Cost-Benefit Analysis

Macedonia TTFSE 2 Project: Component 1 --- Road-to-Motorway Upgrading
(millions of Euros in 2007 prices, unless otherwise stated)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Investment Costs	0	1.60	3.30	3.40	0.90	0	0	0	0	0	0	0	0
Benefits:													
Economic cost reduction under Normal Traffic only				0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Economic cost reduction under Normal + Induced Traffic				0.35	0.75	0.81	0.87	0.93	1.00	1.07	1.14	1.22	1.31
Benefits from Project	0	0	0	0.35	0.75	0.81	0.87	0.93	1.00	1.07	1.14	1.22	1.31
Net Benefits from Project	0	-1.60	-3.30	-3.05	-0.15	0.81	0.87	0.93	1.00	1.07	1.14	1.22	1.31

Table 9.3

Economic Cost-Benefit Analysis

Macedonia TTFSE 2 Project: Component 3 --- Road Toll Collection System
(millions of Euros in 2007 prices)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Investment Costs	2	2.5	0	0	0	0	0	0	0	0	0	0	4.5
Benefits:													
Total Toll Collection (with project)	0	0	24.00	33.70	40.01	42.13	44.37	46.72	49.20	51.80	54.55	57.44	443.9183
Total Toll Collection (without proje	0	0	-12.00	-12.64	-13.31	-14.01	-14.75	-15.54	-16.36	-17.23	-18.14	-19.10	-153.0651
Total Benefits from Project	0.00	0.00	12.00	21.06	26.71	28.12	29.61	31.18	32.84	34.58	36.41	38.34	290.85
Net Benefits from Project	-2.00	-2.50	12.00	21.06	26.71	28.12	29.61	31.18	32.84	34.58	36.41	38.34	286.35

Table 9.4

Economic Cost-Benefit Analysis

Macedonia TTFSE 2 Project: Component 4 --- Railways-Customs Communication System
(millions of Euros in 2007 prices, unless otherwise stated)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Investment Costs	0	1.00	2.10	0	0	0	0	0	0	0	0	0	0	3.10
Benefits:														
Transport cost reduction				2.88	3.04	3.20	3.37	3.54	3.73	3.93	4.14	4.36	4.59	36.78
Trade impact from transport cost reduction				0.58	0.61	0.64	0.67	0.71	0.75	0.79	0.83	0.87	0.92	7.36
Total Benefits from Project	0	0	0	3.46	3.64	3.84	4.04	4.25	4.48	4.72	4.97	5.23	5.51	44.13
Net Benefits from Project	0	-1.00	-2.10	3.46	3.64	3.84	4.04	4.25	4.48	4.72	4.97	5.23	5.51	41.03

Annex 10: Safeguard Policy Issues

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

1. The proposed project will be supporting five components: (i) upgrading to motorway standards of the road corridor X section border crossing Tabanovce to Kumanovo; (ii) modernization of the passenger border crossing at the Blace border crossing with Kosovo; (iii) modernization of the road toll collection system along main transport corridors; (iv) creating a rail communication system on rail Corridor X and designing an EDI based solution for freight and freight train management information sharing between customs and railways, and (v) services required to support the successful implementation of the project (procurement, financial management, audits).

2. Only the first two components involve physical investments: conversion of the existing 7.3 KM stretch between Tabanovce and Kumanovo into a 4 lane motorway, by adding two additional lanes parallel to the existing road (Component 1); and replacing the existing temporary facilities at Blace border crossing point with a permanent and modern inspection, passport control and administrative facilities (Component 2). Implementation of these two components will have some adverse environmental and social impacts as they will require acquisition of small amounts of land (component 1 only) and demolition of existing old facilities. Small portion of an existing cemetery at Recica village will need to be relocated to meet the land requirements for adding two more lanes. Other three components are not expected to cause any adverse impacts as the proposed interventions are of technical assistance in nature. Therefore, the following three safeguards policies are triggered: Environmental Assessment (OP/BP 4.01); Physical Cultural Resources (OP/BP 4.11) and Involuntary Resettlement (OP/BP 4.12).

Environmental Assessment (OP/BP 4.01)

3. Considering the proposed types of interventions and findings from the EA studies carried out by the implementing agencies, which was later confirmed during site visits by the Bank staff, potential environmental impacts are likely to be construction related, reversible in nature and can easily be minimized or mitigated by adopting relevant design and construction standards. Potential positive environmental impacts include less traffic congestion at morning and evening peak hours, reduced traffic accidents because of directional lane separation and construction of new over-and underpasses, reduced vehicular emissions because of less idling/waiting at the border crossing, noise reduction because of introduction of noise barrier in populated areas and improved sanitary conditions for border staff and visitors.

4. In view of the above described likely impacts, the proposed project is categorized as an environmental category "B" project and FNRR has prepared separate Environmental Assessment reports and Environmental Management Plans (EMPs), for both the components (1 and 2), in accordance with OP 4.01 Environmental Assessment. These documents have been approved by the Ministry of Environment and Spatial Planning, Republic of Macedonia and are satisfactory to the Bank.

5. **Component 1:** The Fund for National and Regional Roads (FNRR) updated an existing EA carried out in 1996 and assessed the environmental and social issues and likely impacts from the proposed upgrading of the corridor X. Since the proposed changes and design are straightforward (following the alignment of the existing road for adding two additional lanes and an emergency lane, without requiring resettlement of people or demolition of structures) no alternative options, except 'no project' option, were considered.

6. The 'no project option' was analyzed and rejected in view of (i) the country's international obligations – primarily towards the EU - to improve the country's connectivity with neighboring countries; (ii) enhancing the performance of key trans-European corridor X (of which the proposed section forms a part); and (iii) facilitating a smoother and safer flow of peak-hour and seasonal traffic in the border zone, taking into account the rapid traffic revival and view traffic development along corridor X.

7. **Component 2:** The Public Enterprise for Housing has prepared an EA and EMP to mitigate likely impacts from the disposal of construction and demolition wastes and disposal of hazardous waste PCB (Poly Chlorinated Biphenyl) when the existing old transformer is replaced. The agency further confirmed that for modernizing the Blace passenger border crossing no land acquisition is required since all proposed construction activities will take place within the boundaries of the actual state owned facility.. A small piece of land in the middle of the existing border crossing facility will be purchased from the actual owner on a voluntary sell-buy basis. Currently, the border crossing agency has a long term lease to use this land, but the Ministry of Transport has confirmed to purchase it from the owner before commencing the construction.

Physical Cultural Resources (OP/BP 4.11)

8. A small portion of a cemetery in Recica village will be affected by the proposed expansion of the existing road corridor (component 1) and as a result, seventeen graves (20-50 years old) need to be relocated to a nearby site identified by the local community. The project will assist the local communities in purchasing a new piece of land, close to the existing graveyard, and in actual relocation process, in accordance with OP/BP 4.11 Physical Cultural Resources. Several consultations were held with the competent Bishop of the Kumanovo region, the Metropolitan Kiril and with the relevant church authorities in Kumanovo. The competent priest and the technical documentation confirmed that the 533 m^2 of cemetery land which was to be expropriated for adding two lanes is registered in the cadastre as church property. Based on the agreements reached with the church, local communities, the Metropolitan Kiril and relatives of the deceased, the FNRR will provide the church with adequate land in the immediate vicinity of the cemetery and provide financial assistance for dislocation of the graves which are affected with the construction of the motorway, as well as for extension of the existing cemetery.

9. **Environmental Management Plan (EMP):** An EMP for both the components, agreed with the Government is attached at the end of this annex. This EMP provides a summary of proposed mitigation and enhancement measures with reference to significant environmental issues and impacts and details implementation arrangements such as: implementation and supervision responsibilities, schedules, cost estimates, monitoring indicators etc.

10. **Resettlement Action Plan:** A Resettlement Action Plan (RAP) has been agreed with the government and it provides details on the likely impacts resulting from land acquisition for Component 1 [upgrading to motorway standards of the road corridor X section border crossing Tabanovce to Kumanovo] and the mitigatory measures that will be put in place to address these adverse impacts. The RAP provides a framework for implementation of strategies to ensure timely acquisition of assets, payment of compensation and delivery of other benefits to project affected persons, and a framework for supervision, monitoring and evaluation of resettlement implementation. Most of land required for civil works is state-owned land i.e. 63.5% due to the fact that the proposed alignment follows the alignment of the existing road. There are 294 agricultural plots that will need to be acquired affecting 102 owners; a majority of them will lose part of their agricultural land. No residences are adversely affected; so there will be no physical displacement of persons. Likewise, no buildings will need to be demolished. Project affected persons suffering loss of agricultural land will be entitled for full compensation for the affected assets at replacement cost paid in cash.

11. Public Consultations

The FNRR held several meetings with the local population in the period between January and February 2007. Around 80 representatives from the local communities, persons whose properties will be expropriated for the construction of the Tabanovce – Kumanovo motorway, the persons affected by the exhuming of the graves, representatives from the relevant church authorities – Kumanovo and personnel from the Department for Property Issues in the Municipality of Kumanovo, took part in the meetings and public debates.

The basic technical characteristics of the route and of the structures, the expropriation line of the route and maps were presented. One of the discussion points raised related to the access of the settlements with the motorway. The technical solutions for the connections with the motorway were presented and were accepted by the representatives present at the meeting. The issue relating to the amount of the compensation for the expropriated land, the manner and the procedures of the expropriation process raised most interest. The representatives of the Department for Property Issues of the Municipality of Kumanovo, the expert for assessment of the value of assets, and representatives of local communities took part in the discussion on these issues. The manner and the process of the expropriation were fully explained and the community did not have issues or problems with the approach or the method for assessing value or payment of compensation.

12. Disclosure of EA and RAP

The government has disclosed the EA and EMPs for components 1 and 2 and the RAP for component 1 in the following places: (i) website of Ministry of Transport; (ii) website of Ministry of Environment and and Spatial Planning; (iii) website of FNRR (this site is currently being built and will be posted in a few weeks time), and (iv) WB Country Office Macedonia website. Copies of these documents have also been disclosed in the Bank Infoshops in Washington DC and Skopje prior to appraisal.

Proposed Upgrading of the Road Corridor X (Section BCP of Tabanovce-Kumanovo)

Potential Impacts/Issues	Mitigation Measures	Implementation Schedule	Budget Estimate	Responsibility for Implementation	Responsibility for Supervision	Monitoring Indicators	Frequency of Monitoring & Reporting
Before and During Construction							
Dust and emissions from construction activities likely to affect households located close to the existing and proposed lanes at Tabanovce village.	Requirement to use appropriate dust suppression measures (like sprinkling of water) and use of well maintained equipment to reduce on-site emissions will be included in the construction bid document.	During construction.	Part of overall construction cost	Contractor	Project Coordination Unit (PCU) at the Fund for National and Regional Roads (FNRR)	Dust and emissions from construction equipment – visual observation for abnormal levels	Visual inspections by PCU staff during construction, included in the construction log and reported once a month.
Improper disposal of construction wastes, especially from the dismantling of old overpasses and underpasses may result in adverse impacts.	Contractor will be required to dispose the waste in the two sites (at……and…..) shown in the design. This requirement will be included in the final contract.	During demolition of exiting structures	Part of overall construction cost	Contractor for safe disposal in the identified sites. PCU for getting permission from the Government	PCU	Records on quantities and types of wastes disposed – maintained by the contractor	Inspection of the disposal site before and after disposal of wastes. Included in the overall project monitoring report
Seventeen old graves located at Recica village will be affected by the proposed addition of two lanes and they need to be relocated.	Community leaders, relatives, church and local authorities will be consulted to determine the process to relocate the graves in a nearby site and plant some ornamental bushes, flowering plants etc., as a boundary. FNRR will acquire the land on behalf of the local community.	Before commencing construction of the new lanes	Euros 6,000	Public communal enterprise from Kumanovo for relocation of graves. PCU to acquire the land and provide funds.	Community with local Church	Relocation of graves to the satisfaction of the relatives of the diseased	Once after relocation. Included in the overall project monitoring report
Potential land degradation from new borrow pits opened for road construction.	Demand for construction soil will be met from existing borrow pits or from new pits in two sites identified by PCU and these will be restored back to their original state.	Soon after completing the construction	Part of overall construction costs.	Contractor	PCU	Restored/rehabilit ated borrow pits	Visual inspections by PCU staff during construction.
After Construction – During Operation							
Several houses at Tabanovce village, located close to the exiting two lanes are likely to be affected by higher noise levels because of increased traffic and speed.	Noise barriers of appropriate design will be included for a stretch of approximately 0.5 km long as part of the road design and construction.	Bid document to include noise barrier designs. Barriers will be constructed along with the road construction.	Part of overall construction costs	Contractor	PCU	Constructed noise barriers and reduced noise levels	Inspections by PCU staff during and after construction of the barriers
Impacts from increased vehicular emissions near the border crossing, because of idling/waiting during peak traffic periods.	Suitable vegetation buffer (by planting local species) for about one or more km stretch (on both sides of the road) from the existing border crossing point will be created. Separate contract with local communities or roads maintenance department or NGOs will be entered to ensure survival of the saplings.	Plan for creating the buffer (selection of species, age of saplings, planting instructions etc) will be included in the bid document. Actual plantation will be carried out soon after construction.	Euros 5,000	Contractor for plantation; Maintenance department or local communities or NGOs as appropriate.	PCU	Survival rate of plants/trees planted	Monthly inspection by PCU staff

Proposed Upgrading of the Passenger Terminal at the Blace Border Crossing Point with Kosovo

Potential Impacts/Issues	Mitigation Measures	Implementation Schedule	Budget Estimate	Responsibility for implementation	Responsibility for Supervision	Monitoring Indicators	Frequency of Monitoring & Reporting
Before and During Construction							
Improper disposal of construction and demolition wastes, especially from the dismantling of existing structures and the old transformer (disposal of (Poly Chlorinated Biphenyl - PCB) may result in adverse impacts.	Contractor will be required to maximize recycling of wastes, dispose in a site identified by the PCU (in FNRR) and check for PCB and dispose it in accordance with national laws and regulations. PCB free transformers will be used to replace the existing and for the new one. The above requirements will be included in the bid document.	During demolition of exiting structures	Part of overall construction cost	Contractor for safe disposal PCB as per local laws and safe disposal of construction wastes in the specified site. PCU for getting permission from the Government.	PCU	Records on quantities of PCB and other types of wastes disposed – maintained by the contractor.	Inspection of the disposal site before and after disposal of construction wastes; records confirming safe disposal of PCB; and use of PCB free transformers are included in the overall project monitoring report
After Construction – During Operation							
Sewage and solid waste disposal may result in adverse impacts if not managed properly.	Sewage from the new passenger terminal will be collected and sent to the treatment plant currently operating in the truck terminal (new on-site treatment will be built only if required). Proper arrangements for collection and transportation of solid wastes will be made in conjunction with the current arrangements for managing wastes from the truck terminal.	Prior to construction of the new terminal, PCU will confirm that the existing treatment plant has adequate capacity to treat the sewage from the new passenger terminal. Sewage and solid waste management arrangements will be finalized prior to commissioning the new terminal.	Additional monthly expenses towards additional operating costs.	Customs Administration, with the help of a contractor (???)	Customs Administration/PCU	Satisfactory management of sewage and solid wastes.	Monthly inspection

Social Safeguards

The project activities will not result in the physical relocation of people, and it is unlikely that other significant social impacts will occur. However, land acquisition will be required for upgrading to motorway standards of the existing road Tabanovce-Kumanovo. This triggers the World Bank policy on Involuntary Resettlement (OP 4.12). Since the precise alignment of the additional lanes is well known from the available designs, and amounts to about 42 ha., the Resettlement Action Plan, consistent with the World Bank OP 4.12, has been prepared as a condition for appraisal. The Plan reflects that where land acquisition was unavoidable, all affected persons have been consulted and compensated for their lost assets at replacements costs, in accordance with the Borrower's Laws and the World Bank's OP 4.12. The project will follow existing legislation and cash compensation will be offered at levels that will be sufficient to replace lost land and other assets. The Government has included a provision in its 2007 budget to cover the land acquisition costs.

Public Consultations

The FNRR held several meetings with the local population in the period between January and February 2007. Around 80 representatives from the local communities, persons whose properties will be expropriated for the construction of the Tabanovce – Kumanovo motorway, the persons affected by the exhuming of the graves, representatives from the relevant church authorities – Kumanovo and personnel from the Department for Property Issues in the Municipality of Kumanovo, took part in the meetings and public debates.

The basic technical characteristics of the route and of the structures, the expropriation line of the route and maps were presented. One of the discussion points raised related to the access of the settlements with the motorway. The technical solutions for the connections with the motorway were presented and were accepted by the representatives present at the meeting. The issue relating to the amount of the compensation for the expropriated land, the manner and the procedures of the expropriation process raised most interest. The representatives of the Department for Property Issues of the Municipality of Kumanovo, the expert for assessment of the value of assets, and representatives of local communities took part in the discussion on these issues. The manner and the process of the expropriation were fully explained and the community did not have issues or problems with the approach or the method for assessing value or payment of compensation.

Annex 11: Project Preparation and Supervision

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

	Planned	Actual
PCN review	12/09/2004	12/09/2004
Initial PID to PIC	01/05/2005	12/20/2004
Initial ISDS to PIC	01/21/2005	01/10/2005
Appraisal	04/25/2005	04/06/2007
Negotiations	06/13/2005	04/16/2007
Board/RVP approval	03/15/2007	05/29/2007
Planned date of effectiveness	10/01/2007	
Planned date of mid-term review	10/01/2009	
Planned closing date	12/31/2011	

Key institutions responsible for preparation of the project:

Ministry of Finance
Ministry of Transport and Communications
Fund for National and Regional Roads
Macedonian Customs Administration
Macedonian Railways
Public Enterprise for Housing and Business Premises

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Paulus Guitink	Task Team Leader	ECSSD
Zarko Bogoev	Operations Officer	ECSSD
Ross Pavis	Operations Officer	ECSSD
Anca Dumitrescu	Sr. Transport Specialist	AFTTR
Liljana Sekerinska	Transport Consultant	ECSSD
Julia Tomova	Junior Professional Associate	ECSSD
Kirsten Burghardt-Propst	Counsel	LEGEC
Aleksandar Crnomarkovic	Financial Management Specialist	ECSPS
Radhika Srinivasan	Sr. Social Scientist	ECSSD
Bekim Ymeri	Social Scientist	ECSSD
Craig Neal	Sr. IT Specialist	ECSPE
L. Panneer Selvam	Environmental Safeguards Specialist	ECSDD
Richard Wong	Sr. Financial Analyst	ECSSD
Marie Laygo	Program Assistant	ECSSD
Jasminka Sopova	Program Assistant	ECSDD

Bank funds expended to date on project preparation:

1. Bank resources: US$266,031.75
2. Trust funds: 0
3. Total: US$266,031.75

Estimated Approval and Supervision costs:

1. Remaining costs to approval: US$12,000
2. Estimated annual supervision cost: US$90,000

Annex 12: Documents in the Project File

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

A. Bank Staff Assessments

Pre-appraisal mission Aide-Memoire, December 2006
Preparation mission Aide-Memoire, June 2006
Preparation mission Aide Memoire, October 2005

B. Reports and Studies

Railway Border Crossing Study for the Western Balkans, TPPF, Scott Wilson Associates (November 2004)
Feasibility study National Road M-1 (E75) Motorway Tabanovce-Kumanovo, Balkan Konsalting DOOEL, Skopje (December 2006)
Draft EIA Highway Tabanovce – Kumanovo, FNRR, December 2006
Economic, Financial and Social Considerations in Setting Road Tolls, Anil Bhandari, September 2006
Automated Toll System for the Republic of Macedonia, USAID, Jerker Torngren, August 2006
Information for Procurement of a new Toll Payment System in Republic of Macedonia, FNRR, December 2006
Comments on Information for Procurement of a new Toll Payment System, USAID, Jerker Torngren, December 2006
Integrated Telecommunication Information System of Macedonian Railways, Macedonian Railways, January 2007
Improvement and Modernization of the Blace border crossing for passenger vehicles, buses, and pedestrians, Public Enterprise for Housing, January 2007

C. Legal Documents

Law on Expropriation, prepared by Directorate for Property and Legal Issues, July 1995, plus amendments 1998-2002Roads Law plus Amendments

Annex 13: Statement of Loans and Credits

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

			Original Amount in US$ Millions						Difference between expected and actual disbursements	
Project ID	FY	Purpose	IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P090303	2006	PDPL	30.00	0.00	0.00	0.00	0.00	29.37	0.00	0.00
P083499	2006	RAILWAYS REFORM	19.38	0.00	0.00	0.00	0.00	18.43	0.00	0.00
P083126	2005	REG & REAL ESTATE (CRL)	14.00	0.00	0.00	0.00	0.00	11.86	0.15	0.00
P079552	2005	BUSINESS ENV REFORM & INST STRENGTH	11.30	0.00	0.00	0.00	0.00	10.55	0.22	0.00
P086670	2004	HLT SEC MGT	10.00	0.00	0.00	0.00	0.00	9.36	0.31	0.00
P074358	2004	SOC PROT	9.80	0.00	0.00	0.00	0.00	8.55	0.48	0.00
P066157	2004	EDUC MOD	5.00	0.00	0.00	0.00	0.00	4.70	1.03	0.50
P076712	2002	COMM DEVT	0.00	5.00	0.00	0.00	0.00	3.04	1.88	0.00
P073483	2001	CHILD/YOUTH DEVT LIL	0.00	2.50	0.00	0.00	0.00	1.20	0.83	-0.08
P070089	2001	TRADE & TRANS FACIL IN SE EUR	0.00	9.30	0.00	0.00	0.00	1.47	0.87	0.00
P063577	2001	COMM DEVT & CULT LIL	0.00	5.00	0.00	0.00	0.00	2.74	1.96	-1.14
P038399	1998	IRRIG REHAB	7.50	5.00	0.00	0.00	0.00	4.62	3.95	0.98
		Total:	106.98	26.80	0.00	0.00	0.00	105.89	11.68	0.26

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

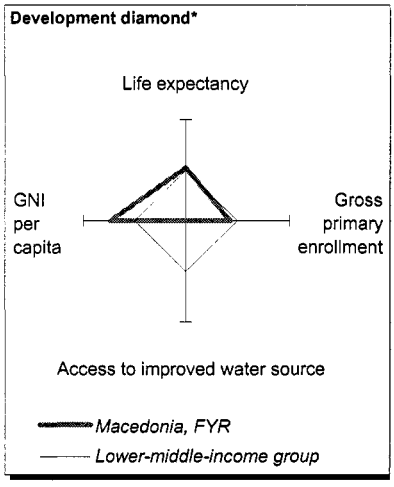
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2001	Komercijalna	1.98	0.00	0.00	0.00	1.98	0.00	0.00	0.00
1998	Macedonia Telcom	0.00	11.31	0.00	0.00	0.00	11.31	0.00	0.00
1997	Nikol-Fert	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2003	ProCredit MCD	0.00	1.13	0.00	0.00	0.00	1.13	0.00	0.00
1999	SEAF Macedonia	0.00	0.54	0.00	0.00	0.00	0.01	0.00	0.00
1998	Stopanska Banka	0.00	5.08	0.00	0.00	0.00	5.08	0.00	0.00
2000	Stopanska Banka	0.00	2.93	0.00	0.00	0.00	2.93	0.00	0.00
2001	Stopanska Banka	0.00	0.55	0.00	0.00	0.00	0.47	0.00	0.00
2003	Stopanska Banka	0.00	1.97	0.00	0.00	0.00	1.78	0.00	0.00
2002	Teteks	4.10	0.00	0.00	0.00	3.80	0.00	0.00	0.00
	Total portfolio:	6.58	23.51	0.00	0.00	5.78	22.71	0.00	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

Annex 14: Country at a Glance

FYR MACEDONIA: Second Trade and Transport Facilitation Project

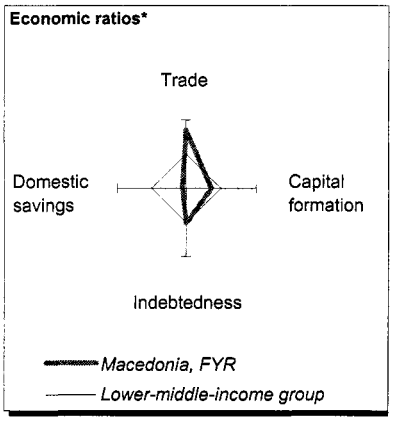
POVERTY and SOCIAL	Macedonia, FYR	Europe & Central Asia	Lower-middle-income
2005			
Population, mid-year *(millions)*	2.0	473	2,475
GNI per capita *(Atlas method, US$)*	2,830	4,113	1,918
GNI *(Atlas method, US$ billions)*	5.8	1,945	4,747
Average annual growth, 1999-05			
Population *(%)*	0.3	0.0	1.0
Labor force *(%)*	0.8	0.6	1.4
Most recent estimate (latest year available, 1999-05)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	69	64	50
Life expectancy at birth *(years)*	74	69	70
Infant mortality *(per 1,000 live births)*	13	28	33
Child malnutrition *(% of children under 5)*	6	5	12
Access to an improved water source *(% of population)*	..	92	82
Literacy *(% of population age 15+)*	96	97	89
Gross primary enrollment *(% of school-age population)*	98	104	114
Male	98	105	115
Female	98	102	113



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

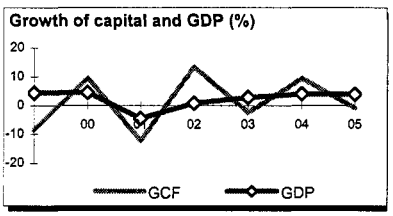
	1985	1995	2004	2005
GDP *(US$ billions)*	..	4.4	5.4	5.8
Gross capital formation/GDP	..	20.8	21.6	21.0
Exports of goods and services/GDP	..	33.0	40.2	45.0
Gross domestic savings/GDP	..	11.0	1.3	3.4
Gross national savings/GDP	..	13.8	15.3	21.0
Current account balance/GDP	..	-6.7	-7.7	-1.4
Interest payments/GDP	..	0.2	0.9	..
Total debt/GDP	..	28.7	38.1	..
Total debt service/exports	..	2.2	10.5	..
Present value of debt/GDP	..	..	33.4	..
Present value of debt/exports	..	..	77.1	..

	1985-95	1995-05	2004	2005	2005-09
(average annual growth)					
GDP	-4.9	2.0	4.1	4.0	4.3
GDP per capita	-5.4	1.6	3.9	3.8	3.7
Exports of goods and services	1.3	3.0	11.0	9.3	4.6

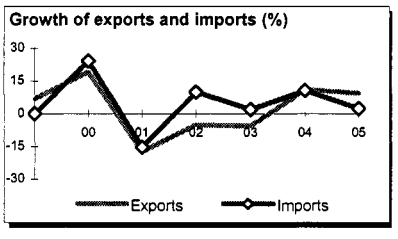


STRUCTURE of the ECONOMY

	1985	1995	2004	2005
(% of GDP)				
Agriculture	..	13.2	13.2	12.0
Industry	..	30.0	29.2	29.2
Manufacturing	..	23.2	17.4	18.2
Services	..	56.8	57.7	58.7
Household final consumption expenditure	..	70.4	77.9	77.0
General gov't final consumption expenditure	..	18.6	20.8	19.6
Imports of goods and services	..	42.8	60.5	62.5



	1985-95	1995-05	2004	2005
(average annual growth)				
Agriculture	-1.1	0.1	6.2	3.1
Industry	-11.0	2.5	0.7	4.5
Manufacturing	-12.4	1.5	-0.3	7.0
Services	-0.8	2.3	5.7	3.8
Household final consumption expenditure	-4.4	4.0	4.5	2.7
General gov't final consumption expenditure	-3.0	1.6	3.3	-0.4
Gross capital formation	-1.7	1.3	9.5	-0.8
Imports of goods and services	4.5	5.4	10.6	2.4



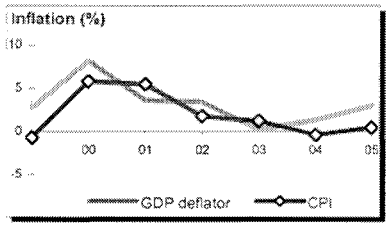
Note: 2005 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

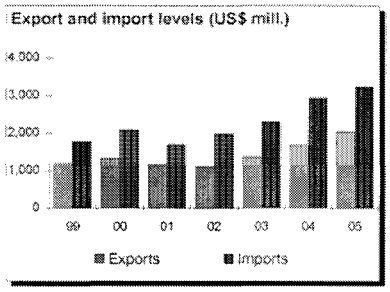
PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
Domestic prices				
(% change)				
Consumer prices	..	16.4	-0.4	0.5
Implicit GDP deflator	..	17.1	1.3	3.0
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	37.8	36.3	34.0
Current budget balance	..	1.7	3.3	2.4
Overall surplus/deficit	..	-1.0	0.4	0.3



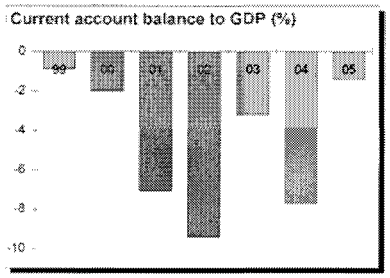
TRADE

	1985	1995	2004	2005
(US$ millions)				
Total exports (fob)	..	1,204	1,676	2,041
Raw materials	..	93	44	68
Food	..	132	126	167
Manufactures	..	886	1,299	1,477
Total imports (cif)	..	1,719	2,932	3,228
Food	..	281	337	343
Fuel and energy	..	199	398	618
Capital goods	..	335	547	563
Export price index *(2000=100)*	..	149	123	136
Import price index *(2000=100)*	..	113	129	146
Terms of trade *(2000=100)*	..	132	96	93



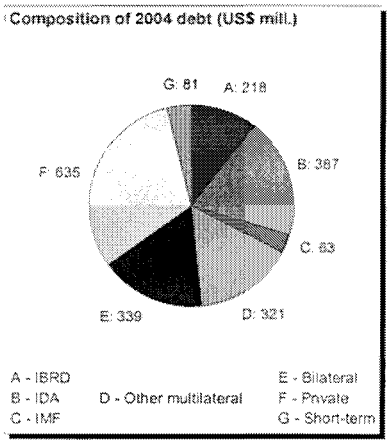
BALANCE of PAYMENTS

	1985	1995	2004	2005
(US$ millions)				
Exports of goods and services	..	1,389	2,080	2,511
Imports of goods and services	..	1,813	3,247	3,603
Resource balance	..	-423	-1,166	-1,091
Net income	..	-40	-39	-55
Net current transfers	..	164	791	1,065
Current account balance	..	-299	-415	-81
Financing items (net)	..	400	434	497
Changes in net reserves	..	-101	-19	-415
Memo:				
Reserves including gold *(US$ millions)*	..	283	986	1,325
Conversion rate *(DEC, local/US$)*	..	38.1	49.4	49.3



EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
(US$ millions)				
Total debt outstanding and disbursed	..	1,277	2,044	..
IBRD	..	97	218	244
IDA	..	84	387	364
Total debt service	..	32	244	..
IBRD	..	27	17	18
IDA	..	0	3	5
Composition of net resource flows				
Official grants	..	18	141	..
Official creditors	..	55	64	..
Private creditors	..	0	27	..
Foreign direct investment (net inflows)	..	0	157	..
Portfolio equity (net inflows)	..	0	15	..
World Bank program				
Commitments	..	123	55	..
Disbursements	..	62	57	62
Principal repayments	..	19	11	13
Net flows	..	43	46	49
Interest payments	..	8	9	10
Net transfers	..	35	37	39



Note: This table was produced from the Development Economics LDB database. 8/13/06

Annex 15: Map

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
Second Trade and Transport Facilitation Project

IBRD 35347

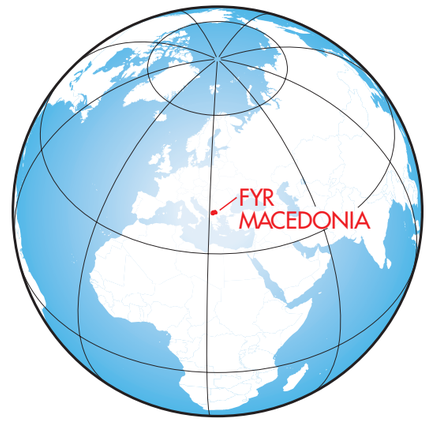
FYR MACEDONIA

SECOND TRADE AND TRANSPORT FACILITATION PROJECT

PROJECT INTERVENTIONS:

- IMPROVING THE TELECOMMUNICATION SYSTEM
- UPGRADING TO MOTORWAY STANDARDS (KUMANOVO-TABANOVCE)
- UPGRADING OF CUSTOMS FACILITY (BLACE)
- CORRIDOR X
- RIVERS
- MAIN ROADS
- RAILROADS
- SELECTED CITIES AND TOWNS
- MUNICIPALITY CAPITALS*
- NATIONAL CAPITAL
- THE CITY OF SKOPJE
- MUNICIPALITY BOUNDARIES
- INTERNATIONAL BOUNDARIES

*In most cases, the names of the municipalities are identical to their capitals. Where they differ, the municipality is shown in green italic.



APRIL 2007