

PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA58095

Project Name	Federation Road Sector Modernization Project (P152406)
Region	EUROPE AND CENTRAL ASIA
Country	Bosnia and Herzegovina
Sector(s)	Rural and Inter-Urban Roads and Highways (83%), Public administration- Transportation (17%)
Theme(s)	Regional integration (100%)
Lending Instrument	Investment Project Financing
Project ID	P152406
Borrower(s)	Bosnia and Herzegovina
Implementing Agency	Public Company Roads of Federation of Bosnia and Herzegovina
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	21-Apr-2016
Date PID Approved/Disclosed	21-Apr-2016
Estimated Date of Appraisal Completion	21-Apr-2016
Estimated Date of Board Approval	12-Jul-2016
Appraisal Review Decision (from Decision Note)	The meeting authorized the team to proceed with project appraisal subject to the completion and disclosure of the safeguards documents.

I. Project Context

Country Context

Bosnia and Herzegovina (BiH) is a state with a complex governance arrangement. The Dayton Peace Agreement which ended the war in the country, established a governance structure comprising two entities, each with a high degree of autonomy: the Federation of Bosnia and Herzegovina (FBH) and Republika Srpska (RS). The district of Brčko was added to the structure in 1999. Between the two entities, governance structures and budgetary arrangements are asymmetric. While the RS is subdivided only into municipalities (62 in total), FBH is subdivided into 10 cantons, each with its own executive, legislative, and judicial branches of authority. Each canton is further subdivided into municipalities. Although the country's complex governance system poses significant challenges in developing coherent sectoral policies and efficiently confronting emerging development priorities, authorities in BiH have been pursuing a jointly authored medium term Reform Agenda which represents a broad consensus among all levels of government on the key priorities of economic and social development that would take BiH to more sustainable growth trajectory. The Reform Agenda implementation progress will underpin the country's application for EU membership.

The BiH is a small, middle-income country of close to 3.8 million people, which is yet to create a foundation for sustainable economic growth after a period of successful post-conflict recovery. While the BiH economy remains smaller than before the war the improved capture of the informal economy through tighter tax enforcement suggests that progress is being made towards restoring the economic activity to pre-conflict levels. After years of relatively strong economic growth between 2005 – 2008 when growth averaged 5.5 percent of GDP the BiH's economy proved vulnerable to external shocks and the economic growth has slowed significantly at the outset of the global financial crisis. Following a double-dip contraction of the economy between 2008 and 2012, the country experienced the beginning of a moderate economic recovery in 2013 when growth reached 2.4 percent. This was interrupted by floods of May 2014. In 2015, BiH has shown progress in reaching consensus on priorities for structural reform, which also helps the country to draw closer to the EU. According to first estimates real growth in 2015 was 3.2 percent and mainly driven by agriculture, manufacturing and services.

The progress on poverty reduction remains slow. The poverty headcount at the national level in Bosnia and Herzegovina in 2011 stood at 15 percent of the population; the poverty rate was stable during the 2007-2011 period. While poverty incidence in 2011 is similar at the subnational levels, it is much higher in rural areas, at 19 percent, compared to 9 percent in urban areas. Unlike poverty, for which there is little difference between FBH and RS, the bottom forty percent income group (B40) is more prevalent in RS than FBH.

With the public sector spending close to 50 percent of GDP, ensuring efficiency of public expenditures is critical. In BH, the state, entities, district, canton and municipal governments spend approximately 50 percent of GDP. The choices made by public institutions can therefore significantly influence economic growth. These choices are important to ensure efficient use of public resources toward faster economic growth, poverty alleviation and shared prosperity. Climate change impacts are increasingly important to be considered in infrastructure planning. BiH is vulnerable to heat waves, flooding and droughts as demonstrated in recent years. These events and their recurrence may become more common.

Sectoral and institutional Context

The transport sector institutional structure is complex. The sector is administered and managed at the state level by the Ministry of Communications and Transport (MoCT) , and at the entity level, by separate Ministries of Transport and Communications (MoTC).

BH is almost landlocked, except for 20km of coastline on the Adriatic Sea, and is dependent on ports located in Croatia, creating constraints in access to markets. Neum is the only coastal city in Bosnia and Herzegovina and although it is unlikely that it would substitute for Croatia's Ploce port as a trade gateway for BH, it has tourism potential. Neum is accessible through the existing road on the route from Stolac. This road is of a poor standard and traffic bound for the Neum area normally chooses to follow the main road, M17 (E73), into Croatia and from there to Neum. This requires two border crossings for a one way trip and can entail extremely lengthy delays in the summer months for private traffic and at any time for commercial traffic. The poor accessibility significantly impedes the region's growth potential, especially tourism development which could potentially be the leading contributor to the local economy and a creator of jobs.

Road Sector

The overall BH road network totals approximately 24,600 kilometers. This comprises about 3,800km of main roads, 4,700km of regional roads and 16,100km of local roads. The density and quality of the entire BH road network is the lowest in SEE average. At present, the revenues

allocated to the road sector do not cover the full maintenance requirements of the main and regional network. Closing the financing gap requires a number of actions by both Entities to improve the management, effectiveness and efficiency of expenditures in the sector. Road safety is one of the major social and public health issues in BiH. In relative terms BiH is performing well compared to SEE on average, but the fatality rate (i.e. number of persons killed per capita) is still about 1.3 times higher than the EU average. The improved legal and institutional framework provides a good basis for a further program of activities to address problems of road safety.

The management of motorways and main roads is entrusted to entity companies: in the FBH, these are: the Public Company Motorways of FBH - for motorways and high speed roads- and the Public Company Roads of FBH (FBH-PC Roads) - for main roads; while in the RS, these are: the Public Company Motorways of RS -for motorways and the Public Company Roads of RS – for main and regional roads. Regional roads in BiH are managed also in two different ways. In FBH, the cantons are responsible and management is entrusted to the cantonal Road Directorates or cantonal ministries. In RS, the Public Company Roads of RS is responsible for regional roads. Lastly, local roads in BiH are managed by municipalities in accordance with their administrative boundaries.

FBH is embarking on a four-year €173 million Road Modernization Program envisioned to be financed by EBRD (€65 million), EIB (€50 million), and the World Bank (€58 million). It involves road rehabilitation, bridge and tunnel repairs and road safety interventions. At the center of the program is the upgrade of the Neum-Stolac road, which is a domestic route of national importance for promoting trade and national tourism.

The modernization program is the opportunity for a holistic approach to road sector improvement as it involves network improvements (road, bridge and tunnel repairs), road safety interventions and measures to improve the overall sector management. As part of the modernization program, FBH seeks to strengthen the financial sustainability of the sector by improving the quality of public expenditure for carrying out construction, rehabilitation and maintenance of road infrastructure. The overall old age of bridges and tunnels necessitates a careful assessment and reconstruction effort, which takes climate change into consideration. Increased flood risk requires more resilient infrastructure. This poses challenges in terms of higher design standards and construction costs. Priorities for the bridges and tunnels investment program were identified based on a network wide survey carried out in 2013. The survey indicated that 137 bridges are in satisfactory condition since some were rehabilitated and reconstructed in the past, but 68 required urgent investment. Of the tunnels, 19 were found to be in satisfactory condition and 7 were in urgent need of investment. The road modernization program of RS has not been yet finalized. Among the planned activities are rehabilitation of about 500km of main and regional roads, including bridges and tunnels and repairs of roads damaged by the May 2014 floods. Still, a wider program will be determined once RS sets its policy priorities across all sectors, including transport.

As a party to the UNFCCC, Bosnia and Herzegovina communicated its Intended Nationally Determined Contributions (INDCs) prior to COP 21. The proposed BiH efforts for decreased generation of GHG emissions are centered on energy efficiency and renewable energy and there are no actions verified at this stage on transport.

Railway Sector

The institutional structure of railways in BiH is complex and costly. It includes two vertically integrated railway companies, ZRS and ZFBH, a state level Railway Regulatory Body (RRB) and Railways Public Corporation (RPC). Each of the two railway companies operates as both an infrastructure manager and railway transport operator on a total network of just over 1000km in

length in both entities. The financial performance of both companies needs to improve as both incur financial losses annually, despite some financial contribution from the entities. This is a result of steadily growing operating costs (labor costs growing predominantly), low traffic and high rolling stock and infrastructure maintenance costs and less than commensurate increases in revenues. Both entities have identified the modernization of the railway companies as priority actions to improve efficiency of public finance and also ensure quality and developing of railway services. EU accession is an additional driver for modernization: the country needs to strategically reform its railway sector, not only to adhere to the EU transport acquis, but also to prepare its railways for the competitive EU market. The entities are at different stages of the reform process. The BiH Reform Agenda highlights the importance of introducing strategies to address the loss making of state-owned enterprises, enhance efficiency with a possibility for privatization and ensure public debt sustainability through clearance of existing arrears and not accumulating new ones.

The Transport Sector Modernization Program (of which the Federation Road Modernization Project is the first phase) is designed as part of a series of projects (SOP) supporting BiH's long-term development program in transport. The series approach allows for different modernization programs and interventions in BiH to start at different times when they are ready, through a series of sequential phases. The needs of the transport sector in BiH are large, spanning different modes and geographical areas of the country. Sector modernization and investment are at different stages of design and implementation given priorities, and budgets and require planning and phased implementation over several years. This is a flexible Bank program to assist in the modernization and investment efforts at the different phases of preparation and implementation and in a timely and continuous manner. The end goal of the TSMP is to develop the strong transport system BiH needs to reduce the economic distance to markets by expanding opportunities for trade, by improving the competitiveness of national locations for production and distribution, and by facilitating mobility. The Project Board date is currently being set for August 2.

The Federation Road Modernization Project will be jointly co-financed by EIB and the World Bank and include the construction of the Neum-Stolac road, the reconstruction of roads, bridges and tunnels across FBH, reconstruction of black spots. Significant attention will also be put on improving the capacity of the FBH Public Enterprise Roads to manage the main road network in a more sustainable way, by ensuring the use of modern road asset management systems in its planning processes, strengthen capacity to ensure road safety in designs, reconstruction, construction and maintenance of roads and also to understand better the vulnerability of the road network to climate change and plan timely interventions to protect it.

II. Proposed Development Objectives

The Program Development Objective of the Transport Sector Modernization Program (TSMP) is to upgrade transport infrastructure along priority transport links and to strengthen capacity for sustainable transport asset management.

The Project Development Objectives of the First Phase of the TSMP (the Federation Road Sector Modernization Project) are to improve road connectivity and safety for road users along project roads and to strengthen capacity for sustainable management of the main road network in the Federation of Bosnia and Herzegovina.

III. Project Description

Component Name

Road Upgrade and Rehabilitation

Comments (optional)

This component will finance civil works to (i) complete the upgrade of the new route M17.3 Neum – Stolac road; (ii) construct third lanes for slow traffic on nine selected road sections with the average length of 5 km; (iii) reconstruct/rehabilitate four selected road sections with partial axis correction; (iv) rehabilitate three selected tunnels (i.e. Ormanica, Vranduk II and Crnaja); and (v) rehabilitate seven selected bridges.

Component Name

Road Safety Interventions

Comments (optional)

This component will finance reconstruction of eight intersections classified as black spots on main roads.

Component Name

Improving Main Road Network Management

Comments (optional)

This component will focus on providing technical tools, knowledge, training to FBH PC Roads to strengthen main roads management in FBH with a particular focus on the financial sustainability of investments, streamlining climate resilience and road safety.

Component Name

Project Management and Implementation

Comments (optional)

This component will finance the supervision of all project civil works and capacity-building of FBH-PC Roads through the provision of technical assistance, technical audits, carrying out the annual financial audits of the Project.

Component Name

Contingency for Disaster Risk Response

Comments (optional)

This component will support rapid response to disaster, emergency, and/or catastrophic events, as needed and will entail rehabilitation or reconstruction of roads damaged by a natural disaster and providing engineering and supervision support for carrying out said rehabilitation work. The provisional zero cost for this component will allow for rapid reallocation of loan proceeds from other components under streamlined procurement and disbursement procedures

IV. Financing (in USD Million)

Total Project Cost:	101.84	Total Bank Financing:	64.91
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
International Bank for Reconstruction and Development			64.91
EC European Investment Bank			36.93
Total			101.84

V. Implementation

The project will be implemented during a five-year period by the FBH Public Enterprise Roads. The FBH PC Roads established a Project Implementation and Management Team (PIMT) under the Bank financed Emergency projects in 1995. The PIMT has been largely incorporated in FBH-PC Roads. Capacity in management, planning, monitoring and program administration was further strengthened through earlier Bank projects. The FBH through FBH-PC Roads will have the overall responsibility for coordination, planning, procurement, disbursement, auditing, project level monitoring and evaluation, progress implementation reporting, and use of project funds, all of which will be detailed in the Project Operational Manual (POM) to be prepared by the client before effectiveness. The capacity of PIMT will be further strengthened in certain areas (such as civil engineering, environmental and social management) as necessary.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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