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PERFORMANCE AUDIT REPORT

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

TRANSIT FACILITATION PROJECT
(Loan 3868-MK)

May 24, 2000

Sector and Thematic Evaluations Group
Operations Evaluation Department

Currency Equivalents

Currency Unit	=	Denars (Dm)
US$1.00	=	42 Dm (December 1994)
US$1.00	=	58 Dm (November 1999)

Weights and Measures

m	=	meter (3.281 feet)
km	=	kilometer (0.621 mile)

Principal Abbreviations and Acronyms

HDM	Highway Design Model
CAS	Country Assistance Strategy
FNNR	Fund for National and Regional Roads
GNP	Gross national product
ICR	Implementation Completion Report
IMF	International Monetary Fund
OED	Operations Evaluation Department
PAD	Project Appraisal Document
PMS	Pavement management system
SAR	Staff Appraisal Report

Fiscal Year

January 1 – December 31

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The World Bank
Washington, D.C. 20433
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Office of the Director-General
Operations Evaluation

May 24, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on FYR Macedonia Transit Facilitation Project (Loan 3868-MK)

Attached is the Performance Audit Report prepared by the Operations Evaluation Department on the above project, which was approved in FY95 and closed as scheduled on June 30, 1999. The loan was for $24.0 million and an undisbursed balance of $0.71 million was canceled.

The project sought to help the country reduce transport cost on alternative routes to its main corridor (North-South) through Serbia and Greece, following the closure of the borders with these countries, and to strengthen road management capabilities. To achieve these aims, the project had three components: (i) improving the country's access to ports in Bulgaria and in Albania through rehabilitation and upgrading of about 60 km of roads along the East-West corridor; (ii) a transit facilitation component, including technical assistance and equipment, to develop and implement a modern customs system that would help reduce transit times; and (iii) an institutional strengthening component principally focused on the management of the road system. The objectives and components were well focused and conceived and remained highly relevant with the passage of time despite changing circumstances in the country and the region.

Implementation, under the leadership of the Fund for National and Regional Roads (FNRR), was expeditious. The road works were completed one year ahead of schedule and within the estimated costs. This was in part because the roads covered by the project had been designed and construction started under an earlier project for Yugoslavia, which was canceled upon the breakup of the country. The Bank allowed an exceptional high level of retroactive financing for this project (42 percent, compared with the statutory ceiling of 10 percent). The transit facilitation and the institutional strengthening components, which did not benefit from advance preparation, also were implemented quickly and successfully.

The achievements under the transit facilitation and the institutional strengthening components were impressive. Under the former, which was implemented in collaboration with the IMF, customs organization and operations were modernized through the passing of a new Customs Law, the restructuring of the agency, and the installation of a computerized system to replace manual processing. Thanks to this system, which is used for both exports and imports, providers and users, including the Customs Administration, the airport authority, the Statistical Institute, the Central Bank, the two main Post Offices, some 250 customs brokers and international express carriers, are now interconnected on line. One result of this system is that the time required for goods delivered to a terminal to appear in customs records is now instantaneous, while it used to take 2–3 days. Under the institutional strengthening component, management of road maintenance was modernized through the installation of an efficient pavement management system (PMS). The PMS as installed is well tailored to FYR Macedonia's conditions and resources. By project completion, the data collection phase of the system had been completed for 1,700 km using visual data collection. Despite its simplicity, this visual method makes it possible to gather information on 26 different types of road damage or deterioration. The road agency expects to start applying the PMS for allocating maintenance funds in year 2000, when some 2,000 km will have been surveyed.

The collapse of FYR Macedonia's North-South corridor due to problems with transit activities through its neighbors during most of the 1990s (currently somewhat improved in the case of the Greek border), and the significant level of traffic moving today via the alternative outlets through the East-West corridor confirm the relevance of the project's physical investments.

Overall, the project achievements were very significant. On this basis, the audit rates outcome as highly satisfactory and institutional development impact as high. Sustainability is rated likely because the benefits of both the physical and the institutional components are likely to endure. The audit further rates Borrower performance as highly satisfactory and Bank performance as satisfactory.

Three key lessons emerge from this project. First, a well-focused project may be exactly what is needed to ensure commitment by key stakeholders and achieve results in a short period of time. This approach presupposes that the Bank will be able to process follow-on projects (as was the case here) or that it will have other the means through which it can continue to assist in improving management of the sector. Second, a high level of retroactive financing substantially helps expedite project implementation, and the Bank should consider whether it should raise its standard 10 percent ceiling when certain conditions obtain, for example, dealing with experienced borrowers known to follow Bank procurement procedures rigorously. Third, collaboration with the IMF regarding customs improvements in transport projects appears to be a natural partnership and should be considered more often, since such improvements help raise collection of customs duties and expedite the processing through customs of international freight.

Attachment

Contents

This report was prepared by Hernan Levy (Task Manager) and reviewed by Antti Talvitie. William B. Hurlbut edited the report. Romayne Pereira provided administrative support.

Principal Ratings

	ICR	ES	PAR
Outcome	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development	Substantial	High	High
Bank Performance	Highly Satisfactory	Highly Satisfactory	Satisfactory
Borrower Performance	Highly Satisfactory	Highly Satisfactory	Highly Satisfactory

Key Staff Responsible

	Task Manager	Division Chief	Country Director
Appraisal	M. Pokorny	R. Halperin	M. Wiehen
Completion	M. Pokorny	E. Molnar	A. Chhibber

Preface

This is a Performance Audit Report (PAR) of former Yugoslav Republic of Macedonia Transit Facilitation Project (Loan 3868-MK), for which the World Bank approved a loan for $24 million on April 18, 1995. The loan closed on schedule on June 30, 1999. The project did not receive cofinancing.

This report is based on reviews of the Implementation Completion Report (ICR), the Staff Appraisal Report (SAR), loan documents, project files, transcripts of Board proceedings, and other Bank documents, and on discussions with Bank staff. An OED mission visited FYR Macedonia in September 1999, inspected the project-financed works, and reviewed the project with officials of the Fund for National and Regional Roads (FNNR), the Customs Administration, and private enterprises active in the sector (road construction, freight forwarding). Their kind assistance is gratefully acknowledged.

The PAR confirms that the project was a highly successful operation and focuses on the outcome and the lessons that can be derived from the project. In particular, the PAR expands over the ICR on the following areas: (i) international transport corridors, (ii) the management of road maintenance and the introduction of a pavement management system (PMS), and (iii) improvement in customs procedures and freight facilitation. The PAR also highlights the very difficult geopolitical environment surrounding FYR Macedonia, and its impact on transport and logistics strategies.

Following standard procedures, copies of the PAR were sent to the FYR Macedonia authorities for comments. Comments received are attached as Annex B.

1. Background

1.1 FYR Macedonia emerged from the breakup of the Yugoslav Federation as an independent, landlocked nation of 2 million. The country has benefited from relative political stability during the early transition. However, regional events have triggered internal tensions and slowed economic recovery. FYR Macedonia borders with countries that at various times in recent years have experienced wars, ethnic conflicts, policy paralysis, economic collapse, and near anarchy.[1]

1.2 The breakup of the Yugoslav Federation in 1991, and the ensuing regional conflict, meant the loss of a large and protected market that purchased three-quarters of FYR Macedonia's industrial production. The country also lost key transport routes and large net transfers from the federal government. The government has made strong progress with structural reforms since 1994: by mid-1998, it had privatized 94 percent (by number) of its industrial, commercial, and mining enterprises. Free trade agreements have been signed with a number of regional partners.

1.3 Despite the economic reforms, output declined further in 1994/95; it stabilized in 1996, and increased modestly (1.5 percent) in 1997, to a GNP per capita slightly over $1,000. Unemployment remains exceptionally high at 30 percent. The CAS (written prior to the Kosovo crisis), expected growth of about 4 percent in 1998 and around 5 percent by 2001. Export growth estimated at 5-6 percent per year between 1998 and 2001 was expected to underpin economic growth.

1.4 A key underlying assumption for the trade-induced growth scenario is the accessibility to markets through properly working transport routes within and beyond FYR Macedonia's frontiers, as well as properly operating border crossing arrangements. The project under review was intended to launch improvements in these areas.

1.5 The events of the last decade illustrate the problems of FYR Macedonia's trade logistics problems, and the instability of the transit routes:

(i) Events hampering use of traditional trade routes:

- The dissolution of Yugoslavia in 1990, and the creation of FYR Macedonia as an independent state in 1991, meant that the this country no longer could freely use the land routes and ports of the former Yugoslavia, FYR Macedonia's most important trading partner.
- The UN-imposed embargo of Yugoslavia further inhibited the use of these routes.
- The restrictions imposed by Greece for Macedonia's access to the port of Salonika are a real deterrent to the use of this port. While borders are now open, the institutional arrangements for trading through this port remain cumbersome.

(ii) Events leading to the opening of new international routes:

- The dissolution of the Soviet trade bloc led to the opening of Bulgaria's borders.

1. Paragraphs 1.1-1.3 are extracted from the 1998 CAS.

- The opening of the Albanian economy also led to opening of its borders.

1.6 FYR Macedonia's transport sector consists of 8,200 km of roads (of which 4,900 are paved) and a 700-km railway that crosses the country from its Greek border to its Yugoslavia border. Slightly less than 50 percent of the road network is under the jurisdiction of the Fund for National and Regional Roads (FNNR). Being landlocked, the country needs some degree of redundancy in its transport routes, especially in its transport corridors, for security reasons. In the regional context, being formerly a part of Yugoslavia, Macedonia does not suffer from the "excess" amount of transport that characterized the traditional socialist economies, which required disproportionate levels of transport expenditures.[2] But the country shared the Eastern European trend, showing a steep decline in railway traffic – in the case of Macedonia, both freight and passenger rail traffic is about one third the 1990 level. [3] This information is important because FYR Macedonia has in recent years launched an expensive program to extend its railway towards the Bulgarian border.

1.7 The project under review was followed by the Transport Sector Project. This $32 million loan approved in FY00 aims to help improve the efficiency of the road and railway systems by reducing road transport costs, improving the capacity to manage the road system, and lowering costs of railway operations. The current CAS foresees no new Bank transport operation beyond this project, as other external financiers are expected to take the lead in this sector. This PAR notes that, to date, investment priorities have differed between the Bank and other cofinanciers (for example, with respect to international transport corridors) posing a potential issue in the selection of future transport investments.

2. Objectives And Design

2.1 The events affecting FYR Macedonia trade routes—break-up and subsequent trade embargo of Yugoslavia, closure of Greece's routes, and the consequent need to develop alternative routes via Albania and Bulgaria—laid the foundation for the transit facilitation project.

2. For example, towards the end of the 1980 decade, Yugoslavia only had 0.51 ton-km per dollar of GDP, compared to 4.71 in the former Soviet Union and about 1.0 in most other countries in the Soviet bloc. Source: Issues in Central and East European Land Transport, EMENA Region, World Bank, 1991.

3. Project Appraisal Document, Transport Sector Project, World Bank, January 12, 1999.

Table 2.1 Project Objectives and Components

Objectives

- To address the crisis in the former Yugoslavia Republic of Macedonia caused by the closure of the Serbian and Greek borders through the facilitation of East-West transit so as to reduce transport costs
- To strengthen the road management capabilities particularly in the areas of planning and pavement management[4]

Components

- *Civil works* to improve the country's access to the ports of Bulgaria and Albania through rehabilitating and upgrading about 60 km of the East-West corridor
- *Transit facilitation* through technical assistance and equipment to develop and implement a modern custom system
- *Institutional strengthening* through technical assistance and training in the areas of economic evaluation of road investments and life-cost planning for PMS

2.2 The audit finds that the objectives were well focused and appropriate to the difficult external and internal environment for Macedonia. The objectives were well conceived and remained highly relevant over time and despite changing circumstances. This suggests the objectives were well selected. The inclusion of the customs component suggests that reduction in overall logistics costs (including transport), rather than transport costs alone, would have perhaps better described the project's first objective.

2.3 Given the constraints facing the North-South corridor, Macedonia's traditional and most natural trade corridor, the project's emphasis on the East-West corridor was fully justified. Thus, the selection of two key road sections from the canceled Yugoslavia road project made eminent sense, since they were part of the East-West corridor. The East-West Corridor is also supported by the U.S.-sponsored Balkan Development Initiative, which covers Bulgaria, Macedonia, and Albania (each of these countries is reported to have received $10 million under this program). During preparation of the transit facilitation project, work on the two roads was well underway with local financing, and had followed Bank procedures for bidding and contract award.[5] The fact that the Bank's follow-on transport project will further improve this corridor confirms the continuing priority and relevance of this route.

2.4 To allow the inclusion of these two roads under the project, the Bank, as noted in the SAR, had to make a major exemption to its rules on retroactive financing. The level of retroactive financing reached 42% of the loan amount and exceeded the Bank's 10% limit.[6] During project preparation there appear to have been conflicting opinions regarding the authority required to grant an exemption to the limit. While at appraisal there was substantial review by the Regional procurement authorities and the Region's senior management, an opinion from the Bank's legal department suggested that approval was also needed from the

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4. The SAR cited three agencies concerned with highway management existing at the time. In view of the reorganization of the sector, these agencies are no longer relevant for the purpose of this audit.

5. The fact that road works were so advanced even ahead of effectiveness under the Yugoslavia project illustrates the degree of confidence of the contracting industry in road authorities and the financial capacity and discipline of the road agency.

6. SAR, para 3.16.

Bank's Managing Directors.[7] The project files do not show whether this approval was in fact necessary, requested, or granted.

2.5 The SAR further noted that because of the unique circumstances surrounding this project, the high level of retroactive financing would not set a precedent for future operations. The benefits of allowing a larger proportion of retroactive financing than prescribed by Bank rules illustrated by the project suggest that the Bank might want to consider adopting a more liberal policy on this matter.

2.6 During project preparation, there was discussion about the scope of the investment review proposed to be carried out under the project. The decision was to limit it to roads, rather than to the whole transport sector. This decision was predicated on the size and scope of the project.[8] Project files give no information whether there was concern during preparation for transport investments beyond the road sector. The fact is, at about that time the government was launching construction of a major railway investment (to link up Macedonian Railways with Bulgaria's) that dwarfed in value the investments under the transit facilitation project and that was unlikely to be economically justified. More generally, this raises the issue of the quality of Macedonia's decision-making process for public investments.

3. Implementation

3.1 The project was implemented ahead of schedule and with costs very close to the original estimate ($38.6 million actual versus $38.1 at appraisal). The short implementation schedule (four years from Board approval to project completion, and only 18 months in the case of the two road subprojects) was mainly possible owing to the large portion of retroactive financing for the civil works. A related reason is Macedonia's strong construction industry, which consists of four construction companies, with personnel exceeding 4,000 each. Each of these companies had worked throughout Yugoslavia in earlier times, but with the breakup had to return to Macedonia and find work elsewhere, including Romania, Albania, Bulgaria, and the Middle East. Today, in Macedonia there is enough work for only one of these companies. These companies originally were state-owned enterprises (SOE) but were privatized some 4-5 years ago.

3.2 The institutional components also were speedily implemented, even though they had not been part of the canceled Yugoslavia project and therefore no advance preparation had taken place under a Bank project. The pavement management system (PMS) benefited from a consultant that had large domestic as well as international experience in installing PMS systems and was able to rapidly set up the system in Macedonia.

3.3 The customs component benefited from close cooperation between customs, the Bank, and the IMF, and from assistance that customs was receiving at the time of project preparation from several multilateral and bilateral donors. Cooperation with the IMF is especially noteworthy as it is unusual in the context of a Bank investment project, even less so under a transport project. The IMF's Fiscal Affairs Department designed the assistance, identified an international consultant (financed under the project), and supervised the work. The project also financed the establishment of a computerized system linking border crossing

7. Memo from Vorking, Legal, to Blanchi dated October 20, 1994.

8. Draft FEPS (dated September 21, 1994) and pre-appraisal review meeting (dated September 28, 1994).

and other customs offices in the country with the central office in Skopje.[9] The technical assistance also provided support in the preparation of a new Customs Law that was passed in 1998.

3.4 Procurement of traffic counters, a minor component of the project, encountered problems and ended up being financed under the ongoing transport sector project.

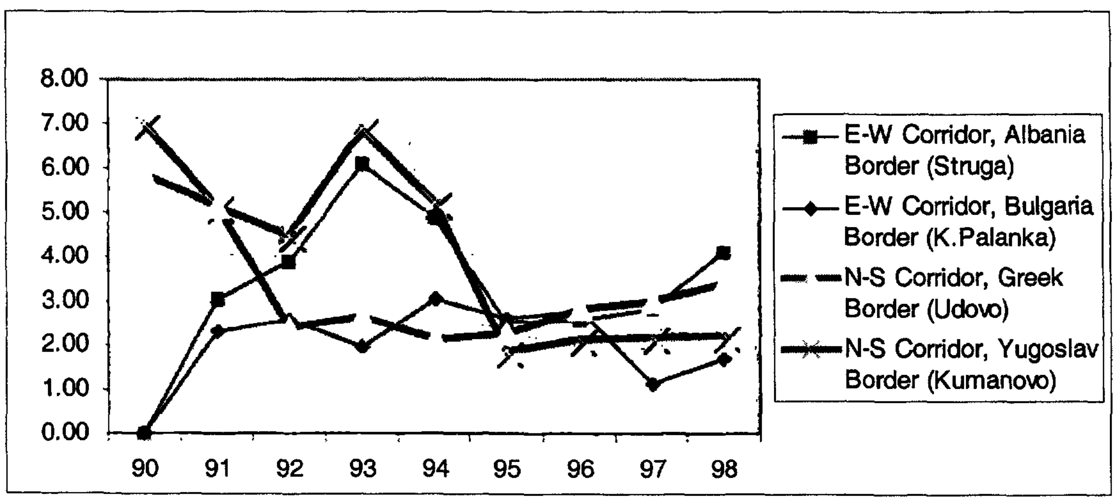
4. Outcome

Improving East-West Traffic Conditions

4.1 The two road sections in the East-West Corridor (Tetovo-Gostinar and Kicevo-Botun) financed under the project were completed. The audit mission visited these two sections and found them to be in very good condition. The economic rate of return, estimated at 20 percent, is slightly higher than the appraisal projection.

4.2 The trends in the use of the border crossings reveal the importance for Macedonia of having fully operational alternative international roads, and therefore the relevance of the project-financed investments (Figure 4.1).

Figure 4.1 FYR Macedonia's international land traffic through its main borders, 1990-98 (thousand vehicles per day, annual average)



4.3 *East-West Corridor (European Corridor C8).* Traffic through Albania and Bulgaria, which was zero when the borders were closed in 1990, had reached significant levels by 1998. In fact, the Albania border crossing carried the highest amount of traffic of all borders in 1998 (and was certain to be significantly higher in 1999 because of military and relief operations during and following the Kosovo crisis). The Albania traffic is likely to continue to grow strongly during the forthcoming years because (a) much of the Dures Port's (Albania) imports destined for Kosovo will transit through Macedonia until a direct route

9. This is essentially as reported in the ICR. Audit mission discussions revealed that border crossing linkages to the computerized customs system are not yet operational. This is further discussed in Chapter 4.

inside Albania is built; and (b) the automobile vehicle fleet in Albania is likely to continue for several years the high growth rate of the recent past (on the order of 15 percent per year).

4.4 Traffic through Bulgaria, after reaching a peak in 1994 following the closing of the access to the Greek port of Salonika, has steadily diminished as accessibility of Macedonia traffic to Salonika has improved, although it is still subject to a visa regime.

4.5 *North-South Corridor (European Corridor C10).* Both the Yugoslavia and the Greek border traffic in 1998 were substantially below their 1990 levels. These levels reflect the obstacles along this route for Macedonia traffic and the need for FYR Macedonia to divert its international trade to other routes. The traffic levels at the two borders also are interrelated by the (normally high number of) tourists from Central European countries transiting via Yugoslavia on their way to Greece, and whose numbers have been affected by the transit conditions in Yugoslavia.

Management of Road Maintenance

4.6 The pavement management system (PMS) developed under the project is an essential tool to manage the road assets. It is a two-cycle concept consisting of (i) data collection and (ii) application of PMS software for the allocation of the road maintenance budget to individual road sections and types of maintenance works.

4.7 By project completion, the data collection phase had been carried out for 1,700 km of roads (including the 900-km national road network) using visual inspection data collection. Despite its simplicity, the visual data collection allows the gathering of information on 26 different types of road damage or deterioration, including such things as roughness, cracking, and pothole progression.

4.8 The PMS visual inspection data is being complemented with data collected through mechanical equipment. Of the 900 km, 640 km had been fully surveyed including both visual and mechanical inspection, while the remaining had been surveyed visually only.

4.9 The Road Agency expects to start applying the PMS for decision making in the year 2000, when 2,000 km will be fully surveyed. The PMS software is already installed in the PMS team computers. Once it becomes operational, it will generate reports by road section and by type of work to be done.

4.10 Overall, while the PMS is not yet operational as a decision-making tool, the audit finds progress in the PMS during the project to be outstanding and to fully meet the appraisal objective to strengthen the road management capabilities for the maintenance of the paved road network. The PMS concept, with variations, is being tried in many countries. OED has audited several projects containing a PMS component and has nowhere found progress and commitment as strong as in Macedonia. The progress is all the more significant since Macedonia did not use any of the PMS precursors or related programs, such as the Bank-developed Highway Design Model (HDM). The HDM program had been installed in Belgrade under Yugoslavia highway projects, but it had not been used in Macedonia.

4.11 The audit reviewed with Macedonian authorities the factors underlying such progress. The following appear to have been instrumental:

i) Simple and well-focused Terms of Reference for the PMS consultant. The TOR specified that the PMS should be simple; use existing software; use maximum manpower, experts, and resources from the country; require ownership and maintenance of a minimum amount of specialized equipment; and maximize data gathering by contracted services and rented equipment.

ii) Ownership of Concept by the Road Agency. Discussions during the audit mission revealed that PMS is endorsed at the highest levels of the Road Agency.

iii) A well-qualified, autonomous and devoted team. The audit mission met with the whole PMS team. This team consists of three office management staff (systems administrator, software operator, and data operator) and two field groups each consisting of one civil engineer and one operator. The team is highly motivated and well trained.

iv) A proper budget. The Road Agency has established a budget of some $50,000/year for the operation of the PMS by contract. The budget covers payment of salaries of the office management staff and of the field teams, and equipment operations and maintenance, and consultant services.

v) Continuous assistance by the consultant. The budget also covers continuing assistance (including updating of software) by the consultant as needed.

vi) Well tested PMS procedures, software, and equipment. The audit mission was impressed by the PMS package that has been installed in Macedonia. For example, a critical aspect of the PMS is the process of data collection and its transference to the office computers. The Macedonia PMS enters data directly to a hand-held computer especially designed (and in use in other countries) for the PMS. Linkage of this computer to the office computers is simple and allows an easy transfer of data. The mission was given a demonstration of the use of the hand-held computer and of the software and reports that the PMS generates.

Customs Organization and Management

4.12 The customs component, formally described in the SAR as a transit facilitation component, had a very significant institutional dimension. Under this component (i) a new Customs Law was enacted (June 1998) and became effective (January 1999); (ii) the Customs Administration, particularly its headquarters, was reorganized, (iii) customs procedures were computerized and a large number of agencies (with many workstations each) became connected to it and could operate on-line. This includes the Customs Administration Office, the Airport Authority, custom brokers (some 250), the Statistical Institute, the Central Bank, the two main Post Offices and several international freight carriers. The new system has resulted in significant gains in efficiency for customs as well as for its users. For example, record preparation upon delivery is now instantaneous, while it used to take 2-3 days. Custom brokers and freight forwarders no longer have to process paperwork in person; it is now done online. The audit viewed the system operating both at the customs office and at one customs broker and was impressed by the excellent design and user-friendliness of the system.

4.13 The outcome of this component is highly valuable from the broad perspective of customs organization and management, including its effect on transit facilitation. Yet, significantly more needs to be done to improve border crossings, including better training of immigration/border police and of customs personnel and completing the installation and launching the operation of the computerized systems from the border points (currently precluded by software problems and inadequate physical infrastructure and utilities and border crossings). Equally or more important is the improvement of border crossings procedures on the other side of FYR Macedonia's borders, particularly in Kosovo, through which much of FYR Macedonia's vegetables and fruits are exported and which is currently suffering high losses due to long border delays.

5. Ratings

Outcome, Institutional Development, and Sustainability

5.1 The PAR rates the project outcome highly satisfactory, sustainability likely, and institutional development impact high. These ratings confirm those of the ICR. The highest ratings given to outcome and institutional development impact are justified in the discussion of the previous section. The sustainability rating is justified because the benefits of both the physical and the institutional components are likely to endure. In the physical investments, the FNRR has shown that it maintains the road network in a good condition, and the PMS should contribute to a better utilization of the funding available for maintenance. The institutional components are already operational in the case of the customs component, and the PMS is fully tested, is supported by appropriate human and financial resources, and is ready to become operational.

Bank Performance

5.2 Bank performance was good. During preparation and appraisal, it expeditiously processed this first transport project for Macedonia, and it was flexible in accepting an unusually high level of retroactive financing. This decision was key to fast implementation. The Bank was also helpful in the preparation of the terms of reference for the pavement management system, and made a practical arrangement for the involvement of IMF staff in the customs component. From preparation through implementation, there was continuity of project staff. This contrasts with projects in others sectors, as highlighted by a performance audit that had noted lack of continuity of Bank staff as one of the problems with Bank operations in FYR Macedonia.[10]

5.3 No highway engineer visited the project during implementation. While this is unusual, there appear to be good reasons to justify this economical approach to supervision: (i) construction of the roads was well advanced by project approval; (ii) the Bank engineer that reviewed these roads during project preparation became gravely ill and subsequently passed away, and, (iii) good quality of road construction in past Yugoslavia projects including the roads in the Macedonia Republic.

5.4 An area where the Bank could have done better was the assessment of the transport sector investment program. The Bank consciously decided to limit its focus to the road sector. This certainly helped expedite the project. But, in doing so, the Bank ignored the investment in the railway system which was big by any standards and which was likely to have significant, negative fiscal consequences. The Bank could have found a way, for example through its economic dialogue, to review such investments and to convey its views to the government. This issue is not mentioned in the project's ICR. This audit, therefore, on balance, rates Bank performance as satisfactory (compared to the ICR's highly satisfactory rating)

10. FYR Macedonia. Economic Recovery, Financial and Sector Adjustment Credit Projects. Project Performance Audit Report, World Bank, June 25, 1997.

Borrower Performance

5.5 Borrower performance was good throughout and in the various project-related agencies, as demonstrated by the fast implementation and the good outcome of both the physical and the institutional components. While the borrower was aided by the fact that the civil works had been prepared and started under the canceled Yugoslavia highway project, this should not detract from its merits. The progress with the PMS is one of the best indicators of the good performance, as demonstrated by extensive OED worldwide experience showing the difficulties in launching and implementing pavement management systems.

6. Lessons

6.1 Simple and well-focused project design helps expedite implementation, but a sector-wide approach is needed to address major sectoral issues and should be retained either through a follow-on project or through sectoral and economic dialogue. The high dependence of FYR Macedonia trade on its international transport corridors underpins the importance of developing and keeping such routes in good order. As in other landlocked countries, and particularly in a region so unstable as the Balkans, redundant alternatives are essential.

6.2 The transit facilitation project was simple and had a sharp focus. The follow-on project further supports the improvement of the East-West corridor and also provides an opening for a review of the railway policy. This phased approach to project design and sectoral issues appears to be appropriate for FYR Macedonia.

6.3 How much of a "transport sector approach" should the Bank take in its transport projects? The sharp focus of the transit facilitation project paid off in good implementation and successful outcome. The risk is that significant transport issues may be left out of the Bank-country dialogue. The following two cases illustrate this:

- *Railway policy.* In parallel with the road development, and outside the project reviewed in this audit, the government launched in recent years a major construction project to link its railway with Bulgaria's. While Macedonia's interest in improving its international transport corridors is understandable, this project, at a total future cost of $240 million (an additional $110 million has already been invested) is unlikely to be economically justified because of the relative low traffic levels and the high cost of constructing and operating a railway through mountainous terrain. In fact, a recent consultant study reviewed by the audit supports the construction of the railway but provides no information on traffic demand. This audit finds that the railway expansion project is an expensive investments that FYR Macedonia can ill afford. This investment calls into question the decision-making process in place in FYR Macedonia for the preparation and composition of its public investment program.

- *Road funding and concessioning.* (i) The current funding approach pools budgetary and toll road revenues under a unified fund. Given the potential for economic distortions of this approach, the government should consider establishing a separate toll road unit managing all toll revenues. (ii) The government appears to have considerable interest in concessioning motorways. FNNR has created a unit for this, but concessioning in FYR Macedonia will be difficult and will need to be carefully tailored to country conditions. Traffic risks are significant. Further, the requirement for a parallel free road in a small country like Macedonia may be a strong deterrent for private concessionaires. In fact, protecting local area road users may be more reasonable than insisting on parallel roads that would prevent most motorways from being a profitable investment.

6.4 *A higher ceiling for retroactive financing than currently prescribed by Bank regulations may be appropriate under some circumstances and is likely to help expedite project implementation.* The project's outcome and fast implementation to a large extent hinged on the high proportion of retroactive financing. This raises the question whether the Bank should consider raising the 10 percent ceiling, when the following two conditions are present: (i) under local competitive bidding rules and (ii) with the more experienced borrowers, that are known to apply Bank procedures correctly.

6.5 *Bank-IMF cooperation in transport projects can be especially useful in projects with a focus on transit facilitation objectives.* This project demonstrated that transit facilitation projects provide a natural opportunity for Bank-IMF collaboration. There are clear overlapping interests. For the Bank's transit facilitation project, the customs component represented an important component to improve the facilitation of international trade, thus the use of project-financed infrastructure facilities. For the IMF, the component was especially important as it would strengthen the country's international trade data and customs revenues.[11] Shippers and freight-forwarders are a natural constituency for such components. Ownership by the public agency as well as the users is more likely when the improvements consist of simplification or computerization rather than radical reform of existing procedures. When the objective is major customs reform, transport projects are less likely to be suitable.

6.6 *Small, "client" highway agencies are likely to be significantly more efficient than a traditional highway agency.* Macedonia is ahead of most countries in having an organization for managing the road assets that separates the client (FNNR), from the producer (the state company Makedonijapat.)[12] This arrangement allows FNRR to concentrate on planning and management, to be small, and to operate efficiently.

Future Sectoral Dialogue and Operations

6.7 The ongoing project should be an appropriate vehicle for the Bank to pursue a dialogue with the government on policy issues in the transport sector. However, according to the CAS, the Bank does not envisage other operations in the transport sector in the future. Discussions of the audit mission in the field suggest that the investment and policy directions envisaged by the Bank do no necessarily coincide with those of other external financiers. In this light, the Bank might wish to keep its options open regarding its presence in the sector beyond the current CAS period.[13]

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11. As noted in the Final Executive Project Summary.

12. For a good analysis and description of the client and the producer in highway management, see A. Talvitie, "International Experiences in Restructuring the Road Sector." Operations Evaluation Department, World Bank.

13. For example, both the EIB and the EBRD favor the N-S corridor because it has a greater priority as an European transit route, and its usefulness to Greece. Greece's vehicles and freight today circulate without problems through Serbia on their way to Germany and other European countries. There appears so far to be only small exception, and that is the improvement of a short section of the E-W corridor being financed by the EIB. Yet, this section also connects to the N-S corridor.

Basic Data Sheet

TRANSIT FACILITATION PROJECT (LOAN 3868-MK)

Key Project Data *(amounts in US$ million)*

	Appraisal Estimate	*Actual or current estimate*
Total project costs	38.7	38.58
Loan amount	24.0	23.38
Cancellation		0.62
Date physical components completed	June 1997	Sept. 1996
Economic rate of return	19	20

Cumulative Estimated and Actual Disbursements

	FY96	*FY97*	*FY98*	*FY99*	*FY00*
Appraisal estimate (US$M)	11.3	16.5	21.7	24.0	24.0
Actual annual	21.08	22.11	22.86	22.87	23.29
Actual as % of estimate	186.5	134.0	105.3	95.33	99.99
Date of final disbursement: 02/01/00					

Project Dates

	Original	*Actual*
Identification (Executive project Summary)	12/27/93	12/27/93
Preparation	09/94	09/94
Appriasal	10/31/94	10/31/94
Board Presentation	04/18/95	04/18/95
Signing	06/08/95	06/08/95
Effectiveness	06/29/95	06/29/95
Project Completion	06/16/98	06/16/98
Loan closing	06/30/99	06/30/99

Staff Inputs (staff weeks)

Stage of Project Cycle	*Actual*	
	Weeks	US$
Preparation to appraisal	23.8	91.5
Appraisal	24.4	64.1
Negotiations through Board approval	06.7	26.8
Supervision	41.0	132.8
Completion	01.0	02.4
TOTAL	96.9	317.6

Mission Data

Stage of Proj. Cycle	(Month/year)	No. of persons	Days in Field	Specialized staff skills represented	Performance rating		Types of problems
					Implement. status	Develop. objectives	
Through Appraisal							
Identification	03/93	2	12	E, HE			
	03/94	1	12	E			
	04/94	2	12	E, HE			
	07/94	1	3	E			
	02/95	1	11	E			
	10/95	1	2	E			
Appraisal through Board approval	11/94	4	10	E, E, HE, HE			
Supervision	11/95	1	4	E	HS	HS	
	05/96		11	E	HS	HS	
	09/96	1	4	E	HS	HS	
	12/97	1	3	E	HS	HS	
	09/98	3	5	E, E, IS	HS	HS	

1 – Key to Specialized staff skills:
HE-Highway Engineer
E- Economist
IS-Infrastructure Specialist

2 – Key to Performance Ratings
HS-Highly satisfactory
S-Satisfactory
U-Unsatisfactory

3 – Key to Types of Problems:
P-Procurement
T-Training

REPUBLIC OF MACEDONIA
FUND FOR NATIONAL AND
REGIONAL ROADS-SKOPJE

BORROWER COMMENTS

Date: **April 28, 2000**

To: **Mr. Gregory K. Ingram,**
Manager
Sector and Thematic Evaluations Group
Operations Evaluation Department

Fax: **(202) 477-6391**

Re: **Republic of Macedonia - Transit Facilitation Project (Loan No. 3868 - MK)**
Draft Performance Audit Report

Dear Mr. Ingram,

We appreciate that you have sent to us the draft Performance Audit Report for our comments. The Performance Audit Report is very well done and we are very satisfied with the implementation of the Project and the whole support that we had from the Bank during the Project implementation.

We are very glad that the PAR rates the Project outcome and institutional development impact highly satisfactory.

We do not have any comments on the report, except one minor correction that should be reflected in the final report. That is about the undisbursed balance of $ 0.71 million, instead of $0.62 million. The correct figure of undisbursed balance is $0.71 million and it was canceled.

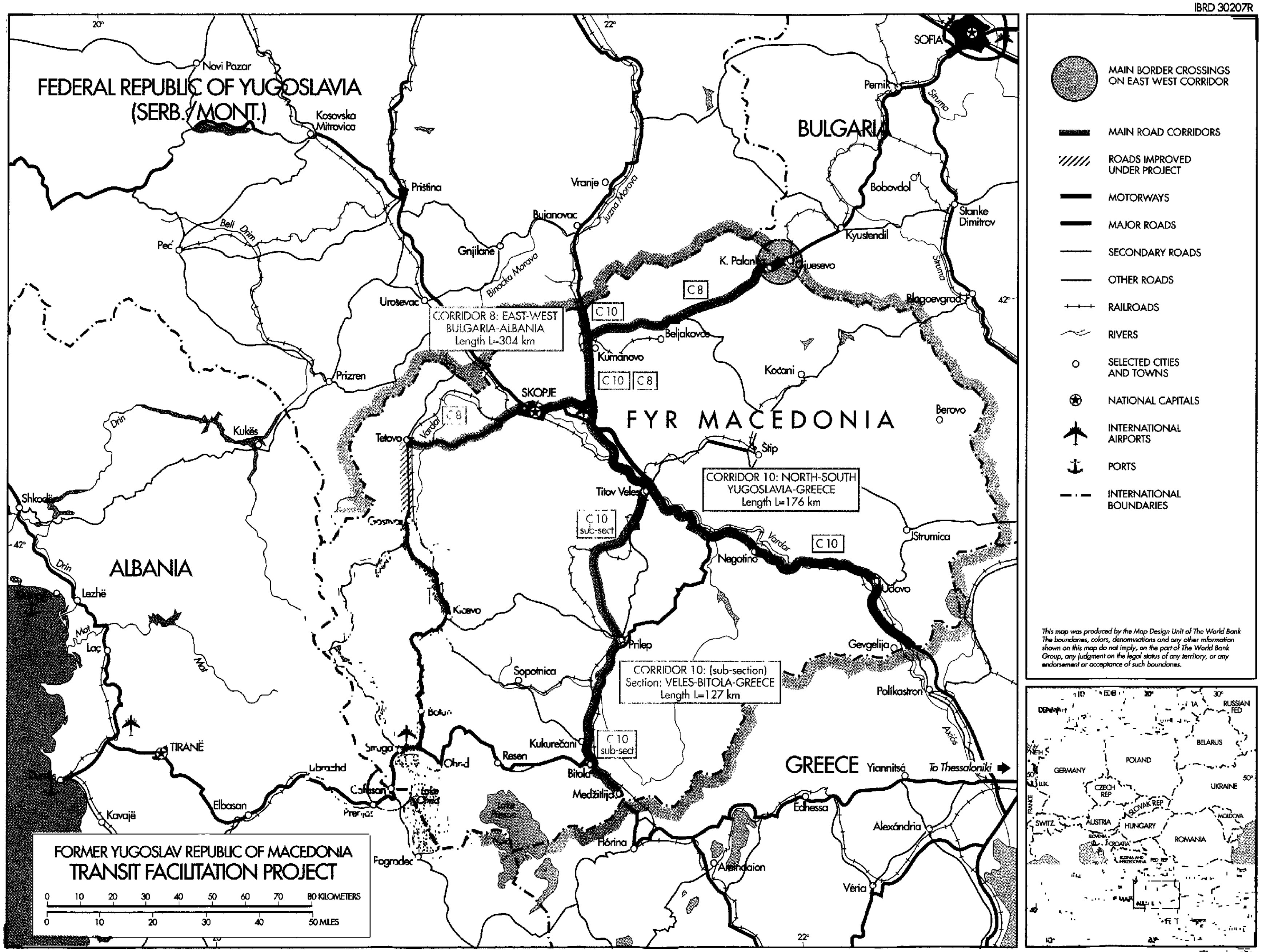
We are looking forward to receive a copy of the Final Report.

Sincerely Yours,

Vulnet Paloshi, C. Eng.
Director

MAP SECTION

IBRD 30207R



FORMER YUGOSLAV REPUBLIC OF MACEDONIA
TRANSIT FACILITATION PROJECT
0 10 20 30 40 50 60 70 80 KILOMETERS
0 10 20 30 40 50 MILES
FEDERAL REPUBLIC OF YUGOSLAVIA
(SERB./MONT.)
BULGARIA
FYR MACEDONIA
ALBANIA
GREECE
CORRIDOR 8: EAST-WEST
BULGARIA-ALBANIA
Length L=304 km
CORRIDOR 10: NORTH-SOUTH
YUGOSLAVIA-GREECE
Length L=176 km
CORRIDOR 10: (sub-section)
Section: VELES-BITOLA-GREECE
Length L=127 km
C 8
C 10
C 10 sub-sect
To Thessaloniki
Novi Pazar
Kosovska Mitrovica
Priština
Vranje
Bujanovac
Gnjilane
Peć
Uroševac
Prizren
Kukës
Shkodër
Lezhë
Laç
TIRANË
Durrës
Kavajë
Elbasan
Librazhd
Prrenjas
Pogradec
Struga
Ohrid
Resen
Bitola
Medžitlija
Kukurečani
Sopotnica
Prilep
Kičevo
Gostivar
Tetovo
SKOPJE
Kumanovo
Beljakovce
K. Palanka
Gjuesevo
Kyustendil
Kočani
Štip
Titov Veles
Negotino
Strumica
Udovo
Gevgelija
Polikastron
Berovo
Blagoevgrad
Stanke Dimitrov
Bobovdol
Pernik
SOFIA
Florina
Edhessa
Alexándria
Véria
Yiannitsá
Amindaion
Juzna Morava
Binacka Morava
Beli Drim
Drin
Mat
Vardar
Struma
Axios
20°
22°
42°
MAIN BORDER CROSSINGS ON EAST WEST CORRIDOR
MAIN ROAD CORRIDORS
ROADS IMPROVED UNDER PROJECT
MOTORWAYS
MAJOR ROADS
SECONDARY ROADS
OTHER ROADS
RAILROADS
RIVERS
SELECTED CITIES AND TOWNS
NATIONAL CAPITALS
INTERNATIONAL AIRPORTS
PORTS
INTERNATIONAL BOUNDARIES
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