



# Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 20-Jan-2021 | Report No: PIDA31064



**BASIC INFORMATION**

**A. Basic Project Data**

Country North Macedonia	Project ID P175841	Project Name Local Roads Connectivity Project - Additional Financing	Parent Project ID (if any) P170267
Parent Project Name North Macedonia: Local Roads Connectivity Project	Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 25-Jan-2021	Estimated Board Date 25-Feb-2021
Practice Area (Lead) Transport	Financing Instrument Investment Project Financing	Borrower(s) Republic of North Macedonia	Implementing Agency Ministry of Transport and Communications

Proposed Development Objective(s) Parent

The project development objectives are to improve government capacity to manage local roads and improve access to markets and services.

Proposed Development Objective(s) Additional Financing

The project development objectives are: 1) to improve government capacity to manage local roads and improve access to markets and services; and 2) to provide immediate and effective response to an eligible crisis or emergency.

Components

- Component 1: Capacity Enhancement
- Component 2: Rehabilitation of Local Roads and Community Facilities
- Component 3: Project Implementation Support
- Component 4: Contingent Emergency Response Component

**PROJECT FINANCING DATA (US\$, Millions)**

**SUMMARY**

<b>Total Project Cost</b>	42.69
<b>Total Financing</b>	42.69
<b>of which IBRD/IDA</b>	42.69
<b>Financing Gap</b>	0.00

**DETAILS**



**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)

42.69

Environmental and Social Risk Classification

Substantial

Other Decision (as needed)

**B. Introduction and Context**

Country Context

1) **The Republic of North Macedonia is a land-locked, middle-income country in the Western Balkans.** In terms of connectivity, the country sits on two Pan-European corridors, namely the Corridor VIII and Corridor X, and its proximity with the EU provides access to a large export market with more than 510 million customers. According to the last census of 2002, the population is about 2 million, of which 25 percent live in the capital Skopje, while 40 percent live in rural areas. Ethnic Macedonians make up 64 percent of the total population, ethnic Albanians 25 percent, other ethnicities, such as Turks, about 4 percent, and Roma about 3 percent.

2) **Following the resolution of the extended political and electoral crisis of 2015–2017, and the name issues<sup>1</sup>, the country has now become a member state of NATO and Government is committed to an ambitious reform agenda to accelerate EU accession.** The extended political crisis in 2015–17 highlighted institutional weaknesses and affected the citizens’ confidence in state institutions. A new government was inaugurated in May 2017. Resolution of the name issue with Greece paved the way for membership status of NATO and is essential to consolidate North Macedonia’s EU accession process and enable it to become more deeply integrated with regional and global markets. The name change agreement entered into force in February 2019. The European Commission recommended on May 29, 2019 the opening of EU accession negotiations with North Macedonia, after being a candidate member for 14 years. The government’s program focuses on economic growth, job creation, fair taxation, support

<sup>1</sup> The country became a member of the United Nations in 1993, but, as a result of an ongoing dispute with Greece over the use of the name Macedonia, was admitted under the provisional description “the former Yugoslav Republic of Macedonia”.



to SMEs and reform of the social protection for the most vulnerable. However, the government program has been interrupted by COVID-19.

3) **The first COVID-19 case was confirmed on February 26, 2020.** The Government swiftly imposed strict containment measures, such as restrictions on gatherings, and closures of the borders, educational institutions and commercial facilities. Restrictions were somewhat relaxed in June 2020, but new, stricter measures, commensurate to the severity of the pandemic, have been added, as the situation worsened. Currently the number of infections has been going down, as well as hospitalizations and number of deaths. The containment measures have significant adverse impact on the economy. GDP is expected to shrink by 4.1 percent (compared to pre-crisis growth of 3.2 percent), as all sectors of the economy decline - particularly retail and industry - as the major drivers of growth, but also services. Moreover, lower external demand and disrupted supply chains have crippled exports. This has led to layoffs of workers and a rise in unemployment, the effects of which were cushioned somewhat by the Government response measures. The combined effect of lower labor incomes and remittances will increase poverty to pre-2015 levels to 23 percent in 2020, wiping out the gains made over the last four years.

4) **The pandemic is having an adverse effect on the fiscal accounts and public debt.** North Macedonia entered the COVID-19 crisis in a relatively solid fiscal position with gradually declining deficit and stable public debt since 2017. In response to the pandemic the Government implemented four sets of anti-crisis measures estimated at over 7 percent of GDP. These include: (i) government payment of minimum monthly salaries to employees; (ii) deferment of the advance payment of corporate and personal income tax for the companies in the tourism, transport and food and catering sectors and other companies affected by the confinement measures; (iii) moratorium on loan repayments, partial credit guarantees, and (iv) tax rate cuts, exemptions and free-VAT weekends, shrinking the already low revenue base. On social assistance, the government provided one-off financial assistance to vulnerable groups, high-school and university students, tourism vouchers for low-wage earners, and relaxed the Guaranteed Minimum Income eligibility criteria. However, this has had an adverse effect on the fiscal accounts, which combined with declining revenues due to the economic slowdown, is set to push the fiscal deficit to over 8 percent of GDP and public debt over 60 percent of GDP, the highest levels in recorded history.

5) **Adjustments to the Country Program in response to COVID-19 and activation of the Contingent Emergency Response Component (CREC) of the project.** In response to the Covid-19 crisis, the Bank mobilized and redirected around EUR 127 million in FY20, through an Emergency Covid-19 Response Project (P173916) and an activation of the CERC of the Local Roads Connectivity Project (the subject of this additional financing). The remaining country program has been aligned with the Approach Paper "Saving Lives, Scaling-up Impact and Getting Back on Track".

#### Sectoral and Institutional Context

6) **The sector context for the Local Roads Connectivity Project remain valid post COVID-19.** The poor condition of local road networks is a burden on public access to services such as hospital and schools, on labor markets, and on businesses, tourism, and agriculture. Furthermore, many communities lack



appropriate transport facilities and services to meet community members' diverse needs, and the public often perceives local transport spending priorities as opaque and/or inefficient. The central government currently plays a very limited role and local governments have resisted forms of inter-municipal cooperation that could enhance efficiency of road spending. Moreover, maintenance has been systematically underfunded, resulting in deterioration of road assets, a growing list of rehabilitation needs, and exacerbating existing high levels of vulnerability to climate change.

### **C. Proposed Development Objective(s)**

#### Original PDO

The project development objectives are to improve government capacity to manage local roads and improve access to markets and services.

#### Current PDO

The project development objectives are: 1) to improve government capacity to manage local roads and improve access to markets and services, and 2) to provide immediate and effective response to an eligible crisis or emergency.

#### Key Results

### **D. Project Description**

7) **The Local Roads Connectivity Project was approved by the Board on the 18<sup>th</sup> of December 2019 and declared effective on the 24<sup>th</sup> of February 2020.** The project objectives are to improve government capacity to manage local roads and improve access to markets and services. These objectives are to be accomplished by the implementation of four components, including:

- a. **Component 1: capacity enhancement** to build local government capacity to manage local roads and strengthen institutional and policy arrangements at the central government level.
- b. **Component 2: Rehabilitation of local roads and community facilities** to provide safe and climate resilient access to markets and services, and pilot community-driven transport investments.
- c. **Component 3: Project Implementation support.**
- d. **Component 4: Contingency Emergency Response Component.**

8) With a letter dated May 8, 2020, the Government of North Macedonia requested funding from the World Bank for an income support scheme under the CERC, activating it. In April and in June 2020, the Government issued Decrees on the financial support to private sector employers severely affected by the COVID-19 crisis, establishing an income support scheme for the months of April, May and June 2020. Through the activation of the CERC, the World Bank (WB) funded part of the salary support to beneficiary



SMEs. It also covered 50% of the social contributions of the employees’ salaries for viable firms in the sectors most severely affected by the pandemic.

9) The total amount of the CERC contribution was 37 million euros (approx. US\$ 42.69 million). The final disbursement request from the government has been approved as of the 30<sup>th</sup> of September 2020, and so CERC fully disbursed on October 6, 2020. Below, Tables 1 and 2 show the number of companies and supported employees for each month under CERC. The only remaining activity under CERC is the audit, which is, currently, under procurement.

Table 1

Data for salary subsidies	Number of companies	Number of supported employees
April	10.596	67.726
June	9.544	58.302
May (residual amount)	4.191	29.054
<b>Grand Total</b>	<b>24.331</b>	<b>155.082</b>

Table 2

Data for social contribution subsidies	Number of Companies	Number of Employees
April	1,204	9,397
May	1,457	10,682
<b>Grand Total</b>	<b>2,661</b>	<b>20,079</b>

10) **The proposed AF would support a full replenishment of the financing gap that resulted from triggering the CERC, thereby enabling completion of key planned project activities and achievement of the Project’s objectives.** The proposed AF, together with a Level 2 project restructuring, would formalize the reallocation of resources, revise the PDO, allow for an update of the RF, and facilitate the full implementation of activities under Components 1, 2, and 3. The AF would not change the content or scope of the original project components, the Project’s implementation arrangements, nor the project closing date. The project design was informed by climate and disaster risk screening, and the need to reduce identified infrastructure vulnerabilities through project activities. The screening showed that the major risks to project infrastructure are from extreme weather events particularly associated to extreme precipitation and flooding. These events may lead to road closure from due to insufficient drainage, poor pavement structures and insufficient attention to slope stability. The AF would address the climate vulnerabilities, as with the parent project, by supporting the adoption of infrastructure resilient techniques in road planning and construction, in addition to strengthening the capacity of institutions to respond to climatic impacts.

11) **Additional Finance.** EUR 37 million, approximately US\$ 42.69, will be added to component 2 (disbursement category 1) of the project to fully replenish the funds that were transferred out of this category to finance the CERC component(disbursement category 2) and enable response to the COVID-19 emergency, as indicated in Tables 3 and 4 below:

**Table 3 – Components with the AF**

<b>Component Name</b>	<b>Original Amounts (US\$M)</b>	<b>Original loan after reallocation (US\$M)</b>	<b>Additional Financing (US\$M)</b>	<b>Total Project Amount, with AF (US\$M)</b>
Component 1: Capacity Enhancement	3.00	3.00	0	3.00
Component 2: Rehabilitation of Local Roads and Community Facilities	72.80	30.11	42.69	72.80
Component 3: Project Implementation Support	2.20	2.20	0	2.20
Component 4: Contingent Emergency Response Component	0	42.69	0	42.69
<b>TOTAL</b>	<b>78</b>	<b>78</b>	<b>42.69</b>	<b>120.69</b>

12) The disbursement categories after the AF will be:

**Table 4: Disbursement Categories after the AF**

<b>Category</b>	<b>Original Amounts of the Loan Allocated (expressed in EUR)</b>	<b>Original Loan after reallocation (expressed in EUR)</b>	<b>Additional Financing (Expressed in EUR)</b>	<b>Total Project Amount after AF (expressed in EUR)</b>
(1) Goods, works, non-consulting services, consulting services, Training and Operating Costs for the Project	69,825,000	32,825,000	36,907,500	69,732,500
(2) Emergency Expenditures under Part 4 of the Project	0	37,000,000	0	37,000,000
(3) Front-end Fee	175,000		92,500	267,500
(4) Interest Rate Cap or Interest Rate Collar Premium	0			0
<b>TOTAL</b>	<b>70,000,000</b>		<b>37,000,000</b>	<b>107,000,000</b>



**13) Changes in the Results Framework.** The proposed revisions to the project’s RF will include the addition of one CERC PDO indicator and one CERC intermediate indicator as shown in the table below are as follows:

<b>New Indicators</b>	<b>Baseline</b>	<b>Targets/actual</b>	<b>Data Source</b>
<b>PDO Indicator</b> – Number of SMEs that benefitted by the CERC (including duplications if same firms used the support in different months or both salary and contributions support in same month)	0	26,992	PIU Database/ Reports
<b>Intermediate Indicator</b> - Number of employees supported through the CERC funding (including duplications if same employees benefitted in different months or received both salary and contributions support in same month)	0	175,161	PIU Database/ Reports

Legal Operational Policies

**Triggered?**

Projects on International Waterways OP 7.50

No

Projects in Disputed Areas OP 7.60

No

Summary of Assessment of Environmental and Social Risks and Impacts

There are no new activities proposed under this AF, thus the environmental and social arrangements and risks are same as the original project. The potential environmental and social risks are considered moderate.

Potential environmental risks and impacts are predictable, expected to be temporary and reversible, low in magnitude, and site specific. These impacts most commonly include possible temporary disruption of current traffic circulation, traffic safety, damage to access roads, dust nuisance, and gaseous emissions, potential pollution of soil and water resources, brief disturbance to biotope, and momentary interference to neighboring settlements through various operation activities. Off-site activities include quarry, burrow pit and asphalt plant operations, which if not managed properly, may cause localized adverse impacts. The contractor’s site offices and possibly but highly unlikely workers’ camp can be potential sources of temporary adverse impacts.

Potential social issues would mostly be related to small scale land take impacts. Because of rehabilitation and reconstruction nature of the investments there will be no resettlement nor any impact on any business or residency related structure. There will be project related traffic especially for the interventions in rural streets as the works will be done inside settlements and thus affected communities will be exposed to higher frequency and heavier traffic.





## E. Implementation

### Institutional and Implementation Arrangements

**14) Institutional and Implementation Arrangements will remain the same.** The PIU established within the Ministry of Transport is in charge of day to day management and supervision of the project. Although with initial delays, the PIU has been fully established and is working well on the initial procurement activities, setting up the project systems and in implementing safeguards. Since effectiveness both implementation progress and progress towards the development objective have been satisfactory.

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**APPROVAL**

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