

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 18 October 2023<sup>1</sup> (on a no objection basis)

**NORTH MACEDONIA**

**RAIL JOINT BORDER CROSSING - TABANOVCE**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

CAPEX	Capital Expenditures
CBA	Cost-Benefit Analysis
CP	Conditions Precedent
ECEPP	EBRD Client e-Procurement Portal
EE	Energy Efficiency
EIRR	Economic Internal Rate of Return
EPC	Energy Performance Certificates
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
E&S	Environmental and Social
ESDD	Environmental and Social Due Diligence
ETI	Expected Transition Impact
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FS	Feasibility Study
FX	Foreign Exchange
GDP	Gross Domestic Product
GET	Green Economy Transition
HVAC	Heating, Ventilation and Air Conditioning
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
IPF	Infrastructure Project Facility
LGD	Loss Given Default
LRP	Livelihood Restoration Plan
Km	Kilometres
MoF	Ministry of Finance
MoTC	Ministry of Transport and Communications
NPL	Non-Performing Loan
NPV	Net Present Value
NSV	German Notes (Namensschuldverschreibungen)
NTS	National Transport Strategy
OCCO	Office of the Chief Compliance Officer
OGC	Office of the General Counsel
PA	Paris Agreement
PD	Probability of Default
PEP	Politically Exposed Person
PIA	Project Implementation Adviser
PIU	Project Implementation Unit
PP&Rs	Procurement Policies & Rules
PPAD	Procurement Policy and Advisory Department
PRs	Performance Requirements
PSD	Project Summary Documents
PV	Photovoltaics
PLL	Precautionary and Liquidity Line Arrangement
RAROC	Risk-Adjusted Return On Capital
RJBC	Rail Joint Border Crossing
SEETO	South East Europe Transport Observatory
TA / TC	Technical Assistance / Technical Cooperation
TEN-T	Trans-European Transport Network
TI	Transition Impact
TOR	Terms of References
VAT	Value Added Tax
WBIF	Western Balkans Investment Framework

FX: 1 EUR = 61.54 MKD (18 September 2023)

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of North Macedonia (“**North Macedonia**” or the “**Borrower**”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Republic of North Macedonia in the amount of up to EUR 5 million to finance the development of Rail Joint Border Crossing in Tabanovce (the “**Project**”) on the border between North Macedonia and Serbia, on rail Corridor X which is one of the main transport corridors in the Western Balkans and part of the Trans-European Transport Network extension in the region. The Project consists of energy efficiency upgrade of the existing rail station buildings and the construction of additional new high energy performance buildings including associated equipment. The Project is co-financed with a EUR 2.4 million investment grant provided by the European Union (“**EU**”) through the Western Balkans Investment Framework (“**WBIF**”).

The expected transition impact of the Project is derived from the *Integrated* and *Green* qualities. The *Integrated* transition quality will be achieved through optimized border-crossing procedures through “one stop” crossing, which will increase efficiency and reduce waiting times leading to improvement of regional connectivity and integration on rail Corridor X. The Project will also promote the *Green* transition quality through investments in low-carbon buildings as well as implementation of long-term renovation strategies resulting in lower carbon emissions. The Project is 75% GET eligible and Gender additional.

Technical Cooperation (“**TC**”) support for Project implementation has been provided by the WBIF.

I am satisfied that the operation is consistent with the Bank’s Strategy for North Macedonia , the Transport Sector Strategy , the Green Economy Transition (“GET”) approach , the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve, on a no-objection basis, the proposed loan substantially on the terms of the attached Report.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

NORTH MACEDONIA – Rail Joint Border Crossing – Tabanovce – DTM 54676	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> on a no objection basis is sought for a sovereign loan of up to EUR 5 million in favour of the Republic of North Macedonia, represented by the Ministry of Finance (“ <b>MoF</b> ”) of North Macedonia (the “ <b>Borrower</b> ” or the “ <b>Client</b> ”), to finance the construction of a Rail Joint Border Crossing station in Tabanovce on the border between North Macedonia and Serbia (the “ <b>Project</b> ”).
<b>Client</b>	<p><b>The Client and the Borrower:</b> Republic of North Macedonia, represented by the MoF of North Macedonia. As of 22 September 2023, the Bank’s total sovereign exposure to North Macedonia was EUR 930 million (including operating assets of EUR 281 million).</p> <p><b>Implementing Agency:</b> Ministry of Transport and Communications of North Macedonia (“<b>MoTC</b>” or the “<b>Implementing Agency</b>”).</p>
<b>Main Elements of the Proposal</b>	<p><u>Transition Impact:</u></p> <ul style="list-style-type: none"> <li>- <b>Primary Quality – <i>Integrated</i></b> – by improving regional connectivity and integration on rail Corridor X, which is part of the TEN-T Networks extension to the Western Balkans. The construction of the joint rail border station will reduce border waiting times and shorten border-crossing procedures which in turn will facilitate the transportation of both freight and passengers between North Macedonia and Serbia.</li> <li>- <b>Secondary Quality – <i>Green</i></b> – through higher energy efficiency (“<b>EE</b>”) improvements at the joint border station and through the installation of photovoltaics (“<b>PV</b>”) panels on the buildings’ roofs.</li> </ul> <p><u>Additionality:</u> The Bank’s additionality is derived from: (i) providing financing with a long tenor, not available in the market from commercial sources on reasonable terms and conditions; (ii) carbon transition risk mitigation; (iii) best international procurement standards and (iv) gender awareness trainings for stakeholders and joint border authorities.</p> <p><u>Sound banking</u> – The transaction is a sovereign loan.</p>
<b>Key Risks</b>	<p><u>Country and Repayment Risk:</u> North Macedonia’s rating (BB+/BB-) is underpinned by its demonstrated resilience to external shocks and maintained macroeconomic stability.</p> <p><u>Implementation Risk:</u> This is the first EBRD project in which MoTC is the Implementing Agency. This implementation risk is mitigated by the experience gained by Rail Department staff through their involvement as PIU members in ongoing EBRD railway projects. In addition, Project implementation support will be provided to the MoTC by international consultants.</p>
<b>Strategic Fit Summary</b>	The Project is in line with the Bank’s Strategy for North Macedonia , the Transport Sector Strategy , the Green Economy Transition (“GET”) approach , EBRD’s Strategy for the Promotion of Gender Equality , and with the Agreement Establishing the Bank.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	A sovereign loan of up to EUR 5 million to finance a Rail Joint Border Crossing (" <b>RJBC</b> ") at Tabanovce, on the border between North Macedonia and Serbia, on rail Corridor X (the " <b>Project</b> "). The Project will finance the upgrade and energy efficiency renovation of the existing rail station buildings and the construction of additional new high energy performance buildings, including associated equipment. The works also include the construction of an access road of approximately 900 meters which will connect the existing road with the RJBC. Renewable energy measures (installation of solar photovoltaics on the rooftops) will also be implemented <sup>3</sup> .
<b>Existing Exposure</b>	The Bank's total sovereign exposure as of 22 September 2023 was EUR 930 million in portfolio [REDACTED].
<b>Maturity / Exit / Repayment</b>	Tenor of up to 15 years [REDACTED]
<b>Potential AMI eligible financing</b>	N/A
<b>Use of Proceeds - Description</b>	The loan proceeds will be used to finance capital expenditure (including contingencies) for the rehabilitation and upgrade of the existing rail station in Tabanovce as well as the construction of new facilities to be jointly used by both North Macedonia and Serbia authorities to carry out their duties (police, customs, inspection authorities, train operators and railway infrastructure companies). The loan proceeds will also be used to finance the construction of an access road which will provide a better connection to the RJBC bypassing the village of Tabanovce.
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<ul style="list-style-type: none"> <li>• Republic of North Macedonia, represented by the Ministry of Finance as the Borrower.</li> <li>• Ministry of Transport and Communications as the Implementing Agency.</li> <li>• EU WBIF as co-financier of the Project.</li> </ul>
<b>Conditions to subscription / disbursement</b>	[REDACTED]
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Sovereign
<b>Other material agreements</b>	Grant Agreement for the use of the WBIF grant between the Bank and MoTC.
<b>Associated Donor Funded TC and Blended Concessional Finance</b>	<p><b>A. Technical Cooperation (TC)</b></p> <p><u>Pre-signing:</u></p> <p><b>TC1:</b> Feasibility Study ("FS") completed in 2019 and funded by WBIF (EUR 0.38 million). <i>Completed.</i></p> <p><u>Post-signing:</u></p> <p><b>TC2:</b> Project Implementation and Works Supervision Services: The cost is EUR 250,000 and will be financed by WBIF. <i>Approved.</i></p>

<sup>3</sup> Mitigation measures will be implemented into RJBC's procurement procedures to integrate considerations and due diligence to address solar supply chain risk.

	<p><b>B. Co-investment grants</b></p> <p>An investment grant in the amount of up to EUR 2.4 million has already been approved by the WBIF.</p> <p><u><i>Reimbursement and Cost Sharing:</i></u></p> <p>The above TC assignments are non-reimbursable transactional TCs required to structure the Project and achieve the Project objectives. The Borrower/Implementing Agency will be responsible for paying any VAT and other indirect taxes that are applied to the post-signing TC assignment as a parallel contribution to the Project (VAT is levied at 18% in North Macedonia).</p>
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[REDACTED]

# INVESTMENT PROPOSAL SUMMARY

## 1. STRATEGIC FIT AND KEY ISSUES

### 1.1 STRATEGIC CONTEXT

Rail Corridor X is one of the key Pan European rail corridors connecting Central Europe with Southeast Europe. It is part of the Trans-European Transport Network (“TEN-T”) and the backbone of the South East Europe Core Network, which includes the most important connections linking major cities and nodes. The development of this Core Network is promoted by all the countries of the region given its importance for promoting regional trade, economic growth and connectivity with the European Union (“EU”). Rail Corridor X is the main north-south route running through North Macedonia and at a larger scale through the Western Balkans region. In North Macedonia, Rail Corridor X is the only corridor that connects the country with its neighbours, Serbia and Greece, and where passenger/freight transport is ongoing.

The rail border crossing between North Macedonia and Serbia, located on Corridor X, is the most important border crossing for both countries. Almost 70% of freight transport in the country uses the Macedonian/Serbian border crossing in Tabanovce. The establishment of a joint border crossing has been identified as a key priority investment for improving regional development and raising awareness in the Western Balkans region of the benefits of attractive and efficient railway connections.

In this context, an Agreement for Border Dispatching for Rail Transport was signed in 2016 between North Macedonia and Serbia, which prescribed that the Rail Joint Border Crossing will be in Tabanovce, on the territory of the Republic of North Macedonia. Based on this Agreement, the existing station premises in Tabanovce need to be upgraded and new ones added to accommodate the police and customs officers, railway companies' staff (infrastructure manager, railway undertakings), as well as personnel performing phytosanitary, veterinary and other controls. The Project is part of the European Commission's Connectivity Agenda and complies with the requirements of the soft measures for the creation of joint railway border crossing stations in countries in the Western Balkan to facilitate railway transportation. It is also one of the key priority investments included in the North Macedonia National Transport Strategy (2018-2030) and is part of the Transport Community Action Plan for the country.

The key objective of the Project is to reduce the delays at the borders and consolidate border-crossing procedures in one place (“one stop”). Currently, both Macedonian and Serbian authorities conduct border crossing procedures in Tabanovce and in Presevo, resulting in average waiting times of over 130 minutes for freight and 70 minutes for passenger inbound and outbound trains. Under the Project, new procedures will introduce a single window concept with standardised documentation and a single-entry point to fulfil all checks for import, export and transit related regulatory requirements, including physical examination if possible. This concept will support the flow of freight and passenger traffic, streamline and shorten border-crossing procedures and reduce waiting times [REDACTED] for freight and [REDACTED] passenger transport. The proximity to the road border crossing in Tabanovce will enable efficient transfer of phytosanitary, veterinary and other specialized controllers between both RJBC and the road border station by a new access road of 900 meters to be built that will link the two of them. The Bank has been a key player in the last decade for the development and upgrade of the country's railway sector in North Macedonia. The Project is



advancing the Bank's ongoing support to the Macedonian rail sector, exemplified by the development of the eastern section of Corridor VIII as well as the upgrade of rail Corridor X. In addition, the Bank has been active in supporting the country in achieving transition impact objectives in the rail sector by providing support for the creation of the Rail Safety Directorate, facilitating the execution of Cross Border Agreements with Serbia and Kosovo and the revision of the methodology track access charging rates and improvements in Network Statements.

The Project will also promote the transition to a low carbon pathway and mitigate carbon transition risks with the implementation of energy efficiency measures. The new buildings will be constructed according to higher energetic requirements (EPC of class B instead of the national minimum requirement for North Macedonia which is class C) and general improvements contributing to better energy performance are also included in the Project (thicker insulation for walls, roofs and ground slabs, higher performing HVAC appliances etc.). In addition, photovoltaics panels will be installed on the buildings' roofs. The newly joint station will therefore bring about considerable improvements in terms of energy performance while enabling quantified environmental benefits because of lower CO<sub>2</sub> emissions by 363 tCO<sub>2</sub>/year compared to the current situation. The Project is also critical for smooth operation of low-carbon transport infrastructure, facilitating regional rail connections.

Under the Project, the MoTC, together with the Transport Community, will offer training to all stakeholders working at the station. The trainings will include raising awareness with regards to the current information gaps that exist in relation to related border controls due to lack of digital platforms providing information on customs requirements and compliance with trade regulations and standards. Addressing these gaps will importantly address the barriers women-led SMEs face when trading across borders.

Considering the above, the Project is aligned with the Transport Sector Strategy which promotes regional and international connectivity through “*links between economies and transport of people [...] fosters competition and international trade*” and acknowledges that “*cross border integration remains a key pillar for trade, competition and creating an enabling environment for growth*”. The Project also aligns with the Bank's Strategy for North Macedonia which promotes “*improved 'soft' connectivity and harmonized business practices*” through “*facilitation of conclusion of joint border agreements with neighbouring countries*” and EBRD's Green Economy Transition approach which promotes investments in “*infrastructure dedicated to low-carbon transport*”. Finally, the Project is aligned with the EBRD's Strategy for the Promotion of Gender Equality as it aims at increasing women's access to economic opportunities by “*promoting inclusive and gender-responsive business environment*” resulting from “*targeted capacity building*”.

## 1.2 TRANSITION IMPACT

### Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	<i>The Project promotes a new infrastructure service at a significant scale between or within regions where such service does not exist.</i>	The Project consists of the construction of new business premises for the Joint Railway Border Crossing station at the Macedonian-Serbian border, in Tabanovce in North Macedonia on the Rail Corridor X network (part of the TEN-T and SEETO Core/Comprehensive Network). The RJBC enable official staff (border police, customs and inspection) and railway personnel (infrastructure manager and railway operator) from both countries to work at the same site. The sharing of the new facilities between the two countries' staff

		will contribute to the optimization of the procedures of border and custom controls leading to more effective, facilitated and quicker operations between the different stakeholders involved in the station (police, customs, inspection authorities, train operators and railway infrastructure companies). Currently, border operations are quite cumbersome and time-consuming as border operations are carried out on the Macedonian and on the Serbian sides. This joint border station will enable better services to the benefit of the economic operators to move their goods faster across the border. Free movement of persons and goods will therefore be facilitated across borders while at the same time maintaining secure borders.
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### Secondary Quality: Green

Obj. No.	Objective	Details
2.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.</i>	As per Project requirements, the new buildings should be certified as at least one EPC class above the minimum national regulatory requirements; while for the refurbishing of existing buildings the renovation works will enable primary energy demand reduction [REDACTED]. The Project qualifies for a GET share attribution of 75%.

## 1.3 ADDITIONALITY

Identified triggers*	Description
A subsequent transaction with the same client with the use of proceeds with the same country.	This is a repeat transaction in the railway sector in North Macedonia where EBRD's continuous support is key for the development of the sector.

Additionality sources	Description of additionality sources
<b>Financing Structure -</b> <ul style="list-style-type: none"> <li>EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the Project.</li> <li>EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions.</li> </ul>	EBRD provides long-term financing of 15 years, [REDACTED] which is not readily available in North Macedonia from local commercial banks for such a Project.
<b>Risk mitigation</b> <ul style="list-style-type: none"> <li>EBRD helps the client to mitigate carbon transition risks and take climate action,</li> </ul>	The Project includes the construction of new buildings with higher energy requirements (class B instead of the minimum national requirement for North Macedonia which is class C). Energy efficiency measures will be implemented leading to higher energy

such as to move along a low carbon transition pathway.	performance, mitigating therefore carbon transition risks.
<b>Standards-setting: helping projects and clients achieve higher standards</b> <ul style="list-style-type: none"> <li>- Client seeks/makes use of EBRD expertise on best international procurement standards.</li> </ul>	The Client will benefit from the Bank's expertise and guidance with regards to implementing the Bank's PP&Rs and thereby achieve the optimal result with regards to procurement. The application of EBRD PP&Rs will ensure that an experienced and qualified contractor is selected to perform the work.
<b>Gender SMART</b> <ul style="list-style-type: none"> <li>- Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans (e.g. improving women's access to safe transport and/or women businesses participation in the client supply chain).</li> </ul>	As part of the Project, the MoTC will provide, through the Transport Community, gender awareness training to border stakeholders, as part of their overall training package, and will include awareness raising on gender issues focusing on information gaps that women may face as business traders across borders. Such challenges could be, for example, access to and the quality of information on border related to processes and procedures, as well as documentation needed for trading of goods.

#### 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Country, Macroeconomic and Repayment Risk	Medium/High	North Macedonia is rated at BB+ (Stable) by Fitch, revised from Negative in April 2023 in light of the country's demonstrated resilience to external shocks and maintained macroeconomic stability and at BB- (Stable) by S&P, affirmed in January 2023. Public debt to GDP has decreased from 58% in March 2021 to 54% in May 2023. The IMF (country report, November 2022) assessed public debt level as sustainable in the medium term. Authorities have taken steps to improve debt composition and fiscal consolidation through the implementation of fiscal rules and the establishment of an independent fiscal council. The authorities are relying on external funding to meet liquidity needs, including support from the IMF, EU budget grants, and Eurobond issuances (latest issuance in March 2023 with an oversubscribed 4-year EUR 500 million).
Implementation risk	Medium/Low	This Project is the Bank's first project in which the MoTC is the Implementing Agency.. Implementation risk is mitigated by previous experience gained by the Rail Department staff working as PIU members in Bank-funded railway projects (Rail Corridor VIII Phase 1 and Phase 2 Projects. Project implementation support consultant will be provided to support the Project Implementation Unit ("PIU"). Moreover, the application of EBRD PP&Rs will ensure that an experienced and qualified contractor is selected to

		perform the work. The appointment of an experienced supervision engineer who will further mitigate the implementation risk.
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## 2. MEASURING / MONITORING SUCCESS

### TI indicator, primary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Expanded access of infrastructure within regions	<ul style="list-style-type: none"> <li>- Time spent by passengers at the border: [REDACTED].</li> <li>- Time spent by freight at the border: [REDACTED].</li> </ul>	No	Yes	[REDACTED]

### TI indicator, secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	New or updated GET technology or product leading to energy efficiency introduced	<ul style="list-style-type: none"> <li>- For new buildings: baseline: certification EPC C / target: certification EPC B (one class higher than EPC C).</li> <li>- For existing buildings: baseline: energy performance based on energy bills and theoretical calculation / [REDACTED]</li> </ul>	No	Yes	[REDACTED]

### Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Project implementation support completed: PIU established Donor TC		No	Yes	[REDACTED]
Advisory & Policy Indicators	Generic Indicator Donor Co-investment	Physical construction completed and cross-sectoral outcomes as per WBIF indicator.	No	Yes	[REDACTED]
Advisory & Policy Indicators	Generic Indicator Donor Co-investment	Standard outcomes as per WBIF indicators.	No	Yes	[REDACTED]
Advisory & Policy Indicators	Tailored training programme developed and implemented	As part of the Project, the MoTC will provide through the Transport	No	Yes	[REDACTED]

		Community, gender awareness training to border post stakeholders, as part of their overall training package, and will include awareness raising on gender issues focusing on information gaps that women may face as business traders across borders.			
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**Key delivery risks:** As transition delivery is primarily linked to physical completion, the Project entities' implementation capacity and operating, management are key risks. These risks, will be mitigated with the support of dedicated post-signing TCs for Project implementation and dedicated experienced international supervision engineer company.

### 3. KEY PARTIES

#### 3.1 BORROWER

North Macedonia is the Borrower of the proposed financing, represented by the Ministry of Finance. North Macedonia is rated at BB+ (Stable) by Fitch, revised from Negative in April 2023 in light of the country's demonstrated resilience to external shock and maintained macroeconomic stability and at BB- (Stable) by S&P, affirmed in January 2023.

North Macedonia's economy has experienced moderate growth, with a rebound of 3.9% in 2021 followed by a slowdown to 2.1% in 2022 and maintaining the same rate in the first quarter of 2023. The contraction of the industry and construction activity in 2022 was driven by a slowdown in external markets, while investment growth remained robust. Household demand is expected to remain moderate in 2023 due to high inflation rates, and the slowdown in trading partners may affect exports and investor confidence. Despite these challenges, macro financial stability is maintained, supported by a prudent exchange rate regime pegged to the Euro and sizeable international reserve assets. The banking sector has remained stable, well-capitalized, and liquid, with non-performing loans at a low level. Public debt to GDP has increased to 54% in May 2023 (vs. 50.8% in December 2021) but decreased from record high 58% in March 2021. According to the IMF, the public debt is considered sustainable in the medium term with authorities making steps to improve debt composition and fiscal consolidation through the implementation of fiscal rules and the establishment of an independent fiscal council. The authorities are relying on external funding to meet liquidity needs, including support from the IMF, EU budget grants, and Eurobond issuances in the amount of EUR 1.36 billion (please refer to Annex 6 for more details).

#### 3.2 IMPLEMENTING ENTITY

The Ministry of Transport and Communications (“**MoTC**”) will be the Implementing Agency responsible for Project implementation including procurement of the Project's components and implementing respective works contract. It is in charge of creating and implementing the Transport policy including national strategies and action plans, inspection and enforcement.

The MoTC is responsible for the implementation of the National Transport Strategy (“NTS”) 2018-2030, which within the targets set out in priority activities, addresses border crossings and specific issues regarding passenger and freight transportation. The concept of “one stop shop” on the rail network (border crossings) with neighbouring countries is one of the targets of the NTS. The specially formed Project Implementation Unit (“PIU”) team will be supported by independent consultants and supervision engineers. Moreover, the MoTC will manage the special account for disbursements of the loan proceeds.

#### 4. MARKET CONTEXT

The railway infrastructure in North Macedonia dates back to 1873 with the construction of the first railway track from Skopje to Thessaloniki in Greece. Today, the railway network in North Macedonia includes 925 km of single track lines, connecting major cities and towns within the country. The North Macedonian railway network system connects north-south with the railway network systems of Serbia, Kosovo and Greece. The main railway corridor is Corridor X, which in North Macedonia runs for 215 km and comprises the following three main sections: (a) Tabanovce – Skopje 49 km; (b) Skopje – Veles 51 km; and (c) Veles – Gevgelija 115 km. In addition, there are secondary lines which run from Veles through to Kamenica and Kocani, a line from Skopje along Corridor VIII west to Kosovo and Kicevo and the Corridor VIII running east from Skopje to the Bulgarian border (under construction). Additionally, the railway network comprises 226 km station and 102 km industrial rail tracks. The rail infrastructure consists of both electrified and non-electrified lines, with the main railway hub located in the capital city, Skopje.

Currently, there is only one rail transport operator, which is state-owned. This rail transport company is an existing client of the Bank. However, a Law on the Liberalization of the rail transport market is currently being prepared. Once this Law is approved, the rail transport sector will be opened up to new operators.

The total number of transported passengers in North Macedonia was 405,507 in 2022, which is around 1,100 passengers transported daily. At the same time, total transported freight in 2022 was 1,370,000 tons, which is only 3,750 tons daily. The relatively low levels of utilization compared to the EU average are primarily due to the inadequate railway infrastructure in the country. While passenger transportation is almost exclusively local, freight transport is dominated by international traffic (99.7% of total freight traffic). To increase the efficiency and rapidity of border controls, which will in turn facilitate passengers and freight transportation between countries and make rail transportation more attractive, the trend in the region is to create joint border stations. The RJBC Tabanovce that was agreed on by North Macedonia and Serbia is an example of such initiative. This border crossing is of key importance given that approximately 70% of international rail freight transport passes through it. The average number of daily trains in 2022 was 7 (4 inbound, 3 outbound) or 2,440 trains in total. Once the rehabilitation works on the Serbian side of the railway network are completed, the international passenger transport, which is currently on hold, will be re-established and also benefit from the “one-stop” joint border crossing rail station. Historic data on rail transportation in North Macedonia is presented in the table below:

<b><u>Railway transport</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
<b><u>Passengers carried (in '000)</u></b>	<b>540</b>	<b>549</b>	<b>253</b>	<b>252</b>	<b>405</b>
<u>National</u>	534	546	253	252	405
<u>International</u>	6	3	-	-	-
<b><u>Goods carried (in '000 tonnes)</u></b>	<b>1,679</b>	<b>1,842</b>	<b>1,737</b>	<b>1,934</b>	<b>1,372</b>
<u>National</u>	9	13	5	6	4

## PUBLIC

<u>International</u>	1,670	1,829	1,732	1,928	1,368
<u>% out of total freight</u>	99.5%	99.3%	99.7%	99.7%	99.7%
<u>Number of freight trains passing through Tabanovce border station</u>	n/a	n/a	<b>2,972</b>	<b>2,875</b>	<b>2,244</b>



## 5. ECONOMIC ANALYSIS

### 5.1 ECONOMIC ANALYSIS

[REDACTED]

### 5.2 SENSITIVITY ANALYSIS

[REDACTED]

### 5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

The Project is categorised B under EBRD's Environmental and Social Policy (2019) as environmental and social impacts associated with the upgrading of the existing rail station buildings, construction of new buildings and the development of an access road of 900 meters have been assessed as site-specific manageable through good environmental and social ("E&S") management systems, to be adopted by the Project contractor, and overseen by the Implementing Agency.

An initial E&S Assessment was undertaken in 2018 which has been reviewed in conjunction with further internal due diligence and a visit to the site in November 2022 to consider the contextual risks, which indicated that one of the most sensitive social receptors, the adjacent Tabanovce Transit Camp, has reduced its activities and removed a substantial number of buildings that previously served higher volumes of temporary migrants. The lower number of migrants means a previous risk related to land availability is not considered relevant and the only impacts on the Transit Camp are limited to moving temporary buildings (containers) to other parts of government-owned land. The findings from the initial E&S Assessment, including measures to mitigate adverse environmental and social impacts, remain relevant. These have been updated to comply with EBRD's current ESP 2019 Performance Requirements ("PRs"). An Environmental and Social Action Plan ("ESAP") has been prepared to ensure the Project is structured in accordance with the PRs and will be used to monitor Project compliance. The ESAP has already been agreed with the Client.

Positive impacts associated with the Project are related to improved efficiency and speed at the border, creating a "one stop shop" on the rail network with neighbouring countries and it is a target of railway sector improvement plans.

Key impacts are related to environmental aspects typically associated with construction, including traffic, air quality and dust, noise and vibration, water and waste management. Impacts on flora and fauna impacts are expected to be negligible given the limited use of land outside the existing footprint of the station infrastructure. The buildings will be designed to recognised energy efficiency standards and specific requirements will be included in the detailed design. Contractor and labour management, community and occupational health and safety and cultural heritage impacts are key social impacts. These will be managed through the development of a contractor Environmental and Social Management Plan ("ESMP"), HR policies, including a Code of Conduct, and Project health and safety plans, which are included in the ESAP. While no cultural heritage impacts have been identified during the assessment, a chance find procedure will be developed as part of the contractor ESMP in case of any unexpected discoveries of cultural heritage items or sites during construction. The implementing agency will be responsible for assessing potential impacts related to gender and Gender Based Violence and Harassment ("GBVH") as part of the ESAP. There are no



identified impacts related to physical or economic displacement. This is to be verified in the finalisation of the detailed design. Should any land be required, the Land Acquisition Framework will be used to develop a public Livelihood Restoration Plan (“**LRP**”). The LRP, if required, will address all identified impacts related to economic displacement in line with EBRD PR5. Measures to address the PVs supply chain risk have been incorporated into the ESAP and will be included in the future procurement process, which will include the module supplier, in accordance with the Management Approach for public sector projects.

Preliminary consultations were undertaken in the past and will be used as a basis for further disclosure efforts based on an updated version of the Stakeholder Engagement Plan, which will include a non-technical summary of the Project.

The Project will be monitored through a combination of site visits if appropriate and review of annual E&S monitoring reports submitted by the Client.

## **6.2 INTEGRITY**

Integrity due diligence was undertaken on the Borrower including ministers, deputy ministers and parties responsible for the Project’s implementation within the relevant ministries. [REDACTED] All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project. This project does not pose an unacceptable reputational risk to the Bank.

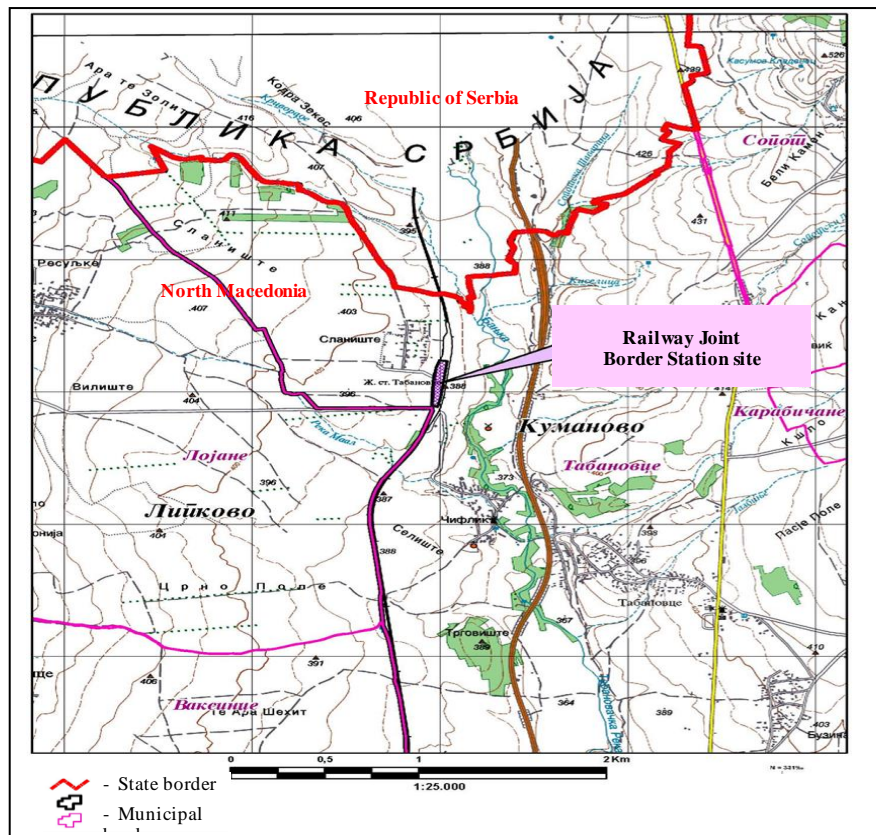
**ANNEXES TO OPERATION REPORT**

ANNEX 1	Project Description and Map
ANNEX 2	Traffic and Economic Assessment
ANNEX 3	Green Assessment Summary
ANNEX 4	Transition Impact Scoring Chart
ANNEX 5	Project Implementation (Procurement Plan)
ANNEX 6	Sovereign Debt Assessment

## ANNEX 1 – PROJECT DESCRIPTION AND MAP

The Project comprises construction of 6 new station buildings (joint border building, passenger station, building for railway companies from Serbia, power supply building for station, waste water treatment station and water supply building), and reconstruction of 5 existing stations buildings (power supply building with relay station, building for Macedonian railway companies, warehouse, 2 reserve space buildings, reserve space), and the construction of a 900 meters access road, including temporary access roads.

*Rail Joint Border Crossing site location*



One of the primary objectives of the Project is to establish a joint railway border crossing station, effectively reducing delays and streamlining operations at the North Macedonia -Serbia border. Currently, fragmented procedures and infrastructure pose challenges to efficient border operations as all customs and border checks need to be carried out both in North Macedonia and Serbia. The upgrade of existing facilities and the construction of additional buildings will enable staff from both countries to share the same premises, which will in turn facilitate the collaboration between different stakeholders, including police, customs, inspection authorities, train operators and railway infrastructure companies. This joint effort will contribute to quicker and more effective border crossing procedures, ensuring smoother transportation and trade flows in the region.

The construction of new high-energy performance buildings and the renovation of existing rail station buildings will modernize the infrastructure while contributing to energy efficiency, aligning with the growing global focus on the need for sustainable infrastructure in line with the Paris Agreement.

### Site Plan components:

The site plan for the Tabanovce Rail Joint Border Crossing will consist of a new joint railway border station building (*building no 1 on the figure below*). A hedge fence with additional protection is foreseen at the border with the Refugee Transit Centre. Each of the countries' police, customs and inspection services carry out checks in cooperation with its counterpart from the other country, through exchange of information. In order to reduce the area of the footprint and reduce the length of the building, it is designed as a two-storey building.

The border railway passenger station (*building no 3*) is envisaged as an annex to the current railway station building and will include a multipurpose hall with ticket office, waiting area and small shop. The passenger station will meet all standards for the use of persons with disabilities.

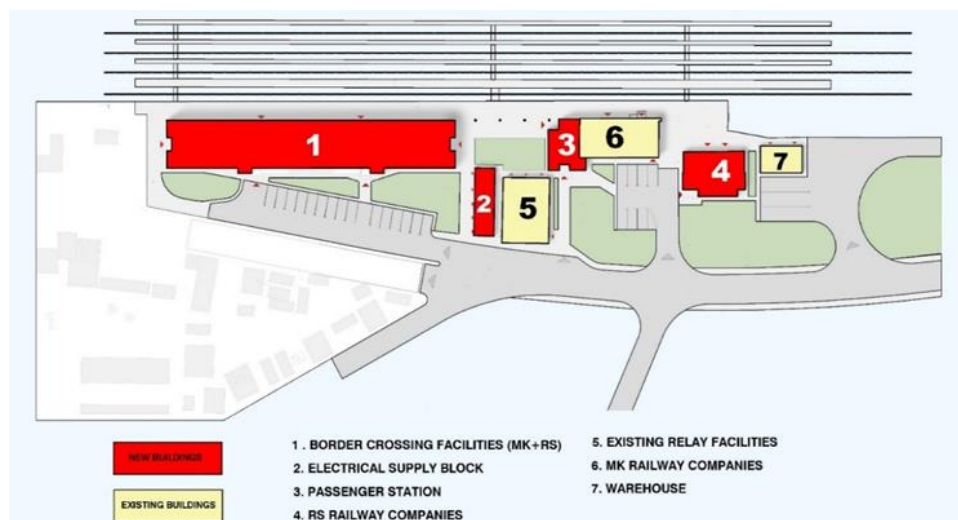
The passenger railway station building possesses sufficient space to accommodate the Macedonian Railway ("MR") Companies (MR - Infrastructure and MR – Transport) (*building no 6*) and a new building is designed for the Serbian Railway Companies (*building no 4*).

Maintenance, warehouse and inspection platform functions are related to the access road leading to the service track platform (*building no 7*). The proposed service platform has sufficient bearing capacity and dimensions for loading/unloading of goods from/to the cargo wagons from one side and trucks from the other side.

A new building is foreseen for the new electrical transformer station, generators and main UPS units (*building no 2*), next to the existing relay station (*building no 5*). Clear access to all equipment is provided from the north side, through a pathway.

A new water well, water treatment unit, and a firefighting water tank and pump station are located on the west side, across the access road, in one separate zone, protected with a fence. The waste water treatment plant is located on the southernmost point of the site.

For visual representation, the figure below gives a clear image of the site plan.



### Additional Component:

On top of the buildings works, the Project includes the construction of an access road of approximately 900 meters, which will enhance connectivity and accessibility to the Rail Joint Border Crossing station bypassing the village of Tabanovce. The implementation of renewable energy measures, such as the installation of solar PV systems, displays a commitment to

sustainable practices and aligns with the Bank's focus on climate finance. These measures will reduce the environmental impact and as well as contribute to the long-term cost-effectiveness and operational efficiency of the station.

## ANNEX 2 – TRAFFIC AND ECONOMIC ASSESSMENT

### 1. TRAFFIC ASSESSMENT

#### 1.1 Existing Traffic Flows

The Covid-19 pandemic negatively impacted freight traffic volume and most significantly passenger transport at the Tabanovce crossing (-54% between 2019 and 2020). In 2022, both passenger and freight traffic still had not stabilised compared to the pre-pandemic period also due to works on the Serbian railway network. Table 1 below presents more data on passenger and freight traffic at Tabanovce border crossing since 2018.

**Table 1: Traffic Volumes in passengers/year tonnes/year, railway border crossing Tabanovce, 2018-2022**

Railway transport	2018	2019	2020	2021	2022
<b>Passengers carried (in '000)</b>	540	549	253	252	405
National	534	546	253	252	405
International	6	3	-	-	-
<b>Goods carried (in '000 tonnes)</b>	1,679	1,842	1,737	1,934	1,372
National	9	13	5	6	4
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<i>% out of total freight</i>	99.5%	99.3%	99.7%	99.7%	99.7%
<i>Number of freight trains passing through Tabanovce border station</i>	<i>n/a</i>	<i>n/a</i>	2,972	2,875	2,244

[REDACTED]

### 2. ECONOMIC ANALYSIS

[REDACTED]

## ANNEX 3 – GREEN ASSESSMENT SUMMARY

The Project is assessed as **aligned with the goals of the Paris Agreement (“PA”)**, based on the direct finance methodology. The Project qualifies for **75% GET share attribution for climate finance**. No further assessment required for Physical Climate risk. Carbon Transition Risk score not applicable to sovereign transactions.

### Paris alignment assessment

#### *Alignment with the mitigation goals of Paris Agreement: general screening*

- The Project/economic activity is **included** in the 'aligned list', under the category 'rail infrastructure'.
- Regarding Project/economic activity(ies), there are **no** activities included in the 'non-aligned list'.
- There are no additional or specific conditions associated with the 'aligned' Project/economic activity.

As the Project is mostly focused on buildings, an additional assessment was undertaken on these elements. New buildings will meet EPC B, and refurbished buildings will achieve [REDACTED]energy efficiency improvement, meeting PA requirements for buildings.

*Conclusion: The Project is assessed as aligned with the mitigation goals of Paris Agreement (BB1 aligned).*

#### *Alignment with the adaptation goals of Paris Agreement*

- Step 1: The internal screening of the Project has identified extreme heat and increased water stress as potentially material physical climate risk for the buildings, and flooding as potentially material physical climate risk for the access road.
- Step 2: A risk materiality assessment was undertaken as part of the technical due diligence, and relevant climate resilience measures identified.
  - Extreme heat event: the location is exposed to maximum annual temperature between 30-38 degrees Celsius under climate change over next decade posing a risk to staff and users. The buildings are designed with adequate HVAC systems, which will ensure the health, safety and comfort of occupants and users against extreme temperatures. The risk is assessed as not material.
  - Increased water stress: the location is currently in medium-high water stressed area, projected to become extremely high under a Business As Usual climate/growth scenario. However, Project sensitivity to water stress is low as site is associated with minimal water requirements: for sanitation of building occupants and firefighting contingency only. The water supply at the site is provided with an existing well, which provides yield of 6 l/s, based on hydrogeological analysis. This is nearly double what is required for the site (3.5 l/s), providing sufficient buffer in case of reductions in groundwater availability. Further, groundwater is typically a relatively climate/drought resilient source. The Project demonstrates inherent resilience.
  - Fluvial flood: The location is actually nearly 2 km north of the source of the river Kojnarka, which flows South. As such, it is unlikely that fluvial flooding would occur at the location, or, indeed, near the source of any river, as flooding occurs through the accumulation of flows. Based on this, climate resilience measures are not deemed necessary. However, flood hazard was flagged for the

access road, for which EBRD does not have complete location information on its route. The access road represents a minor portion of the loan, and, even if a flood was to occur, it would not materially affect the main assets being financed, i.e. the buildings. Lastly, the Environmental and Social Impact Assessment (“ESIA”) includes the requirement of development of Emergency Response Procedures for flooding. The risk is assessed as not material.

- Step 3: The Project is unlikely to undermine climate resilience of the system in which it operates.

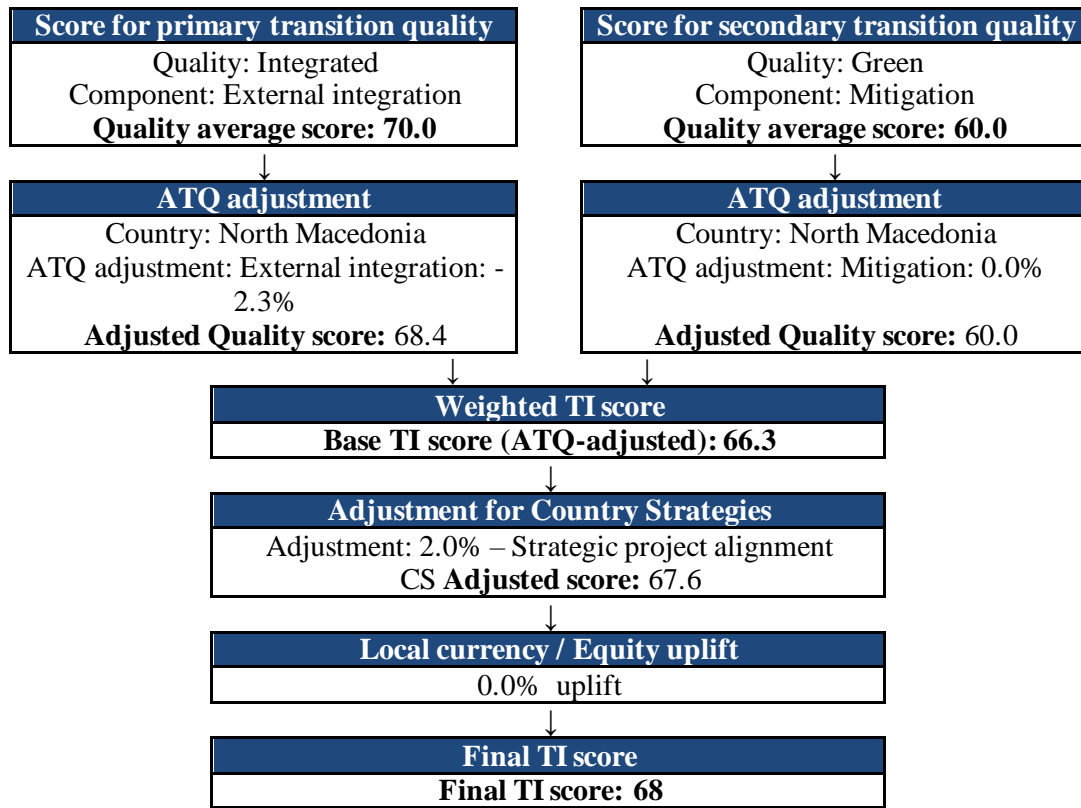
***Conclusion:** The Project is assessed as aligned with the adaptation goals of Paris Agreement (BB2 aligned).*

### **GET attribution**

The Project is attributed a GET share attribution of 75% for climate mitigation. The assets related to the station/border crossing are considered an integral part of rail infrastructure[REDACTED]. The activity falls under the GET category “Low-carbon vehicles and associated infrastructure.” [REDACTED] This results in a GET attribution of 75%. [REDACTED]The Project is also GET eligible on the basis that the buildings are EPC B and achieve [REDACTED] primary energy demand savings, however the GET attribution and associated monitoring are focused on the rail infrastructure category.



## ANNEX 4 – TRANSITION IMPACT SCORING CHART



## ANNEX 5 – PROJECT IMPLEMENTATION

### Procurement classification – *Public Sovereign*

#### Project risk assessment:

[REDACTED]

*Contracts risk assessment - Low* [REDACTED]

#### Contracts risk assessment – Moderate

The scope of the Project envisages a single contract for implementation of railway joint border station including (i) related facilities for the joint border station and (ii) access road. The works are designed and ready for procurement. The contract risk assessment is identified with a moderate high level of risk given the complexity and volume of the envisaged contracts. This risk will be mitigated by the engagement of a Project Implementation Support Consultant who will support the Client with the Project management and contract administration as well as a supervision engineer that will act on Client's behalf during the implementation of the envisaged contract.

#### Project implementation arrangements:

A PIU will be established within the Client and it will have overall responsibility for the implementation of the Project. In order to fast track the mobilization of the Project Implementation Support Consultant and the works contract, the PIU will be supported by a PPAD Panel Framework Consultant for the selection of the implementation consultant as well as the procurement of the works contract. The Consultant will assist the Client in all aspects of the procurement process in accordance with the Bank's policies and will support the PIU in meeting requirements of various Financing Documents at this early stage of the Project. Where necessary, the procurement consultant will train the Client and PIU staff in addressing the Project procurement in accordance with best public procurement practices.

In addition, a Project Implementation Support Consultant will be appointed to assist during the Project's procurement, implementation stage and to monitor the implementation of the contracts and support the Client with Environmental and Social requirements. The PIU consultant will ensure that the Client complies with the requirements of various Financing Documents throughout the entire Project implementation. Lastly, the PIU consultant will help with establishing the PIU, assessing their capacity and train them during the implementation of the Project.

#### Procurement arrangements:

There is expected one works contract that may be divided in lots that would comprise (i) *Architectural works and related facilities* and (ii) *Access Road*, which could be potentially merged if the conditions allow during the implementation of the Project. [REDACTED] Both contracts are expected to be implemented following FIDIC Conditions of Contract, either Building and Engineering Works designed by the Employer (Red Book) or Short Form of Contract Version 2021 (Green Book). The decision will be taken based on the assessment that is expected to be conducted by the Advance procurement expert after analysing the available data and information.

The contract for Rail Joint Border Crossing station and access road will be procured following open tendering procedures in accordance with the requirements of the Bank's Procurement Policies and Rules ("PP&Rs") for public sector operations and will be subject to prior review by the Bank to ensure

compliance with the Bank's PP&Rs and best practices. It is envisaged that the Tender Documents for the procurement of works will be based on the latest version of the Bank's Standard Tender Documents for Procurement of Works.

The Project also envisages a Technical Cooperation contract to support the PIU along the entire project cycle by covering monitoring the implementation of the Project and ensuring the comprehensive supervision of civil and electromechanical works. Moreover, an advance procurement support consultant will be assist the client with the procurement for the works contract and implementation support consultant.

All the consultancy contracts will be procured following the provisions of the Bank's PP&Rs for consultancy services. [REDACTED].

## ANNEX 6 – SOVEREIGN DEBT ASSESSMENT

**Economic growth continues at a moderate pace.** Following a relatively strong demand-driven rebound of 3.9% in 2021, economic growth slowed to 2.1% in 2022 and continued at the same rate in the first quarter of 2023. A slowdown in key external markets brought upon a contraction of industry and construction activity in 2022 while investment growth remained robust, driven by base effects and inventory changes. The net export position improved somewhat in the first quarter of 2023 as strong electricity production coincided with lower imports in line with the slowdown in manufacturing. On the production side, growth was led by a still strong performance of retail trade and a rebound of construction activity. Despite the further increase in minimum wages by 12% from April 2023, increases in pensions and introduction of price caps on some basic goods, household demand is set to remain moderate in 2023 given the still high inflation rate. The slowdown in the main trading partners will continue to affect exports, alongside increased uncertainty and tighter financing conditions, which may weigh on investor confidence. GDP growth is likely to remain modest, around 2% in 2023, before accelerating to 3% in 2024 (EBRD REP, May 2023) as global recovery firms up. [REDACTED].