

DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 22 June 2022¹

NORTH MACEDONIA

TEN-T SKOPJE-KOSOVO BORDER MOTORWAY

[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]

¹ 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

CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditures
CP	Conditions Precedent
CPI	Consumer Price Index
DSCR	Debt Service Coverage Ratio
EBITDA	Earnings Before Interests Tax Depreciation and Amortization
ECEPP	EBRD Client e-Procurement Portal
EIRR	Economic Internal Rate of Return
EPG	Economics, Policy and Governance
ESAP	Environmental and Social Action Plan
ESD	Environmental and Sustainability Department
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ETI	Expected Transition Impact
EU	European Union
EUR	Euro
EV	Electric Vehicle
EVSE	Electric Vehicle Supply Equipment
FIDIC	International Federation of Consulting Engineers
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gas
HGV	Heavy Goods Vehicle
IFI	International Finance Institution
IFRS	International Financial Reporting Standards
MoEPP	Ministry of Environment and Physical Planning
MoF	Ministry of Finance
MoU	The Memorandum of Understanding
MoTC	Ministry of Transport and Communications
NDC	Nationally Determined Contributions
OCCO	Office of the Chief Compliance Officer
OGC	Office of the General Counsel
PEP	Politically Exposed Person
PIA	Project Implementation Adviser
PIU	Project Implementation Unit
PP&R	Procurement Policies & Rules
PPAD	Procurement Policy and Advisory Department
PSD	Project Summary Documents
PTI	Portfolio Transition Impact
RAROC	Risk-adjusted return on capital
SOE	State-Owned Enterprise
SSF	Shareholder Special Fund
TA/TC	Technical Assistance/Technical Cooperation
TEN-T	Trans-European Transport Network
TI	Transition Impact
TIMS	Transition Impact Monitoring System
TOR	Terms of References
WBIF	Western Balkans Investment Framework

FX: 1 EUR = 61.64 MKD (16 May 2022)

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Public Enterprise for State Roads (the “Company” or “PESR”), a state-owned company incorporated in Republic of North Macedonia, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign-guaranteed loan to the Company in the amount of up to EUR 167.6 million. The operation will enable the PESR to finance the construction of a new 10 kilometres-long motorway subsection from Skopje to Blace Interchange, close to the border with the Republic of Kosovo (the “Motorway A4 – Subsection 1” or the “Project”). The Project is co-financed with an EUR 20.8 million investment grant provided by the European Union (“EU”) through the Western Balkans Investment Framework (“WBIF”).

The Project is a strategic priority for North Macedonia as it forms part of key transport axis such as the (i) Trans-European Transport Network (“TEN-T”) Route 6 that will connect Skopje to Pristina; and (ii) 4,400 kilometres-long north-south European Route E65 that begins in Sweden and ends in Greece. The Project will support North Macedonia’s national economic development and contribute to the regional integration by improving connectivity and trade exchanges within the Western Balkans (“WB”) region, as well as with neighbouring countries and EU markets.

The Project will further support the Bank’s reform agenda in the Macedonian road sector with a focus on sustainable connectivity, financial sustainability and climate resilience while promoting an enabling environment for the electrification of road transportation in the country. The expected transition impact of the Project is derived from the Integrated and Resilient qualities. The Integrated transition quality will be derived from the Project establishing a fast and safe connection and trade route between the two neighbouring countries, as well as between the WB and EU. The Project will catalyse the development of a gender-responsive National E-mobility Strategy and Action Plan to promote the deployment of electric vehicles fleet and charging infrastructure in the country. The Project will also support the Resilient transition quality by promoting the enhancement of PESR’s financial sustainability as the Government of North Macedonia committed to dedicate a larger allocation of nationally collected fuel excise tax to the Company. The Project will also demonstrate further the innovative construction contractual structure introduced under Road Corridor VIII Project, which commits to incorporate climate resilience measures throughout the project lifecycle (including during the maintenance phase).

Technical Cooperation (“TC”) was provided for the preparation of the Project, including the detailed design of the motorway (amounting to EUR 3.1 million and funded by WBIF) and the technical, economic, environmental and social due diligence [REDACTED]. The Bank also funded a detailed ecosystem habitat mapping of North Macedonia that will support the country to address commitments to the EU and promote conservation of biodiversity [REDACTED].

Post-signing comprehensive TC support package includes EUR 5.7 million funded by WBIF to (i) support project implementation and (ii) supervise construction works. Additionally, [REDACTED] TC support for the development of the abovementioned National E-mobility Strategy is proposed to be financed [REDACTED].

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 2021-2025, the Bank’s Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

NORTH MACEDONIA – TEN-T SKOPJE-KOSOVO BORDER MOTORWAY – DTM 52508	
Transaction / Board Decision	<p>Board approval² is sought for a sovereign-guaranteed loan of up to EUR 167.6 million in favour of the Public Enterprise for State Roads (the “Company” or “PESR”), a state-owned company incorporated in the Republic of North Macedonia.</p> <p>The loan will finance capex (including contingencies) for the construction of a new 10-km-long motorway sub-section of the TEN-T Route 6 running from Skopje to Blace Interchange, close to the border with the Republic of Kosovo (the “Project” or “Motorway A4 – Sub Section 1”).</p> <p>The Project will be co-financed with a EUR 20.8 million investment grant provided by the European Union (“EU”) through the WBIF. In addition, the WBIF approved grant package includes EUR 8.8 million of TC funds for project preparation (EUR 3.1 million), project implementation support and supervision of works (EUR 5.7 million).</p>
Client	<p>The Public Enterprise for State Roads (“PESR”) is a state-owned company responsible for the operation and maintenance of the national and regional road network in North Macedonia. It was established in December 2012 as a legal successor to the Agency for State Roads following its reorganisation with the aim of giving the newly established PESR greater independence from the State budget.</p>
Main Elements of the Proposal	<p><u>Transition impact:</u> Primary Quality: The Project will promote the Integrated transition quality by delivering substantial improvements of the current infrastructure between two neighbouring countries that currently have inadequate transport links. The new motorway, as part of the extension TEN-T Core Network, is expected to establish a fast and safe connection between North Macedonia and Kosovo, as well as between the Western Balkans and EU. The Project will also pave the way for electrification of road transportation by supporting the development of a National E-mobility Strategy for the deployment of EV fleet and charging infrastructure in North Macedonia. Secondary quality: The Project will support the Resilient objective by promoting the enhancement of the Company’s financial sustainability. As a result of EBRD extensive policy dialogue, the Government of North Macedonia agreed to increase the allocation of national fuel excise tax to PESR (from 20% to 30%), so that the Company reaches operating and capital cost recovery.</p> <p><u>Additionality:</u> The Bank’s additionality is derived from (i) providing missing long term financing in the country to match the useful life of infrastructure investments; (ii) triggering a policy and sector change on the e-mobility arena; (iii) ensuring mitigation of physical climate risks through the inclusion of climate resilience measures during construction and maintenance phases of the Project; and (iv) helping the Borrower and the Government of North Macedonia to achieve higher standards through the: (a) application of best international procurement standards (by using ECEPP); (b) promotion of gender mainstreaming as part of the green transition by integrating gender equality considerations into the National E-mobility Strategy; and (c) application of higher environmental standards via the TC-supported development of a detailed mapping for ecosystems in the entire country</p> <p><u>Sound Banking:</u> The Project’s capex estimates and robust economic merits have been reviewed by an external independent consultants [REDACTED]. PESR’s projected debt service capacity is deemed acceptable and the loan also benefits from a sovereign guarantee.</p>
Key Risks	<p>The key risks identified are related to PESR’s capacity to implement the Project within time and budget, which will be mitigated by providing consultants to assist the Company with project implementation and works supervision. Potential political, macro-economic and demand situation developments could affect PESR’s capacity to service its debt and are mitigated by the sovereign guarantee. Climate change risks, considered a key physical risk to the asset, have been identified and addressed through the introduction of climate resilience measures during construction and maintenance stages of the Project.</p>
Strategic Summary	<p>The Project is in line with the Bank’s Strategy for North Macedonia, the Transport Sector Strategy, the Green Economy Transition (GET) approach 2021-2025, the Bank’s Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.</p>

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign-guaranteed loan of EUR 167.6 million in favour of Public Enterprise for State Roads (the “Company” or “PESR”), a state-owned company incorporated in the Republic of North Macedonia.</p> <p>The Project will finance capex (including contingencies) for the construction of a new 10-km-long sub-section of the TEN-T Route 6 motorway running from Skopje (intersection Stenkovec) to Blace Interchange, close to the border with the Republic of Kosovo. The Project will be co-financed with a EUR 20.8 million investment grant provided by the European Union (EU) through the Western Balkans Investment Framework (“WBIF”). The remaining sub-section of 2 km (“Motorway A4 - Sub-Section 2”) from Blace Interchange to Border Crossing (“BC”) Blace with the Republic of Kosovo is financed from PESR’s own budget and currently under construction.</p>
Existing Exposure	<p>As of 1 April 2022, the Bank’s total sovereign portfolio to the Republic of North Macedonia was EUR 664 million (including operating assets of EUR 254.7 million). The Bank’s road sector portfolio stands at EUR 336.8 million, with operating assets of EUR 192.1 million, and consists of the following projects:</p> <ul style="list-style-type: none"> • Corridor X (Op ID 41981); EUR 39.4 million; TIMS rating: Satisfactory; • National Roads Programme (Op ID 45987); EUR 161.4 million; TIMS rating: Good; • Corridor X Tolling (Op ID 45515); EUR 9.0 million; TIMS rating: Satisfactory; • Regional and Local Roads Programme (Op ID 39311), EUR 8.2 million; TIMS rating: Good; • Shtip-Radovish Road Section (Op ID 47829); EUR 54.1 million; TIMS rating: Good; • Kriva Palanka Bulgarian Border (Op ID 49118); EUR 10.0 million; TIMS rating: Good; • Highway Tolling (Op ID 50769); EUR 13.0 million; TIMS rating: Good; • Road Corridor VIII (OpID 49119); EUR 41.7 million; TIMS rating: Good. <p>A detailed breakdown of Bank’s portfolio in the road sector in North Macedonia is provided in Annex 4.</p>
Maturity / Exit / Repayment	Tenor of up to 16 years [REDACTED].
Potential AMI eligible financing	n/a
Use of Proceeds	<p>Project Scope: The loan proceeds will fund the total capital expenditure (including contingencies) for the construction of the Project. The Project includes for both directions 11 single tube tunnels with a combined length of 4.8km (approximately 24% of the route length), 9 single carriageway bridges with a combined length of 1.35km (6.4%), carriageways in cuttings (27%) and carriageways on embankment (42.6%).</p> <p>Implementation & Disbursement: The use of proceeds will be controlled and monitored through the application of EBRD Procurement Policies and Rules (“PP&R”) and documentary evidence approved by an independent engineer to be submitted for disbursements as per the EBRD Disbursement Handbook for Public Sector Projects, including the option to use a dedicated Special Account (excluding the WBIF grant). The Borrower will submit relevant evidence to demonstrate that amounts utilised from the Special Account have been properly applied. The Special Account will be audited annually by an independent auditor contracted by the Borrower. Monitoring will be conducted through the regular review of periodic progress reports and regular monitoring visits. The construction works will be supervised by an independent Supervision Engineer (under the TC5: Supervision of works) who will verify use of proceeds, and the Company will be supported by an independent procurement and implementation consultant (under the TC6: Support in Project implementation).</p>
Investment Plan	[REDACTED]

Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • PESR – Borrower; • Republic of North Macedonia, represented by the Ministry of Finance – Guarantor.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign guarantee
Other material agreements	[REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing</u></p> <ul style="list-style-type: none"> • TC 1: Technical and economic due diligence, including independent review of the Project cost, traffic demand, GHG, climate resilience assessment and gender baseline analysis. [REDACTED]. • TC 2: Initial assessment of support for introduction of EV charging infrastructure. [REDACTED]. • TC 3: Environmental and social due diligence including review of Project documents prepared by the WBIF-funded consultants (ESIA, Resettlement Plan and Biodiversity Management Plan, ESAP, Non-Technical Summary and Stakeholder Engagement Plan). [REDACTED]. • TC 4: Detailed habitat mapping for ecosystems in North Macedonia. [REDACTED]. This TC will support North Macedonia to address commitments to the EU and will promote conservation of biodiversity (in line with EU legislation) by identifying the most sensitive habitats for avoidance and conservation. This TC is being implemented with input from the Ministry of Environment and Physical Planning [REDACTED]. Further, upon completion this mapping will facilitate informed conservation decisions to be made by government, private sector, public sector and academia regarding future development of the country. <p><u>Post-signing</u></p> <ul style="list-style-type: none"> • TC 5: Supervision of works. [REDACTED]. • TC 6: Support in Project implementation. [REDACTED]. • TC 7: Support for the development of a gender-responsive National E-mobility Strategy (and Action Plan) for the promotion and deployment of electric vehicle fleet and charging infrastructure in North Macedonia. [REDACTED]. <p>B. Co-investment grants / Concessional Finance (Non-TC)</p> <ul style="list-style-type: none"> • An investment grant in the amount of up to EUR 20.8 million has already been approved under the WBIF. <p><u>Reimbursement and Cost Sharing:</u></p> <p>The above TC assignments are non-reimbursable transactional TCs, [REDACTED] required to structure the Project and achieve the Project objectives. The Borrower/Guarantor will be responsible for paying any VAT and other indirect taxes that are applied to the post-signing TC assignments as a parallel contribution to the Project (VAT is levied at 18% in North Macedonia).</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The Project will close TEN-T infrastructure gaps, foster economic development and connectivity and strengthen North Macedonia's integration into regional and international markets.

Road traffic volumes, both passenger and freight, between Skopje and Pristina, have increased consistently over the past few years, resulting in pressure on road capacity and increased journey times (~30 minutes). Using Blace BC as a proxy for estimating traffic flow, around 3 million passenger cross the border every year. The Kosovan portion of the route has seen significant upgrades over the past few years, however, the Macedonian portion has seen little improvement and is ageing. Indeed, the existing national route A4 between Skopje and Blace is a single carriageway constructed more than 50 years ago and not compliant with road traffic and safety standards.

The existing national road plays a very important role for the country's economic and social development and for the trade relationship between Kosovo and North Macedonia. North Macedonia has a significant trade surplus with Kosovo (ca. EUR 144 million as YE2020), being one of its largest exporters of goods and agricultural products.

The road financed by EBRD under the proposed Project will be a new dual two-lane Motorway parallel to the existing A4. The Project is a strategic priority for North Macedonia as it forms part of key strategic axis such as the (i) TEN-T Core Network Route 6 that will connect Skopje to Pristina; and (ii) 4,400 kilometres-long north-south European Route E65 that begins in Sweden and ends in Greece. Additionally, the motorway will be connected to the extensions of the TEN-T Core Network in the WB on the Corridor VIII (Bulgaria – North Macedonia– Albania) and Corridor X (Serbia – North Macedonia – Greece).

The Project supports North Macedonia's ambition (presented in its National Transport Strategy) to develop, by 2030, an integrated road, rail, air, and lake/port and urban transport system, fully integrated in the European TEN-T transport networks and efficiently governed by a sustainable transport policy. The strategy identifies the Project as one of its key priority infrastructure development actions.

The Project is expected to: (i) bring the road to motorway standards; (ii) increase road safety by providing direct, safer and faster motorway link between the two neighbouring capitals Skopje and Pristina; (iii) increase transport volume of freight and passengers by boosting international transport and economic exchanges between Republic of North Macedonia and Kosovo as well as within the WB region and between the Western Balkans and the EU; (v) improve North Macedonia's access to the Adriatic Sea via Prizren (Kosovo), Kukes (Albania), Durres Port (Albania) and to Bar Port (Montenegro); and (vi) consequently, generate positive social impacts in terms of employment through enhanced connectivity and seamless integration within the region.

The Project will support the Bank's broader reform agenda in the Macedonian road sector with a focus on sustainable connectivity, future-oriented mobility systems, electrification of road transportation, financial sustainability, enhancement of climate resilience, gender responsiveness and responsible biodiversity mapping.

I. Sustainable Connectivity, future oriented mobility systems and road electrification

Road transport has the greatest share of the inland transport modes in North Macedonia, both for freight (96.7%) and passenger (94.5%) transport. Transportation sector is North Macedonia's second largest polluter, amounting to 20% of emission production of the country.

North Macedonia is still in early adopter stage in terms of electrification of road transportation. EV penetration is progressing slowly with only 0.02% of the car fleet being EVs and 40 charging stations operating in the entire country. North Macedonia has yet to establish a cohesive e-mobility policy and legal framework to incentivise the development of e-mobility as well as EV fleet and charging infrastructure. An effective transition will be a challenging endeavour, which requires the involvement of several partners both public and private to address issues such as: incentives, tariff setting, permits, technical standards, grid stability and operating business models.

The Project is consistent with a low carbon transition of the Macedonian transport sector comprising enhanced Nationally Determined Contributions ("NDC"), sustainable transport strategy and low carbon path for transport modes. The proposed Project was subject to the Paris Alignment assessment and determined to be aligned as presented under *Annex 7 – Green Assessments*.

Under its enhanced NDC³, North Macedonia has defined specific measures for the renewal of transport fleets (cars, goods vehicles and buses) and for the provision of electric charging infrastructure. To support such implementation, the Project will pave the way to create an enabling environment for the electrification of road transportation. Specifically, the Bank will mobilise TC funding to support the MoTC on the development of a National E-mobility Strategy (and Action Plan) fully dedicated to promote the rollout of electric vehicle fleet and infrastructure in the country. This will be one of the first targeted E-mobility national strategies to be implemented in EBRD Countries of Operation. This will be a first important milestone to support North Macedonia further advancing on its EV transition pathway by adopting sustainable connectivity policies, laying the groundwork for needed policy measures and ultimately contributing towards reaching North Macedonia's emission targets.

This is also perfectly aligned with actions of the Transport Community Permanent Secretariat in the region, which includes the development of a Sustainable and Smart Strategy for the Western Balkans, in line with EU policies on Sustainable and Smart Transition Strategy, aiming for increased regional connectivity of the sustainable transport systems in the region.

II. Mainstreaming gender equality

The Project will also follow the EU's practice of mainstreaming gender equality considerations into sustainable mobility strategies by integrating a gender perspective into the abovementioned National Strategy. Gender equality is an important strategic priority for North Macedonia. In 2019, the country scored 62 out of 100 points in the EU's Gender Equality Index, ranking 4.2 points below the EU-28 average. This indicates good progress in many areas of gender equality, though challenges persist. A new Gender Equality Law is currently under development which is expected to further institutionalise the requirement to mainstream gender equality goals across the country's planning and policy processes. In this context, the Project aims to establish good practices in this area and mainstream gender equality considerations into the EV fleet and infrastructure roll-out policy arena. This is also expected to build the capacity

³ NDC (enhanced) – Technical Document, Final Version (Dec 2020)
<https://klimatskipromeni.mk/data/rest/file/download/60a2246c00ae5e1efab4a1281c2b898fa92568c2d0a12b10093f56af265cb811.pdf>

of relevant policy stakeholders to successfully implement gender mainstreaming on future initiatives.

III. *Enhancement of Climate resilience*

Climate resilience assessment conducted by external independent consultants identified physical climate risks (particularly, landslides and flooding) as major vulnerabilities to the Project. The Project's design was reviewed and includes appropriate resilience measures to address the specific climate hazards (e.g., through the application of landslide protection measures and improved drainage designs). The Project will also demonstrate further the innovative construction contractual structure introduced under Road Corridor VIII Project, which commits to incorporate climate resilience measures throughout the project lifecycle (including during the maintenance phase) to continue to demonstrate the benefits of increasing the climate resilience of road infrastructure in North Macedonia.

IV. *Financial Sustainability*

The Bank has played a unique role in the Macedonian road sector since 2001, through the financing of the construction and modernisation of regional, local and Pan-European roads and through policy dialogue. EBRD engaged successfully to promote the commercialisation and reorganisation of the road sector, with efforts which first aimed at establishing stable and predictable financing sources. Later on, the Bank supported redesigning of the institutional and corporate structure of the road sector by establishing PESR. Further reforms focussed on the introduction of performance based contracts with the private sector and modernisation of the nationwide tolling system.

In line with these efforts, the Bank's engagement in the proposed Project will contribute to further commercialisation and financial sustainability of the road sector in North Macedonia. The Company's share of the nationally collected fuel excise increased from 20% to 30% to achieve operating and capital cost recovery.

V. *Responsible biodiversity mapping*

Finally, the Project has mobilised TC funding to support the development of a detailed mapping for ecosystems in the entire country to ensure compliance with EU Habitat Directive. This exercise will create a cohesive and consistent inventory of existing biodiversity across the country contributing to more responsible and proactive project development while also accelerating preparation timelines for future infrastructure projects. This initiative is underway in coordination with a team assigned by the MoEPP and the final outcome will be available widely in the public domain and as such will benefit the government of North Macedonia, as well as private developers, conservation organisations and academia. The results of this mapping will be used by all future EBRD infrastructure projects in North Macedonia.

Considering the above, the Project is consistent with the following strategies:

- The Bank's Country Strategy for the Republic of North Macedonia as it supports "*improved quality and connectivity of key transport [...] infrastructure*" by financing "*completion of the core transport networks under the TEN-T*".
- The Bank's Transport Sector Strategy which highlights the need to "*support corridors and network plans such as TEN-T*" as part of the objective of improving quality and connectivity of network infrastructure. The Strategy also states the need to "*promote a market-based approach by combining financing of priority public sector transport projects with policy dialogue*" and to "*leverage sovereign financing to create a platform for supporting private sector access*". by "*co-financing partners with investments in constructing, upgrading and modernising [...] motorways, national, regional, local and rural cross border road infrastructure to improve access to markets*

and services, and [creating] linkages to key transport networks and corridors”. Finally, it will support Strategic Directions 3 and 4 “which aim to address environmental and social challenges, road safety issues and climate resilience”.

- GET Approach 2021-2025 by ensuring that the Project takes into consideration the Paris Alignment Methodology and climate change adaptation measures for both road design and maintenance stages of the Project.
- The Bank's new Strategy for the Promotion of Gender Equality which emphasises the importance of integrating the perspectives of women in the green transition.

1.2 TRANSITION IMPACT

Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	<i>The project delivers material quality improvements of the current infrastructure between or within regions that are currently inadequately integrated.</i>	The Project will support North Macedonia's economic development by improving connectivity between its regions and the neighbouring countries. The Project is a strategic priority for North Macedonia as it forms part of the (i) TEN-T Route 6 that will connect Skopje to Pristina; and (ii) 4,400 kilometres-long north-south European Route E65 that begins in Sweden and ends in Greece. The Project will establish safe connection between the two neighbouring countries within the WB region, as well as between the WB and EU. Once implemented, the Project will reduce travel time between Pristina and Skopje, and allow for increased transport volumes of freight and passengers whilst significantly improving road safety.
1.2	<i>The technology introduced to expand/improve infrastructure is a first for the region (country and all bordering countries or all countries in the same grouping) and the technology is in line with international BAT standards.</i>	The Project envisages TC funding to support North Macedonia on the development of a National E-mobility Strategy (and Action Plan) fully dedicated to promote the deployment of electric fleet and vehicle infrastructure in the country. This will be one of the first E-mobility targeted National Strategies to be implemented in the EBRD Countries of Operation. The adoption of National Strategy (and measures under Action Plan) will be covenanted under the loan. The National Strategy (and Action Plan) is envisaged to (i) develop a roadmap for the most cost effective and fastest introduction of fleet and charging infrastructure; (ii) assess the baseline, identify existing challenges and policy gaps; (iii) coordinate all relevant stakeholders; (iv) outline an approach for the development of incentives, public awareness and resource mobilisation; and (v) define relevant actions, policy measures and infrastructure needs. Gender equality considerations will be mainstreamed throughout. Following a review conducted by external consultants, it was concluded that there is limited opportunity for provision of EV charging infrastructure along the Project route. The challenges include: the absence of points of interest and resting places, its relatively short length and its proximity to Skopje. Nevertheless, to facilitate future EV circulation, the loan will covenant the introduction of a pilot EV charging station on the TEN-T network at no more than 60 km from any point of the Project before the Project's start of operations. This will be in line with EU recommendation of EVSE at 60 km intervals along the TEN-T Network to be implemented between 2020 and 2040.

Secondary Quality: Resilient

Obj. No.	Objective	Details
2.1	<i>User charges will be increased to achieve operating and capital cost recovery from the users of infrastructure (for an infrastructure asset that currently does not cover operating and capital costs from user charges).</i>	Fuel excise is PESR's key source of income [REDACTED]. Following an extensive policy dialogue exercise with the Government of North Macedonia, the Ministry of Finance agreed in January 2022 to increase the share of fuel excise tax to PESR from 20% to 30% (implying a 50% increase). Such a decision allows PESR to achieve operating and capital recovery and ensures its financial sustainability.
2.2	<i>Management contract/lease/outsourcing (i.e. without private capital investment) in an infrastructure sector where private sector involvement is either moderately or well developed [e.g. 3-5 projects].</i>	This will follow the innovative contractual structure introduced for the first time in the Road Corridor VIII Project and demonstrate once again the benefits of climate proofing road infrastructure in North Macedonia. As part of the Project, PESR will tender out the build-and [REDACTED] maintain contract which incorporates the requirements addressing climate risks during the construction and maintenance stages of the Project. The winning tenderer will be responsible for construction and & maintenance of the road for [REDACTED] in line with these requirements. It ensures the provision of adequate road maintenance services with climate risks in mind, while building up technical capacity of the private operators in the country.

Delivery risks: The risks for both Integrated and Resilient qualities are mainly related to: (i) PESR's ability to implement the Project on time and in line with the requirements agreed with the Bank; (ii) delays on the adoption of the above described National E-mobility Strategy (and Action Plan); and (iii) Government of North Macedonia ceasing to consider the Project and its transition objectives as a priority. These risks are mitigated by the: (i) Project's satisfactory advanced detailed design and PESR's significant experience with the Bank and its procurement process (a total of EUR 336.8 million EBRD-funded portfolio under implementation comprised of 8 projects) further supported by the deployment of comprehensive implementation TC support; (ii) key benchmarks associated with the National Strategy being covenanted in the Project's legal documentation; and (iii) Government's willingness and strong commitment in developing the Project given its strategic importance for trade relationship with Kosovo (and within WB) and to continue supporting PESR's financial standing.

The performance of the Bank's projects in the Macedonian road sector with regard to transition impact has been positive as described in Annex 4.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent / consecutive transaction (issuance) with the same client/group.	The Project is a follow-on operation to the Bank's previous projects for the development of North Macedonia's road network. It represents the Bank's commitment to supporting the Government of North Macedonia in improving regional connectivity and political stability through development of road networks. It will also contribute to strengthening climate change resilience and to laying the policy groundwork for future road electrification. The Project is a critical, high priority investment for the North Macedonia's economic development and regional integration, establishing a safe and fast TEN-T connection and trade route between two neighbouring as well as the wider Western Balkans region.
Additionality sources	Evidence of additionality sources
Financing Structure EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period than the market average, restricted foreign currency financing etc. Such financing is necessary to structure the project. EBRD offers a tenor, which is above the market average and is necessary to structure the project.	Provision of missing long-term financing in the country to match the life of infrastructure asset of a Project. Tenor is 16 years [REDACTED].
Risk Mitigation EBRD helps the client to mitigate physical transition risks and take climate action, such as to identify and manage physical climate risks and build resilience to them.	The Bank will promote the mitigation of physical climate risks and build resilience to them through the inclusion of climate resilience measures during construction and maintenance phases of the Project. This is of particular importance given the Project' location which is highly exposed to landslide and flooding occurrences.
Policy, sector, institutional, or regulatory change EBRD involvement is designed to trigger a change in the policy and sector framework.	The Bank is expected to trigger a change in the policy and sector framework, as the Project will lay the groundwork and promote an enabling environment for road electrification by supporting the development of a National E-mobility Strategy (and Action Plan) for electric vehicle fleet and charging infrastructure deployment in North Macedonia.
Standard-setting: helping projects and clients achieve higher standards The Client will make use of EBRD expertise on best international procurement standards Client seeks/makes use of EBRD expertise on higher environmental standards, above 'business as usual' (e.g. adoption of emissions	The Project implementation will be supported by a comprehensive WBIF funded TC package dedicated to support implementation capacity during the entire procurement cycle and to supervise construction activities. The Project has mobilised TC funding to support the development of a detailed mapping for ecosystems in the entire country to ensure compliance with EU Habitat Directive. These maps will be published and available for public domain and as such will benefit the Government of North Macedonia, as well as private developers, conservation organisations and academia.

standards, climate-related best practice international standards etc.).

Gender SMART: 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-led businesses participation in the client supply chain).

Mainstreaming gender equality considerations into transport strategies – as implemented, for instance, in the EU's 'Sustainable and Smart Mobility Strategy' and the 'Strategy for Sustainable and Smart Mobility in the Western Balkans' – is an important tool to enhance the participation of women in the sector and maximise the benefits of new infrastructure for all members of society. However, existing capacity and knowledge on gender mainstreaming approaches within the Macedonian transport sector is low, and gender mainstreaming is not currently practiced effectively by the relevant Ministry. The Project will thus work with MoTC to integrate gender equality considerations into the National E-mobility Strategy, and build the capacity of policy stakeholders to apply gender mainstreaming on future project and policy initiatives.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Debt capacity risk	<i>Medium/High</i>	[REDACTED]. During 2020 and 2021, the Company's performance was affected by the Covid-19 outbreak, due to lower traffic revenues, triggering MoF's intervention to ensure payments under the of Exim Bank of China loan. In January 2022, PESR creditworthiness was further enhanced with MoF approving an increase in the fuel excise allocation to PESR from 20 % to 30 % (implying a 50% increase). This decision is expected to remain in place on a medium-long term basis following two previous temporary and ad-hoc increases set for limited periods of time (i.e., 3 months). In YE2021, the Borrower's financial performance has improved (vs 2020) with revenues and EBITDA increasing [REDACTED]. In addition, the risk of insufficient debt service capacity is mitigated by the sovereign guarantee.
Implementation risk	Medium/High	The nature of the civil works contract to be financed from the proceeds of the Bank's is of moderate to high complexity as the Project crosses hilly terrain and will include 9 bridges and 11 tunnels. PESR has extensive experience in the implementation of EBRD-funded projects. Due to the increased workload related to the implementation of several other large construction projects in parallel, PESR's capacity has been strengthened with 13 new civil engineers dedicated in PIUs of respective Bank-financed projects. In addition, funding has been secured from WBIF for the Company to hire experienced international consultants to support project implementation and construction supervision.
Demand risk	Medium/Low	Traffic volumes between Skopje and Pristina (including between Skopje and Blace) have been constantly increasing in the last years. According to reputable independent consultants, Project's Annual Average Daily Traffic ("AADT") is projected to increase [REDACTED]. Reduced transit and local traffic (e.g. due to macroeconomic environment) would have an adverse impact on PESR's cash flows and payment capacity. Ultimately, the risk of insufficient debt service capacity is mitigated by the sovereign guarantee.
Sovereign risk	Medium/ Medium	In 2021, public debt (comprising of state debt, municipal debt and debt of state-owned enterprises guaranteed by the government) reached an estimated 62 % of GDP while the fiscal deficit narrowed to 5.5 % of GDP. Despite increase in public debt, the IMF valued the public debt as sustainable in February 2022, mostly backed by an improvement of its composition. Also, Fitch maintained its credit rating of BB+ with a negative outlook, while S&P confirmed country's rating at BB- with a stable outlook. Government of North Macedonia measures to mitigate the impact of the pandemic and to protect households from rising food and energy prices in the wake of the war in Ukraine led to an increase of public debt and to a higher deficit in 2021 and 2022 [REDACTED].

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - Compliance with ESAP, design standards and project specifications. - On-time project implementation 	[REDACTED]	[REDACTED]

Primary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	Improved quality of infrastructure within regions (I)	A new motorway section, approximately 10km in length, on Route 6 of the Western Balkans Core Network	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Improved quality of infrastructure within regions (II)	Time savings of [REDACTED] minutes per trip	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Number of individuals with improved access to transportation services	Number of passengers per year (in millions) based on Annual Average Daily Traffic (and [REDACTED] passengers per vehicle).	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.4	New or updated technology adopted by the client according to an agreed standard. The type of system or product will be specified from the following menu: technology, equipment, operating/production process, product, products & services. [REDACTED].	Implementation of National Strategy (and Action Plan measures) for EV infra roll-out	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
2.1	Tariffs reached the target level	Fuel excise tax allocation to PESR	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

		maintained [REDACTED]				
2.2	Practices of the relevant stakeholder improved	Awarded build-and [REDACTED] maintain contract incorporating climate resilience measures during the maintenance stage.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	Donor
Gender SMART	Practices of the relevant stakeholder improved	Policy stakeholders mainstream gender equality goals into EV infra roll-out strategy and action plan	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

PESR, a state-owned company, is responsible for the operation and maintenance of the national and regional road network in North Macedonia. Please refer to Annex 3 for shareholding details. It was established in December 2012 as a legal successor to the ASR following a reorganisation of the agency with the aim of giving the newly established PESR greater independence from the state budget. This resulted in improved efficiency in implementation of road projects in North Macedonia.

PESR is governed by a Board of Directors consisting of five members, one Vice-President and one President appointed for a period of five years, and managed by a Director appointed by the Government of North Macedonia. PESR derives its revenues from fuel excise taxes, vehicle registration fees, and toll road charges. [REDACTED].

3.2 GUARANTOR

The Guarantor is the Republic of North Macedonia, represented by MoF. While relatively modest prior to the Covid-19 outbreak (48% of GDP in 2019), the country's public debt increased to an estimated 62% of GDP in 2021 on the back of economic contraction coupled with rising fiscal bill to support the economy during the pandemic. Although public debt is still expected to rise and peak at 63% of GDP in 2023, the IMF assessed that the composition of public debt is improving as the average maturity of domestic government securities is increasing and interest payments remain contained (*IMF Country report, February 2022*). Subsequently, the IMF valued the public debt sustainable in February, given no further significant shocks.

In 2021, the country started recovering from the impacts of the Covid-19 pandemic, with a 4% activity expansion driven by both domestic and external demand and a GDP which should be higher than that of 2019. The main risks and uncertainties now come from the war in Ukraine. Although North Macedonia has limited exposure to Russia or Ukraine in terms of direct

economic links, the country is impacted through rising commodity prices which have led to an increased fiscal spending above what was initially planned. In addition to ongoing expenditures to uphold the energy sector and maintain subsidised electricity prices for households, authorities adopted a package of measures in the amount of 400 EUR million in March 2022 to protect households from rising food and energy prices and to help firms maintain liquidity. [REDACTED]. The authorities [REDACTED] issued a six-year EUR 700 million Eurobond in May 2020 and a seven-year EUR 700 million Eurobond in March 2021 to foster the recovery from the pandemic. The new organic budget law envisaging adoption of a set of fiscal rules (similar to the Eurozone's Maastricht criteria) and the establishment of an independent fiscal council is not yet adopted by the Parliament. In 2022, North Macedonia is rated at BB- (Stable) by S&P and BB+ (Negative) by Fitch.

4. MARKET CONTEXT

The country has a road network of 14,182 km (out of which 4,924 km are state roads) consisting of 242 km of motorways, 911 km of national roads, 3,771 km of regional roads and 9,258 km of local roads. The road network of North Macedonia is the country's primary road network that links its main economic centres to each other, providing vital links to motorways giving onward access to the capital city of Skopje and strategic international border crossings.

The backbone of the country's road network are the corridors on the indicative extension of the TEN-in the Western Balkans, Corridors VIII and X, and Route 6. These corridors are of crucial importance to the country's connectivity and trade within the Western Balkans as well as with the EU.

The condition of most of the network is below EU standards even though road transport has the largest share of all transport modes in North Macedonia (both in terms of freight and passengers). PESR has been heavily investing in rehabilitation and construction works particularly on Corridor VIII and X financed by the EU, EBRD, EIB, World Bank and Exim Bank of China.

The Company collects tolls on all motorways. The level and the method for collection of tolls are determined for each section by the Government based on several criteria, including category of vehicle, length of the section, volume of traffic on the section, construction and maintenance cost for the section, etc.

Although routine road maintenance in North Macedonia is still being mainly carried out by the state enterprise for road maintenance, the latest changes in the Law on Roads substantially diluted Makedonijapat's role and the responsibility for traffic data collection, axle-load measurements, bridge and tunnel inspections, operation of the pavement management system and motorway toll collection was transferred to PESR. The reassignment of these critical activities was covenanted in the Bank's Regional and Local Roads project. In an effort to assist with the improvement of the competitiveness of road maintenance, the contracting of the maintenance to the private sector was a transition objective of the Bank's existing projects - National Roads Project (DTM ID 45987), Shtip - Radovish Project (DTM ID 47829) and Highway Tolling (DTM ID 50769). The first two road maintenance contracts were awarded to the construction companies responsible for the construction of these road sections and the third contract has been awarded in 2019 for regular maintenance of the entire Corridor VIII.

The EV market in North Macedonia is currently nascent. The first EV charging station was installed in 2018. There are so far installed 40 EV charging stations (22 kW) across the country (out of which 21 are situated in Skopje).

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Category A (2019). The Project consists of an approximately 10 km of road from the interchange with local road for the village of Blace to the existing Stenkovec interchange, one of two sub-sections for construction of the Motorway A4 in North Macedonia. The Environmental and Social Impact Assessment ("ESIA") for this Project was completed with support from WBIF and the follow documents will be disclosed for public review and comment:

- ESIA, including an Environmental and Social Management Plan ("ESMP") (English, Macedonian)
- Non-technical summary ("NTS") (English, Macedonian, Albanian)
- Stakeholder Engagement Plan ("SEP") (English, Macedonian)
- Environmental and Social Action Plan ("ESAP") (English, Macedonian)
- Land Acquisition and Resettlement Framework ("LARF") (English, Macedonian)

A climate resilience assessment has also been carried out. All of these documents have been reviewed on behalf of EBRD by independent environmental and social consultants, who have confirmed that they meet the requirement of Macedonian regulation and EBRD Performance Requirements.

The Project connects with the Skopje ring road and runs approximately north-west towards the border with Kosovo parallel to the route of the existing national road A4. The land is largely agricultural or forested. The Project is expected to have positive impact associated with the improved road network, increasing both speed and safety of the existing route. Other positive impacts are related to the increased employment and economic activity. Impacts as a result of land acquisition are limited to weekend houses and some infrastructure related to agriculture. There is no physical resettlement expected. A Land Acquisition and Resettlement Plan is being prepared on the existing Framework document that is part of the disclosure package and will be finalised prior to construction. It will address potential livelihood impacts. Risks related to construction activities will be managed by contractors through key management plans. These will include occupational health and safety, community health and safety and traffic management plans.

This Project has been in development since 2002. From 2018 to 2021, a series of engagement activities with institutional stakeholders were undertaken by PESR to obtain relevant data for the selection of project options and the opinions of relevant institutions. A Stakeholder Engagement Plan in line with EBRD requirements has been developed to identify relevant local stakeholders and define a stakeholder engagement program to be implemented for the Project.

The main risks posed by this Project relate to the construction activities to be performed by contractors. They include potential impacts to local water quality, nuisances caused to the local population during construction and possible impacts to local community and their livelihood associated with land acquisition. The Environmental and Social Management Plan ("ESMP") for the Project requires a range of plans with defined mitigation measures to be implemented during the construction and operational phases. A road safety audit will be required with design amendments and mitigation measures incorporated into the Project as appropriate.

An ESAP has been developed to ensure that the Project fully complies with EBRD's Performance Requirements. The ESAP includes requirement for the client to implement the Environmental and Social Management Plan, to establish a grievance mechanism and to develop and implement health and safety and biodiversity action plans. The Bank will monitor the Project's environmental and social performance and implementation of the ESAP through active monitoring during the construction phase including monitoring site visits when necessary.

Public consultation for the disclosure package began on 15 February 2022. To date, no comments have been received.

6.2 INTEGRITY

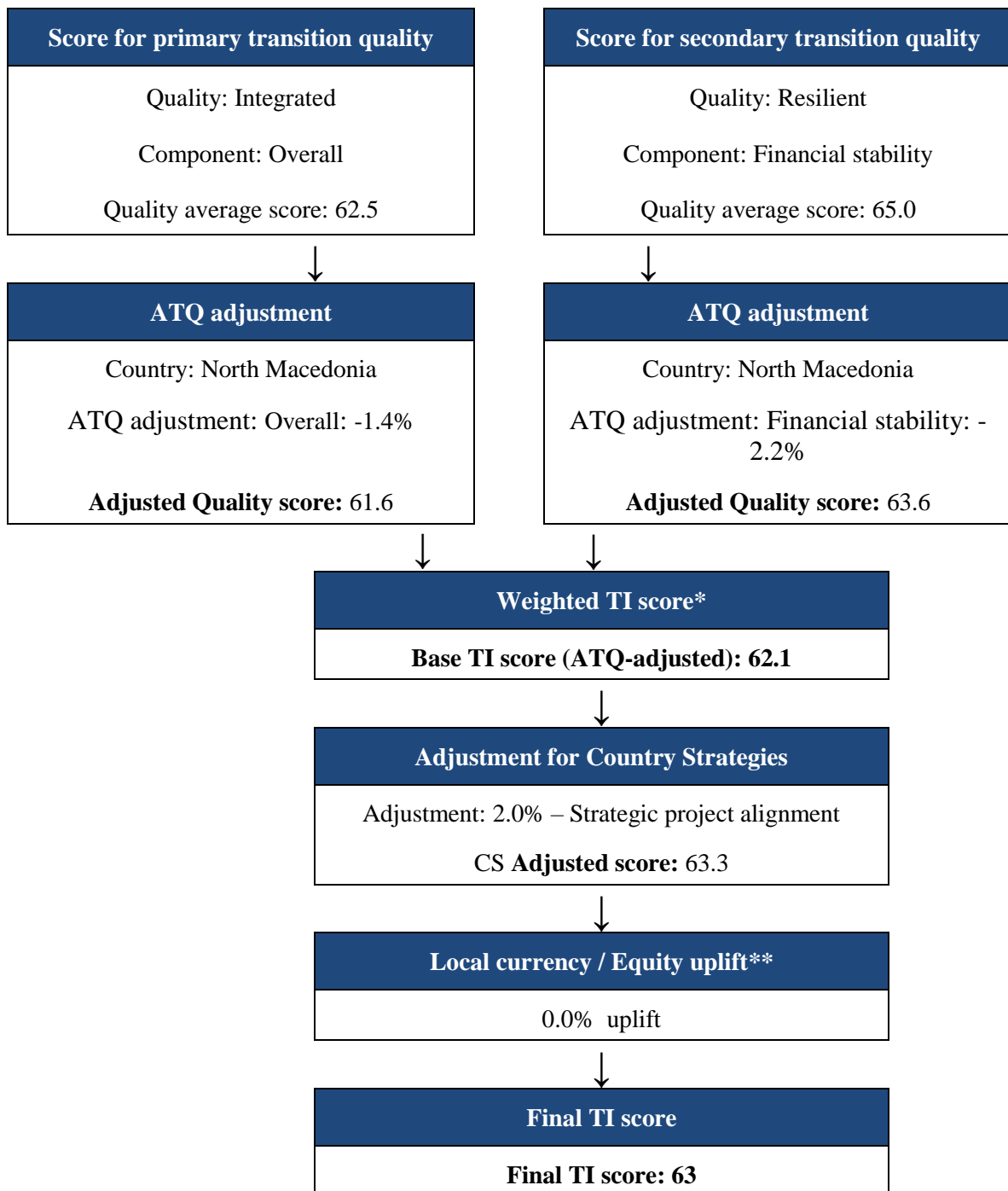
In conjunction with OCCO, integrity due diligence was undertaken on the Company and the Guarantor, its shareholders, senior management and other relevant parties. The review identified no integrity issues. [REDACTED]. Therefore it has been concluded that this Project does not pose an unacceptable reputational risk to the Bank.

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.

ANNEXES TO OPERATION REPORT

ANNEX 1	Transition Impact Scoring Chart
ANNEX 2	Project Description
ANNEX 3	Shareholding structure
ANNEX 4	EBRD Road Portfolio in North Macedonia
ANNEX 5	Historical Financial Information
ANNEX 6	Green Assessments
ANNEX 7	Project Implementation
ANNEX 8	Traffic and Economic Assessment

ANNEX 1 - TRANSITION IMPACT SCORING CHART



*The Primary Quality score is weighted 75% for the calculation of the Base TI Score. The Secondary Quality is weighted 25%.

** Please remove this box if the financing uplifts are not applicable.

ANNEX 2 – PROJECT DESCRIPTION

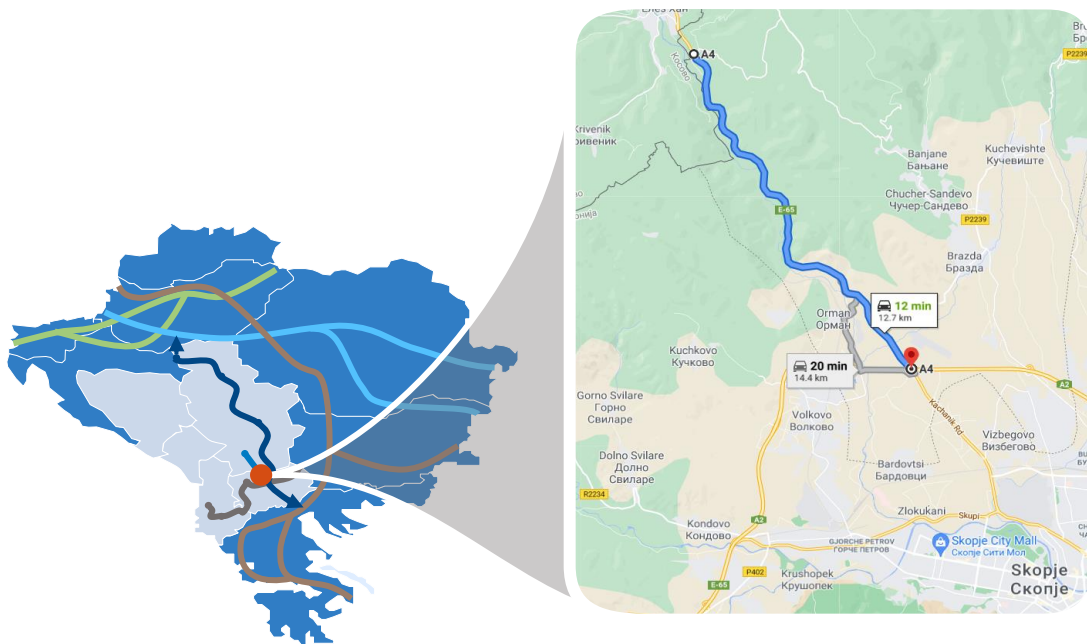
1. THE PROJECT

The proposed new Motorway A4 will be located in the north-western part of the country in the Skopje region. End points of the Motorway are the existing Stenkovec interchange, which is part of the Skopje bypass motorway, and Blace BC with Kosovo. Total length of the Project is circa 12 km and there are no protected areas in the vicinity of the planned motorway section. The Motorway A4 comprises two sub-sections:

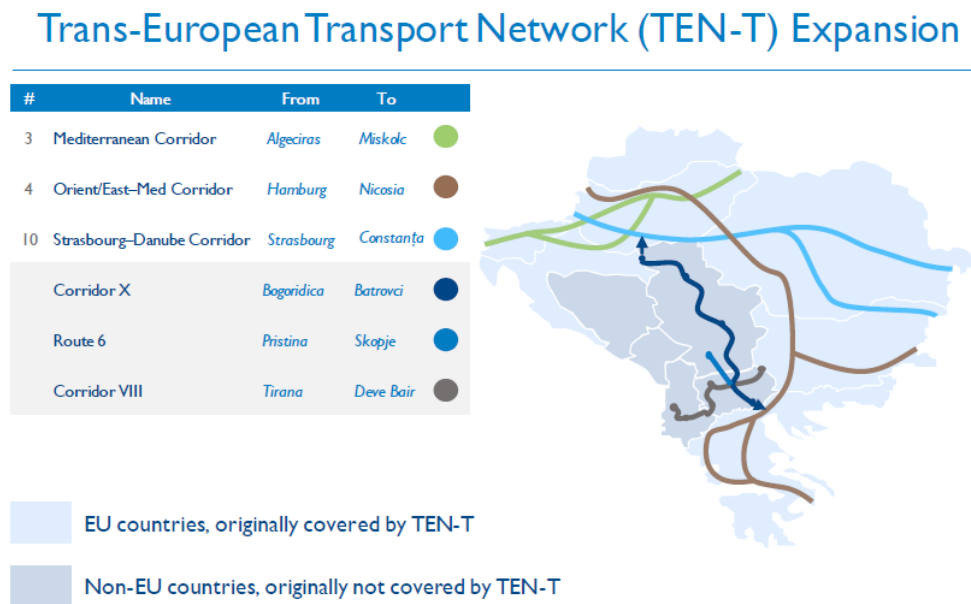
- A new 10 kilometres-long motorway subsection running from Skopje (Interchange Stenkovec) to Blace Interchange, close to the Border with the Republic of Kosovo (the “Project” or “Motorway A4 - Subsection 1”). In Stenkovec Interchange, the motorway will connect to the Skopje ring road motorway (Corridor VIII).
- A 2 kilometre-long motorway sub-section running from Blace Interchange to Blace BC (the “Motorway A4 - Subsection 2”) financed by PESR’s own budget. The works contract for the Motorway A4 - Subsection 2 was awarded to Granit (North Macedonia) in January 2020 and it is currently under construction.

The Figure below shows the location of the Motorway A4 and the Project.

Figure 1: Project location



The Motorway A4 is a strategic priority for North Macedonia as it forms part of the (i) TEN-T Route 6 that will connect Skopje to Pristina (as shown overleaf in Figure 2) ; and (ii) 4,400 kilometres-long north-south European route E65 that begins in Sweden and ends in Greece. Additionally, the motorway will be connected to the extensions of the TEN-T Core Network in the Western Balkans (“WB”) on the Corridor VIII (Bulgaria – North Macedonia– Albania) and Corridor X (Serbia – North Macedonia – Greece).

Figure 2: EU's TEN-T Core Network Corridors

The existing A4 national road, which follows the Lepenec River, along its eastern side, was completed in 1969 and is a single carriageway 7 meters wide which does not meet the traffic, safety and EU standards. The minimum horizontal radius is 80 meters, corresponding to a speed of 50 km/h. The road has not been reconstructed since its beginning, while the new customs terminal at Blace was built in 2007. Visible longitudinal cracks and potholes are noted along the road. There are no other major roads crossing the existing alignment, apart from a short access road for the Brazda quarry, near Skopje.

2. DESIGN AND PROJECT COMPONENTS

The Project road will be a new dual two-lane motorway parallel to the existing A4 national road with a design speed of 120 kmh. In terms of the Project area, the motorway will be constructed in a complex terrain with no villages/towns nearby.

The Project is technically challenging with a significant part of the route length being constructed in tunnel or deep cuttings (up to 35.5 m depth). The design includes for both directions 11 single tube tunnels with a combined length of 4.8km (approximately 24% of the route length), 9 single carriageway bridges with a combined length of 1.35 km (6.4%), carriageways in cuttings (27%) and carriageway on embankment (42.6%). The longest tunnel is 1.065 km in length and two other tunnels are approximately 0.78 km in length. There are also a number of high retaining walls. As per the latest detailed design, the left and right carriageways can be broadly divided into the following construction elements.

Table 1: Project Construction elements

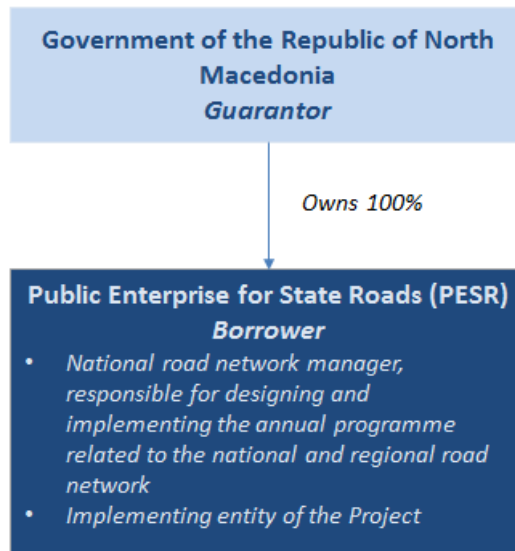
	Length (m)		
	Left Carriageway	Right Carriageway	Total Both Carriageways
Cuttings	3,138	2,204	5,342
Tunnels	2,772	2,075	4,847
Bridges	358	912	1,270
Embankments	3,732	4,809	8,541

Total	10,000	10,000	20,000
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Generally, North Macedonia is an area of high seismic risk, with an occurrence of earthquakes with maximal intensity of VIII degree. According to the independent technical consultants, the design of structures have considered and adopted the relevant seismic factors.

3. PROJECT COST

Table 2 shows the Project cost breakdown. [REDACTED] [T]he construction budget is estimated at approximately EUR 186.7 million. [REDACTED].

ANNEX 3 – SHAREHOLDING STRUCTURE

The Borrower is domiciled in North Macedonia.

ANNEX 4 – EBRD ROAD PORTFOLIO IN NORTH MACEDONIA

Op Id	Operation Name	Signed date	Client	EBRD Finance	Portfolio (EBRD)	Undrawn Commitment (EBRD excl Guarantees)	Operating Assets (EBRD)
39311	Regional and Local Roads Programme	28-Jan-09	PESR	50,000,000	8,156,880	0	8,156,880
41981	Corridor X	20-Sep-11	North Macedonia	91,120,000	39,369,492	0	39,369,492
45515	Corridor X Tolling	12-Jun-13	PESR	15,880,000	8,964,003	0	8,964,003
45987	National Roads Programme - First phase	5-Dec-14	PESR	95,000,000	75,507,538	5,085,790	70,421,748
45987	National Roads Programme-Second Phase	8-Mar-18	PESR	86,000,000	85,904,444	85,140,000	764,444
47829	Shtip-Radovish Road Section	18-Nov-15	PESR	64,000,000	54,138,761	0	54,138,761
49118	Kriva Palanka - Bulgarian Border Road	20-Sep-18	PESR	10,000,000	10,000,000	4,900,000	5,100,000
50769	Highway Tolling	20-Sep-19	PESR	13,000,000	13,000,000	7,870,000	5,130,000
49119	Road Corridor VIII – Phase I	21-Dec-21	PESR	110,000,000	41,700,000	41,700,000	0
Total				535,000,000	336,741,118	144,695,790	192,045,328

Project	Description	Transition achievements	Final / latest rating
Macedonian Regional Roads Project (DTM 15314)	EUR 40 million loan (2003) to finance the upgrade of road section from Smokvica to Gevgelija and the construction of western section of Skopje bypass.	<ul style="list-style-type: none"> By the final TIMS review, all the benchmarks of the project were achieved. [REDACTED]. 	PTI 40 (2014)
Regional and Local Roads Programme (DTM 39311)	EUR 50 million loan (2009) to finance the upgrade and rehabilitation of regional roads and local roads.	The project has made substantial achievements in key areas [REDACTED]	PTI 90 (2013)
Corridor X (DTM 41981 and 45515)	EUR 107 million loan (2011) to construct a new section of the north-south road Corridor X from Demir Kapija to Smokvica, the construction and refurbishment of toll stations and introduction of Electronic Toll Collection (“ETC”).	The project has made substantial achievements, albeit with a delay [REDACTED].	40 (2016)
National Roads Programme (DTM 45987)	EUR 160 million loan (2014) to finance the construction and reconstruction on four national road sections.	[REDACTED] The Company remains committed to make progress in 2022.	ETI 60 (2021) PTI 60 (2021)
Shtip-Radovish Road Section (DTM 47829)	EUR 64 million loan (2015) to finance the improvement works of a single carriageway section between Shtip and Radovish.	[REDACTED] the physical implementation has been completed. The first section was finalized in April 2021, while the second section was finalized in December 2021. [REDACTED]	ETI 60 (2022) PTI 90 (2022)
Kriva Palanka (DTM 49118)	EUR 10 million loan (2018) to finance construction works for the rehabilitation of a single two-lane carriageway road section between Kriva Palanka and Deve Bair near the Bulgarian border.	[REDACTED]The achievement of TI benchmarks is slightly behind the schedule due to Covid-19 pandemic. [REDACTED].	ETI 58 (2022) PTI 58 (2022)
Highway Tolling (DTM 50769)	EUR 13 million loan (2019) to finance the upgrade and modernisation to ETC system.	The project made good progress. [REDACTED].	ETI 60 (2022) PTI 70 (2022)
Road Corridor VIII – Phase I (DTM 49119)	EUR 110 million loan (2021) to finance the construction of the Bukojchani-Kichevo 10-km long road section as part of Corridor VIII.	No TIMS review has been completed for this project yet.	ETI 69 (2021)

ANNEX 5 - HISTORICAL FINANCIAL INFORMATION

[REDACTED]

ANNEX 6 – GREEN ASSESSMENTS

Introduction

The Project involves construction of a 10 km sub-section of the Trans-European Transport (“TEN-T”) Route 6 motorway running from Skopje (Interchange Stenkovec) to Blace Interchange, close to the border with the Republic of Kosovo. The project was assessed for Paris Agreement (PA) alignment and GET eligibility. As a sovereign-guaranteed transaction, climate-related financial risk assessments were not applicable.

The Project is assessed as positively aligned for both mitigation and adaptation goals of the PA. For mitigation, whilst there is a net increase in Scope 3 emissions of approximately 18kt CO_{2e} in the first year of the project, there is a credible pathway for decarbonisation of the fleets responsible for those emissions via electrification, and the infrastructure demonstrates readiness for these fleets with appropriate charging service provision. Further, an economic assessment applying a shadow carbon price in line with EBRD methodology results in a positive economic case. For adaptation, a detailed climate risk assessment was undertaken and adaptation measures introduced to address flooding, landslides, wildfires, and extreme heat events. The Project is expected to deliver climate resilience outcomes of reduced weather-related damage to the road assets and reduced weather-related disruption on the road network, this results in a GET attribution of 24%, in line with the GET Handbook and the j-MDB methodology for attribution of climate adaptation finance. Further, a Net Environmental Benefit analysis estimating the costs associated with induced traffic emissions was applied and factored into the GET adaptation finance calculation.

Paris alignment assessment

General screening of alignment with the mitigation goals of Paris Agreement

- The Project is not included in the 'aligned list'.
- Regarding the project, there are no activities included in the 'non-aligned list'.

Specific assessments undertaken

NDC (Nationally Determined Contributions) reviewed:

There is no specific exclusion of new road infrastructure and the construction of the new motorway is not inconsistent with the targets set out in the enhanced NDC nor the Long-Term Strategy (“LTS”) on Climate Action.

Low-carbon pathways and related benchmarks/criteria used:

A bespoke LCP for fleet decarbonisation was prepared by the Bank for North Macedonia. The LCP sets out the demand forecast of vehicle fleets related to the EBRD investment and includes (i) expected uptake of electric vehicles based on current market trends and scenarios; and (ii) the influence of the range of key road sector related policies (e.g. fuel and road pricing) on uptake of electric vehicles relative to other vehicle types. [REDACTED].

Alignment with the adaptation goals of Paris Agreement

Step 1: Evaluation of the physical climate risk and vulnerability context:

A comprehensive climate risk assessment identified flooding and landslides as the major vulnerabilities for the road, as well as potential risks from wildfires and extreme heat events.

Step 2: Definition of climate resilience measures:

Suitable resilience measures, both in design and maintenance will be included in the Project. Such specific measures include landslide protection measures, raising of the road to the valley side away from the river and drainage design to reduce the likelihood of surface water flooding and damage on the road. Monitoring activities related to roadside vegetation management will be implemented to reduce the potential impact of wildfires.

Step 3: Appraisal of broader climate resilience context:

The project does not undermine the resilience of wider systems and is not inconsistent with the national policy for context adaptation.

GET attribution

A GET share of 24% is attributed to this project following the methodology set out in the GET Handbook on the basis of the Climate Resilience Outcomes that the project is expected to deliver. The three-step approach in line with j-MDB methodology for attribution of climate adaptation finance is presented below. A further Net Environmental Benefit analysis has been applied.

Step 1 – Climate vulnerability context

North Macedonia is expected to face the consequences of climate change with long-term changes in climate and more frequent extreme events. Annual mean temperatures are projected to increase with a resulting increase in the duration of moderate and major heatwaves with minor dryspells also predicted to be more frequent. [REDACTED].

Step 2 – Statement of intent

The EBRD engaged with the Company to ensure that the new road is sufficiently resilient to the identified climate hazards, including floods and landslides in particular. The Project includes appropriate measures in both the design and operation phases and which are in line with PESRs commitment to identify and manage physical climate risks to the road network. This commitment has been demonstrated through the adoption of key recommendations from a Climate Resilience Strategy developed for the company under EBRD's previous transaction on Road Corridor VIII and adoption of guidelines on the "climate-proofing" of road infrastructure in North Macedonia.

Step 3 – Link between climate vulnerability and project activities

A number of climate resilience measures are integrated into the design and operation of the Project. These measures are designed to reduce the exposure of the system to a hazard; reduce the consequence of a hazard event; or improve the recovery from a hazard impact. Specific measures within the Project that address the identified vulnerabilities include, among others:

- Landslide protection measures
- Raising of the road to the valley side, away from the river.
- Improved drainage design to reduce the likelihood of surface water flooding and damage on the road, providing an allowance for uncertainty in relation to floods caused by future extreme rainfall event. The design will be dimensioned to cope with rainfall events of 1 in 100 years (T=100).

- Use of road design components (asphalt type, bridge joints) which are more resilient to extreme heat events.

GET Adaptation Finance Attribution

The GET adaptation finance assessment is based on reductions in both weather-related damage to the road infrastructure and weather-related disruption to traffic on the road network, that result from financing and implementing a climate-resilient road design. [REDACTED].

Climate Resilience Outcomes

<i>Intended Physical Climate Outcome</i>	<i>A Physical Climate Outcome</i>	<i>Valorised Physical Climate Outcome (CRO) over Economic Lifetime (EUR)</i>
Reduction in weather related damage	Cost of avoided damage due to design and operation of the road more robust against landslides, floods and extreme heat	[REDACTED]
Reduction in weather-related disruption	Cost of avoided time and inconvenience to users incurred due to the disruption of the road from landslide and flooding events	[REDACTED]

Green Finance Project Monitoring Plan

The below table outlines the reporting channels, time frames and indicators selected to systematically report on the successful implementation of the climate resilience measures that will ultimately trigger the climate resilience benefits.

Climate resilience measures	Reporting indicator	Reporting timeframe	Reporting channel
Road drainage improvements	[REDACTED]	Upon commissioning	ESAP
Land-slide protection	[REDACTED]	Upon commissioning	ESAP
Use of climate resilient pavement material	[REDACTED]	Upon commissioning	ESAP
Elevation of road above terrain for flood protection reasons	[REDACTED]	Upon commissioning	ESAP

ANNEX 7 - PROJECT IMPLEMENTATION

Procurement classification – *Public Sovereign*

[REDACTED]

Contracts risk assessment

Moderate High

Project implementation arrangements:

PESR will establish a Project Implementation Unit (PIU) with adequate resources and suitably qualified personnel to coordinate, manage, monitor and evaluate all aspects of the project implementation including procurement. The Company's PIU will be strengthened by a Project Implementation Consultant (under selection) to coordinate and support the Company with all procurement activities under the Project. In addition, a Construction Supervision Consultancy Team will be selected to carry out the duties of the Supervision Engineer to assist the Company with supervision and monitoring of the construction contracts until completion.

This structure should strengthen project implementation ability within the Company and mitigate risks of procurement and project implementation delays, while significantly speeding up the implementation of the project.

Procurement arrangements:

The main construction contract will be procured following open tendering procedure by using ECEPP in accordance with the requirements of the EBRD PP&R for public sector operations.

<https://ecepp.ebrd.com/>

The Bank's standard tender documents for Works and FIDIC Contract Conditions for Construction based on the Employer's design will be used by the Company.

The consultancy contracts will be procured by using open competitive selection procedure with the exception of two pre-signing low value contracts which were awarded by direct selection.

Additional information:

The status of the land acquisition and the availability of the technical requirements from the utilities owners for inclusion in the tender documents will be verified prior initiation of the procurement process. [REDACTED].

ANNEX 8 - TRAFFIC AND ECONOMIC ASSESSMENT

[REDACTED]