



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
ROAD UPGRADING AND DEVELOPMENT PROJECT
APPROVED ON SEPTEMBER 30, 2015
TO
PUBLIC ENTERPRISE FOR STATE ROADS

TRANSPORT

EUROPE AND CENTRAL ASIA

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ABBREVIATIONS AND ACRONYMS

BMS	Bridge Management System
EUR	Euro
FY	Fiscal Year
ICB	International Competitive Bidding
PDO	Project Development Objective
PESR	Public Enterprise for State Roads
RUDP	Road Upgrading and Development Project
USD	US Dollar



BASIC DATA

Product Information

Project ID P149955	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 30-Sep-2015	Current Closing Date 31-Dec-2020

Organizations

Borrower Public Enterprise for State Roads	Responsible Agency Public Enterprise for State Roads
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Project Development Objective (PDO)

Original PDO

The Project Development Objectives are to improve transport connectivity for road users along Corridor VIII between Skopje and DeveBair, and to improve the asset management and planning functions of Public Enterprise for State Roads.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-85250	30-Sep-2015	06-Oct-2015	30-Dec-2015	31-Dec-2020	90.95	33.10	59.67

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. The Road Upgrading and Development Project (RUDP) was approved on September 30, 2015 and declared effective on December 2015, with a closing date of December 31, 2020. The Project Development Objectives are to improve transport connectivity for road users along Corridor VIII between Skopje and Deve Bair, and to improve the asset management and planning functions of Public Enterprise for State Roads.

The project consists of two Components (Parts):

Part I: Construction of Corridor VIII: Construction of the express road along the east section of the Corridor VIII between Rankovce and Kriva Palanka.

Part II: Establishment of Bridge Management System and Institutional Support: Strengthening of the Borrower's institutional capacity to manage and maintain the Guarantor's bridge assets through, *inter alia*, the creation of a Bridge Management System (BMS), including the development of a bridge maintenance and investment plan; and support to the Borrower's capacity development and Project implementation through, *inter alia*, (a) the provision of technical assistance to strengthen the technical capacity of the Project Management Team (PMT) and (b) the carrying out of (i) independent technical audits of the civil works carried out under Part I; (ii) a beneficiary satisfaction survey; and (iii) mid-term and impact evaluation surveys.

2. During 2016 and 2017, progress on project activities including the necessary land acquisition along the planned expressway route was very limited due to the political crisis, during which widespread protests led to early elections. After the early elections, PESR managed to complete the land acquisition, the construction bidding process and selection of contractors for Component I works by December 2017, with construction contracts awarded in May 2018. However, implementation was further delayed later, on both Components. On Component I (Construction) initial contractor mobilization was slow for both construction lots, and performance remained poor especially in one of the two (lot 1); this has led to physical progress percentages of 30% (lot 1) and 46% (lot 2) by the end of November 2020. On Component II (BMS), PESR's procurement delay resulted in the contract being awarded only in the summer of 2020. Therefore, no project activity could be concluded within the current loan closing date. Moreover, of the original commitment amount of EUR 83m (approx. USD 91m equivalent), 34% has been disbursed through mid-December 2020, whereas the project's implementation progress (IP) and Project Development Objective (PDO) have been downgraded to Moderately Unsatisfactory in ISRs since June 2019. Lastly, during 2020, in particular the second calendar quarter, the combination of the covid-19 pandemic with the pre-election period exacerbated implementation delays.

3. Following consideration of alternative options (including closing the project now, extending it without Lot 1 or reaching an acceptable plan for full PDO achievement) and discussions with the Bank, the Borrower has concluded on an Action Plan for the project's implementation, acceptable to the Bank and, to be included in the Project Operation Manual. Correspondingly, in a letter dated December 7th, 2020 (and later reiterated in the letter of December 22nd, 2020), the Borrower has requested an extension of the loan closing date by 24 months, from the current closing date of December 31, 2020, as well as a cancellation of EUR 10m (approx. USD 12.1m equivalent) from the loan,



corresponding to Component I (Construction) savings. In its letter of December 22nd, 2020, the Borrower confirmed agreement with the Action Plan which calls for termination of one non-performing construction contract (lot 1) and rebidding of remaining works. Through this restructuring, it is possible, if properly and efficiently managed by PESR, to achieve the PDO as well as fully disburse the revised loan amount by the new closing date extension.

4. The Action Plan is based on the following assumptions regarding the critical activities of RUDP:

Construction (Component I): Lot 1 – Up to seven months for resuming works and sixteen months for completion. Lot 2 – Targeted completion by December 2021.

Bridge management system (main part of Component II): Launch of procurement of the software, hardware and data collection linked activities by February 2021. Estimated completion of consultancy and linked activities by May 2022.

The assumptions were based on the Bank team’s assessments of information provided by PESR and its supervision engineering and bridge management system consultants, and represent achievable timelines for completion of the activities. The detailed Action Plan is annexed to this Restructuring Paper.

5. The World Bank team confirms the general adequacy of the project’s fiduciary management (financial management and safeguards) and the fact that, as of the date of this restructuring, there are no outstanding audit reports. Following the August 2020 implementation mission, the Borrower is working on introducing improvements in its accounting and internal controls framework, as well as updating the Biodiversity Management Plan, which are agreed to be concluded by January 31, 2021. In the June 2020 ISR, all safeguards ratings were Moderately Satisfactory; Monitoring and Evaluation and Financial Management ratings were Satisfactory; and Project Management and Procurement ratings were Moderately Unsatisfactory. All legal covenants have been complied with.

6. The proposed restructuring has no impact on the safeguards instruments, as there is no change in the project Components and the original instruments and policies continue to apply. The Borrower remains committed to the project and the Development Objectives remain achievable.

B. Rationale for Restructuring

7. From June 2019 onwards, the Bank continuously communicated to the Borrower (PESR) the need to address the project’s slow implementation progress. In particular on the lot 1 (Rankovce area), the contractor failed to achieve sufficient mobilization or to make progress in time-critical work on structures; moreover, the said contractor ceased being present on site for the most part of 2020 to date. PESR examined various options for addressing the poor construction progress and in February 2020 hired a claims/contract expert to focus on possible solutions for the lot 1 works. Following iterative discussions and correspondence in subsequent months, the Borrower’s proposal in October 2020 called for assignment of the lot 1 contract to the main contractor of lot 2. As this option is not in line with the World Bank Procurement Guidelines applicable to this situation (non-performing contract), the only viable option for the works to be completed with the Project financing is to rebid the remaining works and extend the project closing date to allow for the related process and the construction works completion.



8. Given the circumstances, International Competitive Bidding (ICB) procedure is the recommended option for the rebidding. According to the latest estimates provided by the project team, it would take seven to nine months from contract termination to have a new signed contract for Lot 1, also depending on the timely and efficient procurement process by PESR. To mitigate the risk of delays, the Bank’s project team recommends intensifying procurement capacity of PESR (incl. market research, updating of bidding documentation based on market sounding, and evaluation of bids with additional support of international experts).

II. DESCRIPTION OF PROPOSED CHANGES

C. Cancellation of 10 million EUR of savings

9. Given that the sum of the lot 1 and lot 2 construction contracts is EUR 58 m (approx. USD 70 m equivalent), as opposed to the initially-projected construction amount of EUR 78m (approx. USD 85.5 m equivalent on approval, or USD 94 m as per current exchange rate), and estimating that 10 million EUR (USD 12.1 m equivalent) would be a reasonable contingency amount for works on the two lots, the Borrower has requested cancellation of 10 million EUR (USD 12.1m equivalent) from the loan. The remaining undisbursed balance with the said contingency should be sufficient to complete the remaining works within the loan financing. Other than the cancellation, which affects entirely category 1 of eligible expenditures (goods, works, services, training and operating costs) -reducing it from EUR 82,792,500 to EUR 72,792,500- there is no other reallocation among categories. Estimated disbursements for the extension period are in the order of EUR 20 m for each additional fiscal year.

Table 1 – Projected disbursements

	FY21	FY22	FY23
Projected disbursements by FY	EUR 20m (USD 24.2mn equivalent)	EUR 20m (USD 24.2mn equivalent)	EUR 8m (USD 9.7mn equivalent)

D. Extension of the Project’s closing date

10. In order to reflect construction progress rates achieved as of end November 2020, and ensure that funding is available for both lots, as well as for all activities of the second Component (including Bridge Management System consultancy; hardware and software purchase; structures data collection), PESR has requested an extension of the closing date by twenty-four months, from the current closing date of December 31, 2020 to December 31, 2022.

11. There is no modification to the PDO as a result of the proposed changes. With respect to the Results Framework, the end target values -for improved market accessibility index, freight volume served, reduced vehicle operating cost and bridge maintenance investment program based on new system- remain the same, with only the end target date shifted to match the new Loan Closing Date. Accordingly, the intermediate result indicator values -for length of constructed road, number of direct project beneficiaries with gender balancing, degree of satisfaction from road condition, citizen input, completion of bridge condition survey, digitization of structures, and preparation of bridge maintenance investment plan using the system- also remain unchanged with new target dates.



12. The Borrower and the Bank estimate that, subject to commitment from the Borrower and continuous implementation support from the Bank, this extended period will allow the proper completion of all construction works and all design, other consultancy and goods purchase activities being financed by the Project. The Action Plan calls for immediate contract termination and initiation of rebidding of lot 1, with an estimated restart of works within seven to nine months, namely September 2021 or earlier. As the time for constructing the remainder of lot 1 has been estimated at sixteen months, full completion is achievable by the extended closing date. It will also allow full implementation of lot 2 works and of the Bridge Management System including data collection. Moreover, the Action Plan calls for support by the Bank to PESR to intensify its procurement capacity as well as enhanced monitoring/steering arrangements with weekly progress meetings and regular higher-level reviews.

ANNEX: Detailed Action Plan

<u>Action</u>	<u>Time</u>	<u>Comments</u>
Initiate termination of lot 1 contract	No later than Dec 28, 2020	By PESR
Inclusion of this Action Plan to Project Operation Manual	No later than Jan 15, 2021	By PESR
Revised work program and contract monitoring plan for lot 2	No later than Jan 31, 2021	By PESR
Completion of pending RUDP safeguards and FM issues		By PESR (follow-up from Aug 2020 mission)
Valuation of works and estimation of Bill of Quantities (BoQ) for rebidding	Target Jan 20, 2021 No later than Jan 31, 2021	By PESR / current supervising engineer, assuming no new designs
Market analysis and international bidders' awareness for Southeast Europe	Target Jan 20, 2021 No later than Jan 31, 2021	Bank-supported (consultant) in cooperation with PESR
Launch of Bridge Management System (BMS)-linked activities' procurement	Target Feb 15, 2021 No later than Mar 15, 2021	By PESR
Lot 1 new bidding documents prepared for Bank review	Target Jan 31, 2021 No later than Feb 28, 2021	Discussion of drafts beforehand
Release Request for Proposals for Technical Audit consultancy	Target Mar 15, 2021 No later than Apr 15, 2021	Adjusting ToR from earlier consultancy
Award of Supervising Engineer contract for Lot 1 (PESR budget)	No later than May 15, 2021	Not to be funded under RUDP
Lot 1 Bank review, resubmission and clearance – launch procurement	Target Feb 15, 2021 No later than Mar 31, 2021	Key milestone
Lot 1 Bid / proposal submission	Target Mar 31, 2021 No later than Jun 15, 2021	
Lot 1 Bid Evaluation	Target Apr 30, 2021 No later than Jul 15, 2021	
Bank's No-Objection and issue of notification of award for lot 1	Target May 15, 2021 No later than Jul 31, 2021	
Signing of contract and works commencement for lot 1	Target May 31, 2021 No later than Sep 1, 2021	



Technical Audit contract award	No later than Aug 15, 2021	To complement technical oversight
Lot 2 completion	Target Dec 31, 2021 No later than May 31, 2022	Current estimate
BMS & linked activities completion	Target May 31, 2022 No later than Sep 30, 2022	Current estimate
Lot 1 works completion	Target Sep 30, 2022 No later than Dec 31, 2022	Assuming 16 months net remaining works duration
Technical progress meetings	Weekly starting on Jan 15, 2021	Borrower's and Bank's Project teams
High-level meetings of Bank and client to check status of procurement process for Lot 1	Every 2 weeks starting on Jan 15, 2021	For example, from Bank CM, from Borrower Deputy Prime Minister may co-chair.
Project progress review	Quarterly starting on Jan 15, 2021	Revisiting RUDP status

III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓



Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)**COMPONENTS**

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Construction along Corridor VIII: Rankovce - Kriva Palanka	85.50	Revised	Construction along Corridor VIII: Rankovce - Kriva Palanka	73.40
Institutional and Project Implementation Support	5.50		Institutional and Project Implementation Support	5.50
TOTAL	91.00			78.90

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-85250	Effective	31-Dec-2020		31-Dec-2022	30-Apr-2023

**CANCELLATIONS**

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
IBRD-85250-001	Disbursing	EUR	83,000,000.00	10,000,000.00	31-Dec-2020	73,000,000.00	LOAN RESTRUCTURING, COST SAVINGS

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
IBRD-85250-001 Currency: EUR				
iLap Category Sequence No: 1 Current Expenditure Category: G,W,non-CS,CS,TR,OC				
82,792,500.00	23,840,972.37	72,792,500.00	100.00	100.00
iLap Category Sequence No: 3 Current Expenditure Category: PREMIUM FOR CAPS/COLLARS				
0.00	0.00	0.00		
Total	82,792,500.00	23,840,972.37	72,792,500.00	

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2016	7,000,000.00	0.00
2017	10,000,000.00	0.00
2018	20,000,000.00	11,935,757.00
2019	20,000,000.00	3,943,902.00
2020	20,000,000.00	8,794,256.00



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2021	14,000,000.00	20,000,000.00
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Results framework

COUNTRY: North Macedonia
Road Upgrading and Development Project

Project Development Objectives(s)

The Project Development Objectives are to improve transport connectivity for road users along Corridor VIII between Skopje and DeveBair, and to improve the asset management and planning functions of Public Enterprise for State Roads.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Improve transport connectivity for road users along Corridor VIII between Skopje and Deve Bair							
Volume of freight along Corridor VIII (tones, section Rankovce - Kriva Palanka) (Number (Thousand))		43.80					45.00
<i>Action: This indicator has been Revised</i>							
Market accessibility index along Corridor VIII (section Rankovce - Kriva Palanka) (Number)		138.50					265.60
<i>Action: This indicator has been Revised</i>							
Vehicle operating cost for road users, in Euro per vehicle-km, along the project road section. (Number)		1.12					0.92



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
<i>Action: This indicator has been Revised</i>							
Improve the Borrower's asset management and planning function							
Bridge maintenance and investment program developed based on Bridge Management System (BMS). (Yes/No)		No	No	No	No	Yes	Yes
<i>Action: This indicator has been Revised</i>							

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Construction along Corridor VIII: Rankovce - Kriva Palanka							
Roads constructed, non-rural (Kilometers)		0.00	0.00	4.00	11.00	18.00	24.64
<i>Action: This indicator has been Revised</i>							
Direct project beneficiaries (Number)		6,181.00					24,964.00
<i>Action: This indicator has been Revised</i>							
Female beneficiaries (Percentage)		49.00					49.00



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Percentage of beneficiaries expressing satisfaction with condition of the project roads (Percentage)		52.00					70.00
Action: This indicator has been Revised							
Citizen Input to PESR during preparation and construction of the project. (Text)		Citizen committees formed					Final Citizen's engagement report
Action: This indicator has been Revised							
Institutional and Project Implementation Support							
Bridge condition survey completed (Yes/No)		No					Yes
Action: This indicator has been Revised							
Digitize all bridge structures as part of the larger digitized national road reference system (Yes/No)		No					Yes
Action: This indicator has been Revised							
Preparation of bridge maintenance and investment plan using the established BMS (Yes/No)		No					Yes



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Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
<i>Action: This indicator has been Revised</i>							



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