RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF
SECOND TRADE AND TRANSPORT FACILITATION PROJECT
LOAN

APRIL 30, 2010

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

AND

A RESTRUCTURED AMOUNT OF
EURO 15.0 MILLION
(US$20.0 MILLION EQUIVALENT)

TO THE

MACEDONIA FORMER YUGOSLAV REPUBLIC OF
ABBREVIATIONS AND ACRONYMS

ASR   Agency for State Roads
BCP   Border Crossing Point
EU    European Union

IT    Information Technology
MOF   Ministry of Finance
MOTC  Ministry of Transport and Communication
MCA   Macedonian Customs Administration
MZ    Macedonian Railways
MR-I  Public Enterprise Macedonian Railways Infrastructure
MR-T  Macedonian Railways Transport JSC
NCTS  New Computerized Transit System
PP    Project Paper
RAP   Resettlement Action Plan
SEETO South East Europe Transport Observatory
TAF   Telematics Applications in Freight
TSI   Technical Specifications for Interoperability
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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THE DATA SHEET SHOULD BE INSERTED IN THIS SECTION

MANUALLY IN HARD COPY

BEFORE SENDING A FINAL RP TO THE PRINT SHOP.

DO NOT INCLUDE THIS INSTRUCTION PAGE IN THE RP SENT TO THE PRINT SHOP.

NOTE: The Data Sheet can be found in the “Data Sheet” tab of the RP section of the Operations Portal. Information in it is updated whenever such information is manually changed in the “Data Sheet” tab at any stage during project restructuring. Prior to sending the final RP to the Print Shop, it is best practice to confirm the information in the data sheet before printing it out and inserting it here.
ANNEX 1:
Proposed Changes

a. What are the proposed changes, as applicable, in the project’s development objectives, outcomes, design, and/or scope?

There is no change in the project’s development objective. Changes in the project scope are as follows:

1. Reduction of the scope of Component 3, by removing, at the request of the Government, the provision and installation of modern electronic tolling equipment, which will now be funded by the Government outside of the project as part of a larger motorway concession scheme. This requires reallocation of the related EUR 3.5 million. It is expected that the concession scheme will be carried out based on the technical and functional specifications developed under the project. In terms of the Loan Agreement, this change entails deleting Part III (ii) of the project description contained in Schedule 1 to the Loan Agreement. This triggers the following actions:

(i) deletion of key performance indicator (vi) “significant reduction in leakages of toll revenue collection, facilitated by automated vehicle counts and classifications.” This will require amending the supplemental letter on performance monitoring indicators and attaching revised indicators.

(ii) deletion of the implementation covenant contained in paragraph 3(b), Section II of Schedule 2 to the Loan Agreement, which requires the Borrower to “prepare a public information and user consultation strategy for the toll modernization plan.”

2. Reduction in the scope of Component 4 by removing the procurement of information technology (IT) equipment and procurement of software for data exchange. This is required to accommodate increase in the percentage of expenditures to be financed from the loan from 78% to 100%. This reduction in scope does not require a change in any of the project performance indicators.

3. Revision of the Resettlement Action Plan (RAP) to provide for compensation to be made to all affected people through: (i) for the Agency for State Roads (ASR), a special account into which it will deposit in full the money determined as required to compensate all affected people; and (ii) for the Macedonia Customs Administration (MCA), a dedicated budget line or, where compensation amount determined by the courts, the Treasury as the MCA is a unit of the Ministry of Finance (MOF). The RAP has been revised, ASR opened its special account and the MCA established the dedicated budget line.

4. No change to the existing Project Environmental Category, which remains as “B”, arising from the reallocation to Component 1 to make up for the shortfall for the civil works as well as the need to revise the RAP. This is because the existing Environmental Management Plan stipulates all needed requirements for carrying out all civil works and Component 3 of the initial project document did not include any civil works but only purchase of goods and provision of TA, and these have no environmental impacts.
b. What are the other complementary changes, as applicable:

Institutional arrangements No
If, yes, please explain:

Financing mechanism/Conduit Yes
If, yes, please explain:

The percentage of expenditures to be financed from the loan proceeds is changed from 78 to 100 percent.

Outputs Yes
If, yes, please explain:
The following outputs will not now be produced by the project:
- equipment to modernize the Road Toll Collection System,
- IT equipment to increase the operational level in Macedonian Railways (MZ),
- Software for harmonized rail communication and data collection system,
- Software for MCA data collection for freight transport in railways,
- IT equipment for MCA to improve the data communication and establish reliable system of freight and cargo information sharing between customs and railways,
- TA for specifying the software for harmonized rail communication and data collection system.

Project Costs and financing plan (include summary tables) Yes
If, yes, please explain:

The EUR 3.5 million allocated for the provision and installation of toll equipment is proposed to be reallocated as follows:

(i) EUR 2.9 million to Component 1, Category 1 - the actual contract amount for the upgrade of the Tabanovce-Kumanovo road section is higher than the initial estimates. As a result, the amount to be financed from the loan is greater than initially allocated. The proposed reallocated amount is to make up the shortfall.

(ii) EUR 0.5 million to Component 2, Category 2 - according to the latest cost estimates for the construction of the Blace Border Crossing Point (BCP) passenger terminal facilities, the initial estimated total cost of EUR 2.2 million will no longer be sufficient. The proposed reallocation is to cover the additional contribution to the total cost under the Loan.

(iii) EUR 0.1 million to Component 3, category 1 – this will provide any further technical assistance relating to the toll concession.
At the Government’s request, the percentage of expenditures to be financed from the loan is being increased from 78% to 100%. The revised allocation of Loan proceeds by project component is summarized below.

<table>
<thead>
<tr>
<th>Project Component</th>
<th>Original cost EUR (millions)</th>
<th>Revised cost EUR (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Upgrading of Road Corridor X Tabanovce – Kumanovo to Motorway Standard</td>
<td>7.10</td>
<td>11.79</td>
</tr>
<tr>
<td>2. Reconstruction of Blace Border Crossing Point</td>
<td>1.40</td>
<td>2.00</td>
</tr>
<tr>
<td>3. Modernization of Road Toll Collection System</td>
<td>3.50</td>
<td>0.12</td>
</tr>
<tr>
<td>4. Rail Corridor X Telecommunication and Software Improvement</td>
<td>2.60</td>
<td>0.99</td>
</tr>
<tr>
<td>5. Project Implementation Support</td>
<td>0.40</td>
<td>0.10</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td><strong>15.00</strong></td>
<td><strong>15.00</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Original Allocation (EUR)</th>
<th>Allocation After Restructuring (EUR)</th>
<th>Percentage of Expenditures to be financed from the Loan Before</th>
<th>After*</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, consultants’ services, Training and Incremental Operating Costs for Parts I, III (i) and V of the Project</td>
<td>7,350,000</td>
<td>10,350,000</td>
<td>78%</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, works and consultants’ services for Parts II and IV (iii) of the Project</td>
<td>1,400,000</td>
<td>1,900,000</td>
<td>78%</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods and consultants’ services for Part III (ii) of the Project</td>
<td>3,500,000</td>
<td>0</td>
<td>78%</td>
<td>0%</td>
</tr>
<tr>
<td>(4) Goods and consultants’ services for Part IV (i) and IV(ii) of the Project</td>
<td>2,750,000</td>
<td>Unchanged</td>
<td>78%</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Front-end Fee</td>
<td>0</td>
<td>Unchanged</td>
<td>Unchanged</td>
<td></td>
</tr>
</tbody>
</table>

*Of the amount outstanding for payment upon restructuring of the project.

Financial management No
If, yes, please explain:

Disbursement arrangements Yes
If, yes, please explain:
Two changes are needed: (i) amendment of the disbursement table in paragraph 2 of Section V.A. of schedule 2 to the Loan Agreement to reflect the new allocation; and (ii) deletion of the withdrawal condition set forth in paragraph 1(b) of Section V.B. of Schedule 2 to the Loan Agreement and related to Category (3), requiring preparation of a toll collection system implementation and management plan.

Procurement
If, yes, please explain: No

Closing date
If, yes, please explain: No

Implementation schedule
If, yes, please explain: No
ANNEX 2: 
Appraisal Summary Update

Do the proposed changes result in significant change of impact (from original Appraisal Summary of the PAD) in the following:

Economic and financial analysis No
If, yes, please explain:

Technical No
If, yes, please explain:

Social No
If, yes, please explain:

Environment No
If, yes, please explain:

Exceptions to Bank Policy No
If, yes, please explain:
ANNEX 3:
Updated Critical Risk Framework

New Risks Identified During Implementation/Restructuring That Might Jeopardize Achievement of the Restructured Project DOs or Outcome Targets:

<table>
<thead>
<tr>
<th>Risks</th>
<th>Risk Rating</th>
<th>Risk Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract of 14 months duration for the Blace BCP not completed before project closing date due to delay in issuance of construction permit.</td>
<td>Low</td>
<td>Letter sent to Minister of Transport and Communication and Director of MCA on 8 April 2010 copied to Minister of Finance highlighting the issue and asking for it to be urgently addressed. Continued close follow up by the Bank team.</td>
</tr>
</tbody>
</table>
ANNEX 4:
Results Framework and Monitoring
MACEDONIA FORMER YUGOSLAV REPUBLIC OF: SECOND TRADE AND TRANSPORT FACILITATION PROJECT
Results Framework

<table>
<thead>
<tr>
<th>PDO</th>
<th>Project Outcome Indicators</th>
<th>Use of Project Outcome Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>To facilitate the movement of trade between the Borrower and</td>
<td>1. Percentage of reduction in border crossing time for cars and buses per lane at Blace border</td>
<td>1. The information will be used to benchmark the performance of trade and transport facilitation</td>
</tr>
<tr>
<td>neighboring countries in South East Europe, through the removal of</td>
<td>crossing point (BCP).</td>
<td>measures, both at national (border agencies) and regional (RSC, SEETO) level.</td>
</tr>
<tr>
<td>selected border-zone infrastructure bottlenecks and improving the</td>
<td>2. Elimination of freight train processing delays additional to scheduled 90 minutes</td>
<td>2. Modernized rail Corridor X telecommunication and information systems will form the basis for</td>
</tr>
<tr>
<td>efficiency and quality of road and rail services along the</td>
<td>processing time at rail Corridor X border stations.</td>
<td>further interconnection with regional and EU data systems (NCTS, TAF-TSI).</td>
</tr>
<tr>
<td>Trans-European Transport Corridor X on the territory of the</td>
<td>No change</td>
<td>No change.</td>
</tr>
<tr>
<td>Borrower.</td>
<td>No change</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No change</td>
<td></td>
</tr>
</tbody>
</table>

No change.
<table>
<thead>
<tr>
<th>Intermediate Outcomes</th>
<th>Intermediate Outcome Indicators</th>
<th>Use of Intermediate Outcome Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component 1:</strong> Increased road capacity on Corridor X, Tabanovce-Kumanovo section</td>
<td>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.</td>
<td>The information will be used by MoF, ASR, and Makedonija Pat to monitor implementation progress and to design remedial actions in case of congestion and traffic accidents</td>
</tr>
<tr>
<td><strong>Component 2:</strong> Fully upgraded passenger border crossing at Blace</td>
<td>(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).</td>
<td>The information will be used by MoF, MCA and other agencies to monitor implementation progress and to prepare action plans to improve delays.</td>
</tr>
<tr>
<td><strong>Component 3:</strong> Modernized road toll collection</td>
<td>(i) Detailed implementation and operational plan for new toll system</td>
<td>Information will be used by MoF, MOTC, and ASR</td>
</tr>
<tr>
<td>Component 4: Integrated communication and data harmonization solutions applied by MCA and MZ for freight transport corridor X.</td>
<td>No change.</td>
<td>(i) Modem railways telecommunication system connecting with Serbia, Greece, Kosovo, Tabanovce, Skopje, Volkovo and Gevgelija.</td>
</tr>
<tr>
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<td>---</td>
</tr>
<tr>
<td>plan for new toll system</td>
<td>new toll system (ii) Leakage of potential toll revenue collection reduced</td>
<td>Deleted</td>
</tr>
<tr>
<td>system</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>