

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB1254

Project Name	Second Trade and Transport Facilitation Program
Region	EUROPE AND CENTRAL ASIA
Sector	General transportation sector (100%)
Project ID	P091723
Borrower(s)	GOVERNMENT OF REPUBLIC OF MACEDONIA
Implementing Agency	
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input type="checkbox"/> S ₂ <input checked="" type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	November 30, 2004
Estimated Date of Appraisal Authorization	March 21, 2005
Estimated Date of Board Approval	June 23, 2005

1. Key development issues and rationale for Bank involvement

The dismantling of former Yugoslavia produced an increase of borders in the region, each imposing additional logistical and transportation costs to traders as well as time impediments. Problems regarding poor cooperation between border crossings agencies, cumbersome and unclear border crossing regulations and procedures, economic barriers, and common petty corruption arose as major hindrances to trade. In addition, a decade of financial difficulties and conflicts in the region led to the deterioration of the physical transport networks. Against this background, and within the framework of the Southeast Europe Cooperative Initiative (SECI), participating states in April 1999 signed a MoU to facilitate international road transport of goods. With Macedonia becoming a member of WTO, the promotion of its international trade has gained further importance, while the EU accession process is putting a premium on regional cohesion and market integration.

It was in this context that the TTFSE I project was initiated, which after a three year implementation period managed to bring about improved performance in terms of customs clearance times, significant reduction in border crossing times, increased customs revenues, and trade volumes. Government representatives praised the project achievements and asked that it 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 Region¹. 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.

¹ 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.

Trade and Transport conditions in Macedonia: Macedonia is at the crossroads of two Trans European Corridors: Corridor X (road, rail) and Corridor VIII (road). Corridor X is the main north-south connection in the country, of key importance for trade and transport in Macedonia, and also essential for SEE regional trade – by linking central Europe with the port of Thessaloniki. Although subject to on-going improvement investments - under TTFSE I and other IFIs/EU-funded infrastructure projects – Corridor X still suffers from a number of deficiencies: lengthy processing at the rail border crossings making transit relatively slow, expensive and unattractive for time-sensitive shipments; inadequate road infrastructure between Kumanovo and the north BCP at Tabanovce, which given the prognoses for substantial increase in road traffic volumes in the period to come can potentially become a bottleneck²; long waiting times for both passengers and freight at the Blace BCP with Kosovo despite recent infrastructure improvements supported by the European Agency for Reconstruction (EAR). Macedonia's road toll collection system puts an extra strain on trade and transport in the country – established in 1987 and not modernized ever since to take account of the increase in traffic volumes, the current system is highly human factor dependent and cash-only operating (thereby being time-inefficient and sensitive to fraud and corruption). In addition, Macedonia lacks a single electronic window³ for traders to lodge all import, export and transit-related information and documents, to allow for a modern goods processing system. Last, but not least the public-private dialogue in the country is not well coordinated and is marked by the existence of several representative groups, official and unofficial, and the lack of a clear forum for discussion at a technical level of facilitation issues. The overall lack of trust between private and public sector representatives limits the introduction of more modern trade management principles, whereby properly trained operators with strong track record receive more expedient treatment. The use of certified training programs, in partnership with international professional associations would help to identify qualified forwarding and transport companies in this rapidly expanding service sector (about 700 transporters, mostly very small, and 300 forwarders/brokers).

2. Proposed objective(s)

The overall development objective is to enhance regional trade and transport through facilitating related operations along the main transport corridors. To this end, the project would: (i) streamline rail border crossing procedures and rail information systems along corridor X; (ii) remove remaining physical and institutional bottlenecks in Corridor X road infrastructure and optimizing the road toll collection system; (iii) improve freight information flows along Corridor X, building on the integrated border management strategy of Macedonia; and (iv) build capacity of traders and transport companies to access markets and dialogue with the government. The project would thus cooperate to enhance the business environment in Macedonia, strengthening competitiveness and stimulating economic growth.

The project is intended to be part of a regional program that may cover all other countries in Southeast Europe, creating potential synergies, particularly on information flows and corridor optimization, as projects in the other countries are taken forward. However, the benefits of this project are expected to also justify unilateral implementation.

² The REBIS study (COWI, 2003) estimated that road traffic will increase by 200-300% over the period 2001-2025; similarly, the TIR study (Louis Berger, 2002) estimated that road traffic would increase by between 168-260% over the period 2000-2015.

³ For more on Single Windows: <http://www.gfpt.org/Topics/Single-Window>

The main indicators of performance for the regional program would include: (i) increased transit turnover on the rail corridor X (to be quantified in US\$ million); (ii) increased road toll collection by xx percent; (iii) reduced truck travel time between Tabanovce and Bogorodica by xx percent; (iv) reduced processing time at border crossing by xx percent and reduced variation in processing time.

3. Preliminary description

The total project cost is estimated at US\$18 million. Bank financing would be around US\$15 million. Grant funding would be sought for the Trade Capacity Building component, with matching contribution from the Chamber of Commerce.

TTFSE II would be the second phase of a multi-phased approach, initiated with TTFSE I, for enhancing the trade competitiveness of the region as a whole and Macedonia in particular. Improvement of trade movement on Corridor X is an essential part of this overall multi-phased approach, and would also logically move into its second phase with the TTFSE II.

The project would support the CAS objective for efficient management of public resources and tackling corruption through more efficient and effective operation of the roads and railways, enhancing border crossing agencies services and transparency and supporting regional integration by increasing cooperation between the border crossing agencies, harmonizing procedures, and increasing transparency. It would also support the CAS objective of sustainable, private sector driven growth. To this end the project design will be coordinated with the PSAL and BERIS projects currently under preparation.

The project would have the following components.

The Rail Border Crossing Streamlining Component - expected to require 8% of the resources, would focus on developing new traffic (including container traffic) by improving border processing on Corridor X. It would include an upgrade to the information system (network, main server and software application for data exchange) used by Macedonian Railways (MR) to communicate with shippers/forwarders, border agencies, foreign railways, and modification of border procedures with detailed performance measurements, preferably in partnership with the Serbian railways to minimize downtime. This component would be subject to the commitment of MR to modify procedures.

Road Corridor X Improvement - this component would involve further infrastructure improvement of Corridor X in Macedonia: in the section Tabanovce – Kumanovo (total length 7km), which would be rehabilitated up to 2-lane motorway standards along the existing alignments.

Modernizing the Road Toll Collection System - would help develop a new toll collection system that would reduce cash transactions which would be applied on both corridors (VIII and X) in the country, thereby improving time-effectiveness and reducing fraud and corruption along the main transport corridors.

Upgrading BCP Facilities - would remove the bottleneck on the road link from Skopje to Kosovo by improving infrastructure at the BCP Blace.

The improvement of Road Corridor X, the modernization of the road toll collection system and the upgrading of the facilities at BCP Blace would require, altogether, 69% of the funds.

The Integrated Border Management for Freight Component, requiring an estimated 17% of the resources would support the implementation of a single window concept for freight traffic processing. The component would include technical services to streamline the overall border processing of freight, simplify interagency documentary requirements in line with EU practices, define optimized information flows and processing in partnership with neighboring countries, and support the various agencies in developing and implementing a single window environment. The component would further the transparency efforts initiated under TTFSE by expanding the TTFSE website (www.ttfse.org) to provide procedures related to rail transport and to offer country pages in Macedonian as requested by users. It would review the possibility to implement low cost supply chain management integration solutions (software-electronic documents) for small and mid-size firms, building on the outcome of an on-going USAID-sponsored pilot in the region.

The Trade Capacity Building Component, building on the successful training programs under the TTFSE program, this component (requiring an estimated 6% of the resources) would cover: (i) training of mid-level managers on logistics and supply chain management concepts, and continuation of the TTFSE training programs for border agency staff and private sector; (ii) reinforcing of qualitative criteria for transport and freight forwarding companies; and (iii) building-up the capacity of the Macedonian PRO Committee, Freight Forwarders' Association, and road transport associations to constructively work together and interact with the Government to advance the trade and transport facilitation agenda. This component would build on activities from other donors. Grant funding with matching by the Chamber would be sought to finance this component.

Given the complexity of problems that TTFSE II sets itself the objective to address, the proposed improvements would need to be carefully prioritized and phased in order to ensure that the envisaged project finance of US\$18 is allocated in the most efficient way. As for the Road Corridor X and the Blace BCP improvements, feasibility and preliminary design studies are available and will be reviewed at pre-appraisal. Further phasing of the project will be done in coordination with Government, depending on availability of supporting studies.

4. Safeguard policies that might apply

[Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?]

Environmental Assessment is applicable.

5. Tentative financing

Source:	(\$m.)
BORROWER	3
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	15
Total	18

6. Contact point

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