Additional Financing Appraisal Environmental and Social Review Summary

Appraisal Stage

(AF ESRS Appraisal Stage)

Date Prepared/Updated: 01/20/2021 | Report No: ESRSAFA090

BASIC INFORMATION

A. Basic Project Data

Country	Region	Borrower(s)	Implementing Agency(ies)
North Macedonia	EUROPE AND CENTRAL ASIA	Ministry of Finance	Ministry of Transport and Communications

Project ID	Project Name
P175841	Local Roads Connectivity Project - Additional Financing

Parent Project ID (if any)	Parent Project Name
P170267	North Macedonia: Local Roads Connectivity Project

Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Transport	Investment Project Financing	1/25/2021	2/25/2021

Proposed Development Objective

The project development objectives are: 1) to improve government capacity to manage local roads and improve access to markets and services; and 2) to provide immediate and effective response to an eligible crisis or emergency.

Financing (in USD Million)	Amount
Current Financing	0.00
Proposed Additional Financing	0.00
Total Proposed Financing	0.00

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The objective of the parent project was to improve government capacity to manage local roads and improve access to markets and services. These objectives are to be accomplished by the implementation of four components, including:

(i) capacity enhancement to build local government capacity to manage local roads and strengthen institutional and policy arrangements at the central government level; (ii) rehabilitation of local roads and community facilities to provide safe and climate resilient access to markets and services, and pilot community-driven transport investments; (iii) Project Implementation Support, which finances operating costs of the implementation agency and technical audit; and (iv) a Contingent Emergency Response Component. The project will finance rehabilitation of municipal roads in all of the municipalities of North Macedonia, estimated at about 450 km, and to include a combination of rural roads and urban streets.

On May 8, 2020, at the request of the Government of North Macedonia, the World Bank activated the Contingency Emergency Response Component (CERC) of the Local Roads Connectivity Project (LRCP) (P175841). It allowed a reallocation of US$42.58 million to address the compounding and negative impacts of the Coronavirus Disease 2019 (COVID-19) pandemic. The resources were used to provide financial support to private sector employers severely affected by the COVID-19 crisis, establishing an income support scheme for the months of April, May and June 2020. As of July 2020, 155,082 employees received a salary subsidy and 20,079 received a social contributions subsidy.

The budget reallocated for the CERC comes from undisbursed and uncommitted resources originally earmarked for activities in Components 1, 2, and 3 of the LRCP as described above. This has created a financing gap in implementing key activities under these components, which are essential for achieving the Project Development Objectives (PDO).

The proposed Additional Financing (AF), as requested by the Government of North Macedonia, in the amount of US$42.58 million will support a full replenishment of the financing gap in the LRCP. The proposed AF, together with a Level 2 project restructuring, would formalize the reallocation of resources, revise the PDO, allow for an update of the Results Framework (RF), and facilitate the full implementation of key activities under Components 1, 2, and 3. The implementation arrangements, original project components and the closing date of the Project would remain unchanged.

D. Environmental and Social Overview

D.1. Detailed project location(s) and salient physical characteristics relevant to the E&S assessment [geographic, environmental, social]

The AF (Additional Finance) is to replenish 37 mil Euro used for the CERC component. There will be no changes either in the activities to be financed or in the institutional arrangements.

The Local Road Modernization Project (LRCP), the original project, activated the Contingency Emergency Response Component redirecting a total of 50 million Euros, out of which 37 mil euros were used, for an emergency fiscal response (the CERC) to support. The Financial Support of Private Sector Employers Affected by the Health and Economic Crisis Caused by The Covid-19 Virus, for the Payment of Salaries for Months of April and May 2020 implemented by the Government of RNM. The CERC financed the subsidy of wages in the means of grant funds assigned to any eligible companies that have been forced to close their physical point of sale or that have experienced a reduction in revenues but were not ordered to close.

The AF will continue to finance the rehabilitation of regional and local roads across 80 municipalities in North Macedonia. The project will build local government capacity to manage local road networks and promote citizen

engagement in the management of local road networks. This will support Focus Area II of the CPF by enhancing the quality and responsiveness of public services and skills development. The project pilot municipal programs will support gender- and Roma-differentiated transport needs will further support CPF Focus Area II by facilitating the development of human capital and skills to boost labor productivity and more inclusive labor market participation and align with the World Bank's corporate priorities on gender and citizen engagement. Finally, ensuring more sustainable use of public budgets for the transport sector and improving the climate resilience of the resulting infrastructure and services directly support the sustainability objectives of the CPF Focus Area III. The project will be implemented all across the country. At this stage, the first year of implementation, the project is in the phase of completion of two tendering procedures which are most advanced from the indicative list during the preparation. When identified, project roads are appraised using a Cost-Benefit Analysis or the Road Economic Decision (RED) model, which is most appropriate for road classes with relatively low traffic volumes. Construction works will mainly occur within the existing right-of-way, and the estimated cumulative length of the project road is 450 km. The nature of interventions has not changed. will be mostly rehabilitation (no new construction), reconstruction of existing regional and local roads in both rural and urban settings, as well as upgrade from dirt to asphalt local rural roads. Rehabilitation means changing the asphalt layer and substitution with the new layer, re-pavement, pothole repairing, patching, and any other road surface fixing. Reconstruction work would be an intervention into the road body, structure, in addition to substituting of the pavement whereby upgrade works will intervene in reinforcing the road body and installing new pavements. The types of interventions do not foresee significant widening of local roads. There might be a need for land acquisition, mostly linear and narrow strips of the land by the road. Improving the safety standards of the roads will be important and this project could be used as an opportunity to improve the safety standards, especially for the roads and streets within inhabited settlements. The works most probably will be carried out by domestic companies and thus the project could support the generation of the road maintenance-related jobs especially given that the labor will mostly be hired locally and not imported. North Macedonia is a country in the Balkan Peninsula in Southeast Europe with a total area of 25,713 km2, has borders with Kosovo to the northwest, Serbia to the northeast, Bulgaria to the east, Greece to the south, and Albania to the west. The country is geographically clearly defined by a central valley formed by the Vardar river and framed along its borders by mountain ranges. The terrain is mostly rugged, located between the Šar Mountains range and Osogovo range, which frame the valley of the Vardar river. Three large lakes — Lake Ohrid, Lake Prespa, and Dojran Lake — lie on the southern borders, bisected by the frontiers with Albania and Greece. Ohrid is considered to be one of the oldest lakes and biotopes in the world. The region is seismically active and has been the site of destructive earthquakes in the past. The capital and largest city, Skopje, is home to roughly a quarter of the nation's 2.06 million inhabitants. The country is further divided into 80 municipalities, and consists primarily of rural country towns, with only 45% of the population concentrated in the larger towns and cities.

The instruments prepared for the parent project are relevant and do not need adjustment or adaptation for the AF. AF has the same activities as the parent project. During the first year, no works have started. Most of the activities were the preparation of technical designs and ESMPs for the sub-projects. The risk management of the safeguards for the first year is satisfactory. During the first year, the PIU outscored the E&S risk management through a consulting company as agreed during the preparation

D. 2. Borrower's Institutional Capacity

The AF is the de facto replenishment of 37 mil euros used to finance the activation of the CERC component. The AF will enable the project to continue to be financed as originally envisaged. All the arrangements for the E&S risk management will stay as the original project.

The project is being implemented by the Ministry of Transport and Communication (MoTC). This is the first World Bank project directly implemented by MoTC. MoTC does not have sufficient experience in the implementation of large projects; those services were usually outsourced as its role until now was more on policy-making and sector monitoring than project implementation. Ongoing EIB financed program is implemented by MoTC with substantive external help.

However, recently MoTC was able to hire an experienced environmental and social specialist that will increase the current capacity for project preparation and implementation of the scope of activities. The majority of municipalities that will directly implement the project do not have sufficient capacity for the implementation of WB Environmental and Social Standards, however, are familiar with the requirements of IFIs including the World Bank (through the Ministry of Finance, there is an investment program financed by World Bank and EU Trust Fund, implemented in all municipalities. The program finances any local government infrastructure services where local roads account for about 30% of the projects. The MoTC, since recently also implements the Water and Sanitation program financed by EIB and earlier EBRD financed program), but further enhancement of capacity and hand-holding at the local level is needed.

The actual full-time environmental and social specialist in the PIU will be responsible for the implementation of ESMF and the day-to-day environmental and social management of the project and help build the capacity of municipalities. The E&S staff is already hired and has started effectively in mid-December 2020.

II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC) — Substantial

Environmental Risk Rating — Substantial

The AF (Additional Finance) is to replenish 37 mil Euro used for the CERC component. There will be no changes either in the activities to be financed or in the institutional arrangements. There are no new activities proposed under this AF, thus the environmental arrangements and risks are substantial the same as the original project with the prospect to lower the risks to moderate subject to the performance of the new staff.

The project activities, related to the reconstruction and rehabilitation of roads are not likely to have substantial adverse risks or impacts on human populations and/or the environment. Impacts are expected to be site-specific and can be addressed through conventional mitigation and management measures. It is also not expected that the project will have adverse impacts on environmentally or socially sensitive areas. As such, the potential risks and impacts and issues are predictable and expected to be temporary and/or reversible; low in magnitude; site-specific, without the likelihood of impacts beyond the actual footprint of the Project. These impacts most commonly include possible temporary disruption of current traffic circulation, traffic safety, damage to access roads, dust nuisance, and gaseous emissions, potential pollution of soil and water resources, brief disturbance to a biotope, and momentary interference to neighboring settlements through various operational activities. Off-site activities include quarry, burrow pit, and asphalt plant operations, which if not managed properly, may cause localized adverse impacts.

Initially, at the time of the original project preparation, when MoCT was lacking capacity in managing environmental and social aspects, as well as the majority of participating municipalities that proved insufficient capacity to manage the project in accordance with ESS, the environmental risk was rated as substantial. However, considering that MoCT was able to hire recently experienced environmental & social staff that will increase the current capacity for project preparation and implementation and will be responsible for the implementation of ESMF and the day-to-day environmental and social management of the project, and also help build the capacity of municipalities, the

environmental risk for this AF will be lowered into the moderate level subject to the performance of the PIU in next couple months.

Social Risk Rating Moderate

Almost to the end of year one implementation, the Social Risk Rating remains moderate. The AF is a replenishment of the 37 mil euros used for the activation of the CERC component.

Given that the investments will be in local rural roads (connecting two settlements) and streets (within a settlement) and local urban roads only, rehabilitation, reconstruction, and probably upgrade of dirt roads to asphalted roads the land acquisition impacts if any will most probably be linear narrow strips. For the rehabilitation/reconstruction in the road sections outside the settlements the impacts if any, will be mostly in land classified as non-construction land, whereby if the investments are in the streets (within the settlements), then most probably impacts of land will be in land classified as construction land. Investments within settlement will be allowed only for rural areas, whereby the difference between land classified as agriculture or construction is not much emphasized. It is highly unlikely that there will be an impact in either residential or any other structure or any impact on informal vendors or squatters. Works will be on local urban roads and local rural streets and roads and thus complex and large construction operations are not foreseen. Most probably the works will be implemented by local firms and local labor either as direct contractors or sub-contractors. No labor influx issues are foreseen. No major community health-related risks (minor ones) are envisaged, but issues with noise, dust, and traffic-related the project for the sub-projects in the settlement. The Ministry of Transport through externally hired staff implements a similar project on Water and Sanitation, financed by EIB, whereby another project that is multisector program is implemented through the Ministry of Finance. These programs have made municipalities familiar with the IFI requirements. Thus the social risk level remains moderate sam as for the parent project.

B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

ESS1 applies this AF similarly to the project due to the environmental and social risks associated with project activities more specifically reconstruction, rehabilitation, and maintenance of local roads planned under components 1 and 2. Potential environmental risks and impacts are predictable, expected to be temporary and reversible, low in magnitude, and site-specific. These impacts most commonly include possible temporary disruption of current traffic circulation, traffic safety, damage to access roads, dust nuisance, and gaseous emissions, potential pollution of soil and water resources, brief disturbance to a biotope, and momentary interference to neighboring settlements through various operational activities. Off-site activities include quarry, borrow pit, and asphalt plant operations, which if not managed properly, may cause localized adverse impacts. The contractor's site offices and possibly but highly unlikely workers' camps can be potential sources of temporary adverse impacts. In most cases, such impacts can be mitigated readily through good construction practice, environmental permitting process, and through the implementation of site-specific environmental due diligence instruments. ESMF prepared for the original project applies to the AF given that the AF is the replenishment of the funds used for emergencies due to the COVID 19 pandemic. Implementation of the ESMF during the first year is satisfactory and thus no need for adjustment is needed. The ESMF guides the preparation of the appropriate instruments to be used for specific sub-projects. The

instruments to be prepared when the sub-project locations are identified and defined include site-specific Environmental and Social Management Plans (ESMPs) and Environmental and Social Management Plan Checklists (ESMP Checklists) all prepared in compliance with the World Bank Group's Environment, Health, and Safety (EHS) Guidelines. The screening criteria for sub-projects are defined in ESMF. It is expected that the ESMP checklist will be used for plain, less risky sub-projects that usually only involve a change of asphalt or drainage on exiting the road, while site-specific ESMPs would be used in more complex rehabilitation when locations of segments are more sensitive (e.g. passing through natural habitats) or involve works on existing structures (bridge rehabilitation). More specifically, upgrading work of the local roads and reconstruction (intervention into the road body, structure, in addition to substituting of the pavement whereby upgrade works will intervene in reinforcing of the road body and installing of new pavements) requires preparation of ESMP for specific sub-project. The rehabilitation of the existing local roads/streets (improving the condition of the road without changing the basic functional characteristics – changing of the asphalt layer and substitution with the new layer, re-pavement, pothole repairing, patching, and any other road surface fixing, etc.) and road safety activities require preparation of ESMP Checklist. Rehabilitation projects in protected areas would instead of EMP Checklist require preparation of ESMP. For the cases with impacts on land take over the course of the project implementation site-specific Resettlement Action Plans (RPs) will be prepared. Usually, during the ESMPs, prepared between concept designs and final designs of the sub-projects, impacts on the land take will be foreseen and RAPs as the measure will be proposed to be prepared and implemented once the technical designs for the respective sub-project will be completed. For these sub-projects, if there will be land take impacts, site-specific RAPs will be prepared. In addition, Resettlement Policy Framework RPF is prepared for the parent project and the same one applies to the AF. The RPF is prepared to guide land take impacts for all program. The land take impacts will not be complex and substantive, because the program will finance local rural road and street rehabilitation and reconstruction as well as the same intervention for urban areas with the exception that in urban areas local streets will be excluded. Given that the project will be a local road program the project will hire contractors and most probably sub-contractors to carry out civil works. Labor Management Procedures are prepared based on the assessment of the Law on Labor Relations and Law on Health and Safety at work, which laws regulate the employments for the contractors as well as for the project. LMP proposes measures to overcome the gap between the Law on Labor Relations and the Labor and Working Conditions Standard. For all sub-project, traffic management plans will regulate sub-project related traffic and address traffic safety risks because of the sub-project. It is not foreseen any impact or disruption of ordinary activities for the vulnerable. Usually, the poorest segments in the local governments live in the area with the least infrastructure area. It is most likely that those living near nonpaved streets would have the biggest chance to benefit given that dirt streets are eligible for investment. Stakeholder Engagement Plan (SEP) is prepared and manage the project relations/dialogue with the beneficiary communities as well as relevant institutions such as local governments. As the project will provide support to road maintenance, guidelines on environmental best practices for road maintenance activities will be developed during implementation. An Environmental and Social Commitment Plan (ESCP), drawn and agreed upon with the borrower, sets out the substantive measures and actions that will be required for the project to meet environmental and social requirements over the project's lifetime. The ESCP will not be updated. These measures shall be implemented within a specified time-frame and the status of implementation will be reviewed as part of project monitoring and reporting.

ESS10 Stakeholder Engagement and Information Disclosure

Direct beneficiaries of the sub-projects will be the communities using the respective local roads. Local governments are the beneficiaries on the institutional dimension as they are directly responsible for the maintenance of the infrastructure roads that will be improved with the project. The stakeholder engagement plan will define the institutional stakeholders direct and indirect and will propose how the communication on the institutional level will be managed during the preparation and implementation of the project. These will be communication between local governments with the Ministry of Transport, Public Enterprise for State Roads as well as non-state actors relevant for the local government such as ZELS - Association of Units of Local Governments. The direct beneficiaries are communities using relevant roads for access to social services, business, or any other activities. The stakeholder engagement plan will assess and provide strategies for the engagement of the communities into local government decision bodies for three phases: (i) for the selection of the local roads to be rehabilitated (ii) engagement during the implementation - works period and (iii) also the Engagement Plan will assess and provide a proposal for the community engagement in the post-reconstruction - maintenance phase. The project will be used to strengthen the capacity of the local government in the dialogue with the communities in local road network maintenance.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions

The project will have direct workers and these will be hired project staff for the PIU. The term of the hiring will be on the consultancy basis whereby for each position the no objection of the Bank team will be obtained. Other workers involved in the project will be contracted workers hired by the contracting companies, as well as their subcontractors, to carry on civil works. The most important aspect for the application of the Labor and Working Condition Standard will be applying the standards for the contracted and subcontracted companies for the road rehabilitation works. The Labor-Management Procedure has been prepared based on the assessment of how compliant is Macedonian law on Labor Relations as well as Law on Safety and Health at work with the Labor and Working Condition Standard. The same one will be applied for AFThe LMP will be included in the procurement package as a way to implement.

ESS3 Resource Efficiency and Pollution Prevention and Management

There are no new activities proposed under this AF, thus the environmental and social arrangements and risks are same as the original project. Therefore, the ESS3 is relevant to the project and AF. Road reconstruction and rehabilitation works will include the use of a range of materials like asphalt, cement and others. In addition, the project might be a significant user of material resources like gravel and stone from borrow pits and quarries. The project will not be a significant user of energy or water resources. Large quantities of construction and demolition waste are expected, as asphalt might be removed from current roads and replaced. Ideally construction waste would be reused where feasible , while unusable fractions will be disposed at dedicated sites agreed with the Municipality and Ministry of Environment and Physical Planning. Through the implementation of procedures and measures stated in ESMF, site-specific ESMPs and ESMP checklist, MoTC and municipalities will avoid or minimize the release of pollutants into air, water and soil and assure compliance with the Environmental, Health and Safety Guidelines and Good construction practice. Mitigation measures will also ensure the appropriate handling; storage, use and disposal of hazardous and non-hazardous materials and wastes; those measures are already included in the ESMF and four site specific ESMPs and ESMP Checklist prepared prior to appraisal as well as in the management plans of work camps

and work sites. Only legal, licensed quarries would be considered for supplies of material needed for rehabilitation. Guidelines for choosing quarries' management and selection are set in ESMF. The site-specific ESMPs will be part of the tendering documentation and civil works contracts.

ESS4 Community Health and Safety

ESS4 is relevant to the project. Given the linear character of the sub projects, full partition or fencing of construction sites might not be possible, therefore, signaling will be installed and mitigation measures to control excessive noise and dust levels will be ensured through a robust mitigation and management plan in the proposed ESMPs or site-specific ESMP Checklists. Traffic/Road Safety Management Plans with measures to ensure the safety and well being of nearby communities and road users during reconstruction / rehabilitation and for the operation phase will be prepared together with the Emergency Response Plans with procedures to respond to accidental leaks, spills, emissions, fires, and other unforeseen crisis events by contractors and reviewed by MoTC ESS. General guidelines for traffic management plans are included in ESMF to guide contractor to prepare site specific plans. Special guidelines will be given for sensitive sites like schools, hospitals, religious places, etc.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

There are no new activities proposed under this AF, thus the environmental and social arrangements and risks are same as the original project. However, the project will finance rehabilitation, reconstruction and/or upgrade of the dirt roads to asphalt of local rural roads and streets as well as local roads in urban areas. The interventions will not cause large land take impacts. Most probably there will be small and narrow linear impacts or site impacts for spot widening. It is not expected that there will be need for resettlement or demolition of any structure. Nor it is expected impacts to livelihoods because of the land takes. The implementing agency will prepare Resettlement Policy Framework because the program during the preparation will not be able to identify all investments. Only some sub-projects to be implemented during the first year will be known and for those if there will be land impacts site specific Resettlement Action Plans will be prepared.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

There are no new activities proposed under this AF, thus the environmental arrangements and risks are same as the original project.

The proposed operation's sub-projects are expected to be restricted to existing road corridors and therefore impacts on habitats is expected to be limited. Nevertheless, as the location of roads are still not identified, some of the rehabilitation works might be carried out in nature protected areas and natural habitats. The potential impacts will only be identified during project design when specific routes are known, and should be addressed in subsequent ESMPs. The ESMF therefore defines procedures for identifying and managing sub-projects potentially affecting natural habitats. If sub projects will take place in protected area, opinion will be sought opinion from MoEPP if the sub project will impact any critical habitats. In addition, ESMP will include discussion on natural and critical habitats risks and impacts.

Mitigation measures should be prescribed and implemented in order to minimize the impact on the protected area. Training for contractor and supervising engineer in the protected area should be delivered by MoTC ESS before start of operation in order to increase the awareness that activities might impact the protected area and biodiversity and

measures should be presented on minimizing and avoiding impact. No activities will be allowed in critical habitats. ESMF provides overview of existing protected areas.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

No indigenous people reside in North Macedonia.

ESS8 Cultural Heritage

Although the proposed operation will not require the construction of new roads, physical works excavations, movement of earth, quarrying and impounding and associated civil works will be undertaken. These types of activities may lead to contacting with both known and unknown physical and cultural resources. Nevertheless, due to the country's cultural richness, during the earthworks chance finds might be possible. For that reason, ESMF include provisions on chance finds and required practices. It is unlikely that there will be intangible cultural heritage impacted by this project.

ESS9 Financial Intermediaries

The ESS 9 is not relevant since no financial intermediaries are planned under the project implementation.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways	No
OP 7.60 Projects in Disputed Areas	No

B.3. Reliance on Borrower's policy, legal and institutional framework, relevant to the Project risks and impacts

Is this project being prepared for use of Borrower Framework?	No

Areas where "Use of Borrower Framework" is being considered:

N/A

IV. CONTACT POINTS

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Borrower/Client/Recipient

Borrower: Ministry of Finance

Implementing Agency(ies)

Implementing Agency: Ministry of Transport and Communications

V. FOR MORE INFORMATION CONTACT

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VI. APPROVAL

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