

Document of
The World Bank

Report No: 57955-MK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
SECOND TRADE AND TRANSPORT FACILITATION PROJECT
LOAN
MAY 29, 2007
TO THE
MACEDONIA FORMER YUGOSLAV REPUBLIC OF

November 23, 2010

**Sustainable Development Department
South East Europe Country Unit
Europe and Central Asia Region**

ABBREVIATIONS AND ACRONYMS

ASR	Agency for State Roads
BCP	Border Crossing Point
IFC	International Finance Corporation
MOF	Ministry of Finance
MOTC	Ministry of Transport and Communications
MCA	Macedonian Customs Administration
MZ	Macedonian Railways
MR-I	Public Enterprise Macedonian Railways Infrastructure
RP	Restructuring Paper
TA	Technical Assistance
TTFSE	Trade and Transport Facilitation in Southeast Europe

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

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SECOND TRADE AND TRANSPORT FACILITATION PROJECT

RESTRUCTURING PAPER

SUMMARY

This will be the second restructuring of the Macedonia Second Trade and Transport Facilitation Project. The first, completed in May 2010, (i) increased the percentage of expenditures financed from the loan from 78% to 100% at Government request, and (ii) reduced the scope of Components 3 and 4,¹ in line with the Government decision to fund the provision and installation of Corridor X tolling equipment outside of the project as part of a larger motorway concession scheme. The first restructuring set aside EUR 100,000 in Component 3 for technical assistance that might be necessary in the toll concessioning preparation.

The proposed changes for this second restructuring include: (A) reallocation of those EUR 100,000 from expenditure category (1) (for Component 3) to expenditure category (4) (for Component 4), and (B) adjustment in the disbursement table to show the correct amounts of eligible expenditures allocated to each expenditure category:

- As to proposed change (A), following the completion of the May 2010 restructuring, the Ministry of Transport informed the Bank that the EUR 100,000 set aside for technical assistance were not needed and could be reallocated. This is a result of the Government's intention to engage the IFC in the toll concessioning, a decision made after the first restructuring was completed. At the same time, the Macedonian Customs Administration (MCA) requested Bank assistance on two trade facilitation initiatives which fit the project development objective. These two activities could be financed using the EUR 100,000 to be reallocated from component 3.
- As to proposed change (B), the May 2010 restructuring that increased the percentage of expenditures financed from the loan to 100% omitted to reflect the correct adjustments to the amounts in the disbursement table showing the expenditure categories. Consequently, the amounts in the table are now adjusted to correspond to the revised project component costs.

PROJECT STATUS

The contract for the Corridor X motorway upgrade under Component 1 of the project is under execution with 84 percent of physical works completed. The upgrade of the border crossing under Component 2, which faced significant delays due to prolonged construction permit issuance, started in July, 2010 and is expected to be completed by

¹ Component 3 – Modernization of the Road Toll Collection System and Component 4 – Installation of Railways Communication System.

August 2011. The Bank team is working closely with all relevant institutions so that a strict adherence to the work plan is maintained to avoid any slippages. Both activities, once completed, will improve traffic throughput, reduce queuing and increase traffic safety on Corridor X.

Improvements in the efficiency of railway operation have already been achieved, as the installation of a telecommunication system on the railway network under Component 4 has been completed. This now allows: (i) communication between Railways, Customs, Border Police and other agencies; (ii) communication with neighboring countries; and (iii) better communication between the railway infrastructure manager and branch offices.

Faster customs clearance of rail cargo has also become possible as the Macedonian Customs Administration and Macedonian Railways-Transport company have agreed on the necessary data exchange protocols for access to the new customs declaration system. This will allow transport operators to exchange freight data with Customs once the new customs declaration system (being developed by the Customs Administration outside of the project) is operational.

The project is currently rated satisfactory and there are no outstanding audits.

PROPOSED CHANGES

There are three proposed changes:

1. The proposed reallocation will allow the financing of the two trade facilitation activities initiated by the Macedonian Customs Administration (MCA). These activities include expansions of the customs information systems developed in 2009 and 2010, to enable digital exchange of data and documentation between MCA and economic operators, and will also enable similar digital exchanges with other governmental institutions. Such system upgrades should optimize the documentation exchange procedures and also reduce expenses for the economic operators. Both activities fall within the project description of Component 4 included in the Loan Agreement.
2. The adjustment of amounts in the table of eligible expenditures will be in line with the increase in the percentage of expenditures financed from the loan as agreed in the May 2010 restructuring. These adjustments will include:
 - (i) Category 1 - the allocation will be increased from EUR 10,350,000 to EUR 12,000,000.
 - (ii) Category 4 - the allocation will be decreased from EUR 2,750,000 to EUR 1,100,000.
3. Financing
 - (i) Component 3 - the reallocation of EUR 100,000 from expenditure category (1) (for Component 3) will decrease the project costs of Component 3 to EUR 22,464 already used to develop the technical and functional specifications for the modern Corridor X toll system introduction.

- (ii) Component 4 - current project costs will be increased in expenditure category (4) (for Component 4) by EUR 100,000 to finance the trade facilitation activities to be carried out by MCA.

These changes are reflected in the table below:

Project Costs (EUR million)		
Components/Activities	Current	Proposed
1. Upgrading Section of Trans-European Transport Corridor X to Motorway Standards	11.79	11.79
2. Improvement of Passenger Border-Crossing at Blace	2.00	2.00
3. Modernization of the Road Toll Collection System	0.12	0.02
4. Installation of Railways Communication System	0.99	1.09
5. Project Implementation Support	0.10	0.10
Total Project Costs	15.00	15.00

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

Category of Expenditure	Allocation		% of Financing		
	Current	Revised	Current	Revised	
(1) Goods, works, consultants' services, Training and Incremental Operating Costs for Parts I, III (i) and V of the Project	Unchanged	10,350,000	12,000,000	100%	Unchanged
(2) Goods, works and consultants' services for Parts II and IV (iii) of the Project	Unchanged	1,900,000	Unchanged	100%	Unchanged
(3) Goods and consultants' services for Part III (ii) of the Project	Unchanged	0	Unchanged	0%	Unchanged
(4) Goods and consultants' services for	Unchanged	2,750,000	1,100,000	100%	Unchanged

Part IV (i) and IV(ii) of the Project					
(5) Front-end Fee	Unchanged	0	Unchanged	0	Unchanged