PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA4440

Project Name	Macedonia National and Regional Roads Rehabilitation (P148023)
Region	EUROPE AND CENTRAL ASIA
Country	Macedonia, former Yugoslav Republic of
Sector(s)	Rural and Inter-Urban Roads and Highways (90%), General public administration sector (10%)
Theme(s)	Regional integration (50%), Trade facilitation and market access (50%)
Lending Instrument	Investment Project Financing
Project ID	P148023
Borrower(s)	Public Enterprise for State Roads
Implementing Agency	Public Enterprise for State Roads
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	19-Mar-2014
Date PID Approved/Disclosed	20-Mar-2014
Estimated Date of Appraisal Completion	28-Mar-2014
Estimated Date of Board Approval	03-Jun-2014
Decision	

I. Project Context

Country Context

FYR Macedonia is a small, open economy in South East Europe (SEE) with a GDP of US$9.6 billion in 2012 (current US$). It reached independence in 1991. Even though the country was one of the first to gain an EU candidate country status back in 2005, it has not been able to start negotiations, partly because of the name dispute. With a population of only 2 million and a GDP of US$9.6 billion in 2012 (current US$), its internal market is not large enough to sustain high growth rates over the longer term. The country has enjoyed relative macroeconomic and financial stability, market-oriented economic policy reforms, and openness to foreign trade and investment. As a result, despite the below regional average growth rates in the last decade, the country’s growth gained pace in recent years. Between 2002 and 2012, FYR Macedonia grew at 3.1 percent annually in real terms compared to 3.5 percent in other SEE countries. Its growth was among the lowest in the region up to 2008, but since then, it has outperformed most of its peers. Growth is expected to further accelerate in the medium term, benefiting from improvements in the external environment and high public investment. Under the baseline projection, real GDP growth is expected to reach 2.5 percent in 2013 and accelerate to 3.0 and 3.5 percent in 2014 and 2015.

FYR Macedonia has a trade-dependent economy with exports accounting for 56 percent of GDP. Currently, low value added products dominate the export mix; however, FDI is expected to rapidly change the export composition. Industry accounts for around 28 percent of GDP while the share of agriculture is around 12 percent of GDP. The economic recovery in the Eurozone, which is the key market for Macedonian goods, is expected to lead to a recovery in Macedonian exports. To promote its exports and FDI investments, the country has continuously put efforts emphasizing the development of the transport infrastructure.

Sectoral and institutional Context

As a landlocked country, FYR Macedonia is particularly dependent on a well-developed road and rail network for its economic and social development. Key elements of this network are also part of the Trans-European transport network (Corridor X, which goes from Austria to Turkey, and Corridor VIII, which connects Albania with the Black Sea ports in Bulgaria). Since its independence, the main challenges facing the country have been to reduce the economic distance to markets and lower the costs of transportation arising from the poor road condition of the Corridor X and major delays at key border crossing points. It is exactly the road transport network which plays the critical role in the development of the economy, as it carries the bulk of the country’s exports/ goods (in the first two quarters of 2013, 93 percent of freight was carried on roads). A government priority is thus to upgrade and rehabilitate road infrastructure to improve future growth prospects.

The road transport network not only plays a critical role in the development of the economy, as it carries the bulk of the country’s exports/goods (in the first two quarters of 2013, 93 percent of freight was carried on roads). It also helps to reduce poverty and to increase shared prosperity in an economically, socially and environmentally sustainable way, enhancing regional connectivity and reducing the relative isolation of some regions. Better regional connectivity will enhance transport communication between local communities and regional and foreign markets and social services, promoting more balanced and sustainable economic development.

the road network is considered to be close to appropriate in density but in need of improvement, mostly a result of the age of existing infrastructure and irregular and insufficient maintenance. In comparison to the EU countries, the overall roads condition is poorer. The national roads, relative to other road categories, are in a better condition, but due to the higher traffic they carry, are in need of rehabilitation to ensure their longevity and decrease transport costs for freight and passengers. Regional roads are in a greater need of investment, due to past backlogs in investment in these lower-trafficked roads. As a result, the first wide investment program supported by the World Bank and EBRD focused on the regional roads, which led to overall improvement in the condition, bud not solution to the road condition deficiency.

The next phase of road investment logically focuses on improving the network of road links inking into the corridors. This includes both the national and regional roads and is a central element of the Government Public Investment Program. The road quality is currently at a level where cheaper rehabilitation investments done today would not only improve vehicle operating costs and travel times, but also save the Public Enterprise for State Roads (PESR) from dedicating greater full reconstruction investments a few years from now. Finally, preservation of these sections of the network improves mobility and also maximizes the effect of PESR’s investment plans.

As of 2013, road management is entrusted to a managerially and financially independent Public

Enterprise for State Roads (PESR), which is a successor of the Agency for State Roads. The Public Enterprise is mandated to plan, construct, reconstruct, and rehabilitate the national and regional roads. In addition, PESR manages the toll collection in the country. PESR is responsible for the preparation of road development programs and financing plans. The enterprise financing comes from the central budget, through a transfer of a p ortion of the fuel excise tax, foreign vehicles road fees, annual motor vehicle registration fees, motorway tolls, and loan financing from International Financial Institution. PESR has presently 320 employees, of which 260 are dedicated to the toll collection processes. Part of the remainder 60 employees are civil engineers (15 employees) managing the road network.

The Bank has been working closely with the Public Enterprise during this transition period to strengthen its investment planning and financial management capacity. These two are critical to ensure PESR's good investment prioritization and financial sustainability. Under the ongoing project, PESR is introducing a road asset management system (RAMS), which will create a comprehensive road database for the country's road network and allow PESR to manage its capital investment budgets in a sustainable manner, ensuring that these capital expenditures target sections in the network which are in priority investment need and also expand sections which have strong economic justification. The RAMS is expected to be operational mid-2014, thereby allowing its use in the second to fourth year implementation of the project. At the same time, PESR is introducing an enterprise planning system (ERP), to manage its finances regularly and through an automated system. Both of these activities are a core element of the independent management position of the enterprise and are to be implemented in the next several years. The proposed project will ensure that they are further developed and that PESR receives targeted technical assistance during this initial introduction of the RAMS and ERP.

Financial sustainability of PESR operations is regularly monitored by the Bank as an integral element of the ongoing IL and so far financial covenant requirements have been met. The transformation to public enterprise resulted in PESR's assumption of all loan repayment liabilities. In order to safeguard the enterprise's financial sustainability, during the current project first level restructuring, the Bank, PESR and MOF agreed on minimal debt service ratio and current ratio to be maintained by PESR. For PESR's first year as a public enterprise the financial indicators are positive, as the debt service ratio was 1.58 (compared to the minimum of 1.2), while the current ratio was 1.61 (the agreed minimum 1). PESR has showed a constant increase in the collection of own revenues (tolls, vehicle tax, road tax) which is a good indicator for the strong financial management. Since a large portion of the budget comes from excise tax, it continues to be important that MOF resumes transferring at least 20 percent of the collected excise tax. As per the projections of the Annual Program, the first two sources of revenues for PESR will continue to be: (i) no less than 20% of the excise tax on oil derivatives to be transferred from the State Budget at least on a quarterly basis; (ii) road tolls.

The increased institutional focus on road safety has not resulted in a reversal of road safety trends, which remain to be a concern, with more than 4,000 crushes annually and annual casualties nearing 7,000 persons. Road safety observations made in the course of implementation of the current road project suggest deficiencies regarding traffic signs and road markings; crash barriers and pedestrian traffic. Most frequent ones include: poor condition of signs or confusing sings, even lack of signs; lack of crash barriers on bridges; crash barriers without proper anchorage and reflectorized chevron hazard markers. Even though to a large extend crashes are reported to be a result of poor driver behavior, good road safety practices prove that proper road safety measures included in the road infrastructure can significantly decrease the number of crashes and their severity.

The proposed project will work with PESR and the National Council for Road Safety to improve the safety elements of road infrastructure, in line with the National Transport Strategy's identification of road safety measures. In this effort, priority is put on: introducing binding infrastructure safety management measures for contractors and road authorities in all stages of planning and execution; improving security standards on road-railways crossings; eliminating black spots; proper and efficient road maintenance; and ensuring visibility on the roads by eliminating physical and illegal obstacles. Additionally, the NTS identifies the importance of considering safety in the management of the road network and suggests the focusing on the following: road safety impact assessments, road safety audits, network safety management, safety inspections by the competent authorities. All of these are reflected in the project design.

Road maintenance is carried out by the public enterprise Makedonija Pat (MP) that operates as PESR's direct contractor. It is responsible for the regular and winter maintenance of the national and regional road network; installation and maintenance of road signalization; traffic counting; and roads and bridges cadaster. The budget allocated to Makedonija Pat for regular and winter road maintenance of the state roads in 2013 is about US$14 million or US$2,850 per km. The winter maintenance accounts for 40 to 50 %; while the routine maintenance represents between 30 and 40% of the total of the maintenance budget and periodic maintenance (including bridges) attains the rest (10 to 30%). This budget has remained almost constant during the past seven years and as a result led to undermaintenance of roads, especially in the part of periodic maintenance. Routine maintenance could be further improved to ensure timeliness and better quality. Under the current project, activities to strengthen the practices regarding maintenance are carried out and will be continued under the technical assistance part of the proposed project.

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The efforts to restructure the institutional setup of road maintenance and introduce open competition in maintenance are ongoing. In 2013 the toll collection branch of this enterprise was merged with PESR, allowing Makedonija Pat to focus only on the maintenance. PESR has shown a much better management of the toll collection and achieved an increase of 20 percent in annual toll collected during 2013. Annual maintenance contracts are established between MP and PESR to cover routine and winter maintenance. Steps toward the full commercialization of the maintenance sector are taken through the PESR financed rehabilitation programs since 2008 which include a wide rehabilitation of regional roads carried out by the private sector. This wide rehabilitation program will prepare the construction industry for the expected private sector maintenance of the entire road network.

The proposed National and Regional Roads Rehabilitation Project is consistent with the National Transport Strategy (2007-2017), which sets out improved road connectivity to the Corridors as the national priority after the completion of Corridors X and VIII. The strategy indicates that the main tool to promote the country's competitiveness and support its harmonious development is through ensuring that the national road network is connected efficiently to the corridors and existing bottlenecks are eliminated. The Project also complements the ongoing efforts of the National Strategy for Improvement of the Road Traffic Safety (2009-2014) that provides safe road environment by (i) identifying and repairing black spots that are more prone to traffic accidents; (ii) strengthening road safety audits. Both of these activities have been identified as national priorities. This proposed Project will target these issues with technical assistance on preparation for road safety audit guidelines, preparation of a safer roads investment plan, identification of black spots, and repair of priority black spots.

II. Proposed Development Objectives

The Project Development Objective is to enhance the connectivity of selected national and regional roads, primarily to Corridors X and VIII, and to improve PESR's capacity for road safety and climate resilience.

III. Project Description

Component Name

Component 1: Road Rehabilitation Works

Comments (optional)

Finance rehabilitation of estimated 112 km national and regional roads, technical audits and black spots improvements.

Component Name

Component 2: Institutional Strengthening and Project Management

Comments (optional)

Activities to strengthen PESR's capabilities on issues related to road safety, climate resilience and road asset management.

IV. Financing *(in USD Million)*

Total Project Cost:	70.00	Total Bank Financing:	70.00
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
Borrower	0.00
International Bank for Reconstruction and Development	70.00
Total	70.00

V. Implementation

The project will be implemented over a five-year period by PESR, who is the Borrower. PESR has long-term experience in implementing Bank funded projects. Recently, PESR finished the implementation of the Second Trade and Transport Facilitation project, which involved the construction of a new motorway section. It was completed satisfactory. In addition, PESR is implementing the Regional and Local Roads Program Support project, which involves significant investments in the regional and local road infrastructure. Throughout the implementation of these projects, the capacity within PESR to prepare, implement and supervise road contracts has been further strengthened.

A dedicated Project Implementation Unit (PIU) is established consisting of PESR staff (a Project Director, at least three engineering specialists, a Procurement specialist, a Financial Management specialist and an office administrator/translator). It will also be strengthened with consultants specialized in procurement and financial management. The PIU will undertake all roles and tasks required for project administration and implementation. Before and after project effectiveness, the PIU staff will receive targeted training on procurement and contract management.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	×	
Natural Habitats OP/BP 4.04		×
Forests OP/BP 4.36		×
Pest Management OP 4.09		×
Physical Cultural Resources OP/BP 4.11		×
Indigenous Peoples OP/BP 4.10		×
Involuntary Resettlement OP/BP 4.12	×	
Safety of Dams OP/BP 4.37		×
Projects on International Waterways OP/BP 7.50		×
Projects in Disputed Areas OP/BP 7.60		×

Comments (optional)

VII. Contact point

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