

Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 27-Mar-2023 | Report No: PIDC35070



BASIC INFORMATION

A. Basic Project Data

Country Moldova	Project ID P180153	Parent Project ID (if any)	Project Name Moldova Solidarity and Regional Connectivity Project (P180153)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Oct 16, 2023	Estimated Board Date Oct 26, 2023	Practice Area (Lead) Transport
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency State Road Administration, Customs Service of the Republic of Moldova	

Proposed Development Objective(s)

The Project Development Objective is to facilitate road transit through Solidarity Lane border crossings with the EU and to improve the quality of connectivity that selected local communities have to international corridors.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	120.60
Total Financing	120.60
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing		
International Bank for Reconstruction and Development (IBRD)	100.00	
Non-World Bank Group Financing		
Counterpart Funding	20.60	
Borrower/Recipient	20.60	



Environmental and Social Risk Classification Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Moldova's economic growth has been strong and relatively resilient to COVID-19, but the energy crisis and Russia's invasion of Ukraine pose risks for the country's short-term recovery and long-term prospects.** As a result, Moldova's economic outlook remains subject to exceptionally high domestic and external risks. Per capita GDP expanded at an average annual pace of 4.9 percent between the late 1990s and 2019, which resulted in strong poverty reduction (World Bank, 2021). Poverty¹ fell from close to 90 percent in the late 1990s to 13 percent by 2018 (World Bank, 2021). The economy grew by 1.1 percent in 2022 Q1, annually, supported by net exports and public consumption. Exports appear to be more resilient to trade disruptions while the service sector continues to benefit from reorientation of trade flows from Ukraine through Moldova's transport infrastructure. However, GDP growth is expected to stagnate in 2022 held back by the adverse effects of drought conditions on agricultural production, supply disruptions and rising input costs on the agricultural sector and worsening global economic outlook.

2. The fiscal position of Moldova is expected to weaken in the short-term due to the inflow of refugees and the economic impact of the conflict in Ukraine. Moldova is currently hosting approximately 80,000 Ukrainian refugees. This large number of refugees puts additional pressure on service delivery systems, infrastructure and on safety. The conflict also triggered a departure of Moldovan workers from the CIS countries, particularly from the Russian Federation, who traditionally provided a steady stream of remittances and will no longer be able to do so.

3. While Governments' attention shifted to the emergency policy responses linked to the invasion of Ukraine and energy sector induced shocks, long-term policies regarding regional integration and EU-accession processes remain top priority. These policies are an integral part of Moldova's roadmap to reach its economic growth targets and achieve significant convergence with living standards seen in the EU. Being poorly industrialized, with economies still predominantly based on agriculture and traditional lower-productivity and value-added services, Moldova suffers from declining population due to low birth rates and emigration. Connectivity gaps within the region and with larger regional partners and low rates of trade and investments flows are additional factors restraining economic growth and increased prosperity.

4. *Moldova has a continued need to strengthen its service delivery systems to reduce inequality in opportunities in the face of numerous challenges.* Poor service delivery, mainly in rural areas, results in lagging human development outcomes and a lower chance for disadvantaged children to acquire the skills necessary for productive employment and

¹ based on the upper middle-income poverty line of US\$5.50 a day in 2011 purchasing power parity [PPP]



upward mobility (World Bank, 2021).² Inequality of opportunity in Moldova is among the highest in the ECA region, with access to services that are important for human capital accumulation and productivity substantially lower in rural areas and among lower-income households (World Bank, 2021). Large urban-rural disparities in living standards³ and a high degree of inequality of opportunity persist,⁴ mainly across the spatial dimension. Rural versus urban location explains the largest part of inequity in access to water and sanitation services, quality preschool, upper secondary and tertiary education. Poor service delivery, mainly in rural areas, results in lagging human development outcomes and a lower chance for disadvantaged children to acquire the skills necessary for productive employment and upward mobility (World Bank, 2021).

5. Moldova is vulnerable to climate shocks and needs to prioritize resilience. Since 2000, Moldova has witnessed, on average, one major climate-related event occurring every three years. The total cost of inaction on climate adaptation is currently estimated at US\$600 million, equivalent to 6.5 percent of GDP, and this is expected to more than double to US\$1.3 billion by 2050. Flooding also poses a high cost on Moldova's economy, estimated to be at least US\$62 million annually. Similarly, droughts have large impacts, as agriculture continues to rely mostly on rainfall. While less frequent, the average annual losses due to earthquakes exceed US\$35 million a year. Major earthquakes could affect up to 62 percent of the country's GDP in the future, and vulnerable segments of the population, including females, children, people with disabilities, and refugees, bear the brunt of the impacts from climate-induced hazards. Given Moldova's inherent vulnerability to an increasing frequency of natural disasters, there is a need to build resilience, particularly with reference to climate change and energy security. The country could take advantage of the EU accession process, to increase efficiency and diversification of energy sources including renewables, and in turn improve Moldova's overall competitiveness and resilience, considering the EU Green Deal initiative.

Sectoral and Institutional Context

6. **Moldova's road network is strategically vital and is a critical component of the Solidarity Lanes intended to support Ukraine during and after the war.** The national road network in Moldova is 2,598 km in length. The secondary and local road network is over 7,000 km. About 80% of the transport of goods from the Republic of Moldova are transported by road. Relative to its territorial size, Moldova has a comparatively dense network of transport infrastructure. However, the Soviet-era stock of assets has suffered from underinvestment in renewal, modernization, and maintenance since transition. In 2020, 46.8% of Moldova's road network was assessed to be in poor condition. Investment gaps are clear when comparing Moldova to international peers. According to the 2019 Global Competitiveness Report, the quality of Moldova's road infrastructure is the worst in the entire ECA region and one of worst in the world and was ranked 126 out of 140 countries considered. Russia's invasion of Ukraine has significantly impacted Moldova's transport sector, due to the high number of refugees fleeing the country, the re-routing of freight transport as a result of the closure/destruction of specific routes on the territory of Ukraine and disruptions to Black Sea ports. Additionally, the Danube Solidarity Lane is currently used as an option for facilitating the export of Ukrainian grain aside from fully restoring Black Sea access, thus Moldova's transport network is likely to remain strategic. Romanian and Republic of Moldova borders continue to

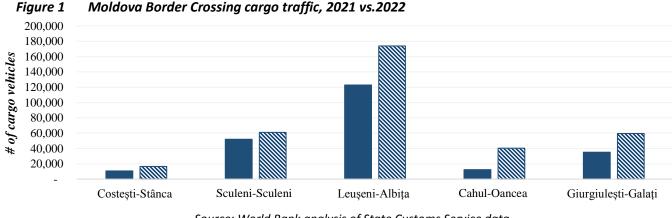
² The PISA results in science reveal a gap between students living in rural and urban areas that is equivalent to 1.5 years of schooling, while the employment rate in rural areas is, respectively, 14 and 9 percentage points lower for men and women, compared with their peers in urban arears. Moreover, nearly 80 percent of informally employed workers live in rural areas.

³ While the recent increase in poverty has mainly occurred in urban areas (an increase of 3 percentage points), rural areas remain much poorer (rural poverty rate of 35.3 percent vs urban one of 14.0 percent).

⁴ The gap in access to opportunities as measured by the Human Opportunity Index is 34 and 52 percent for urban and rural areas, respectively.



experience significant pressure. For example, land routes to transport grain out of Ukraine operate through border crossing points in the two countries, resulting in lorry queues of up to 20 kilometres. Despite severe capacity constraints, Moldova's road Border Crossing Points have managed to increase throughput capacity during 2022 (Figure 1) but will require additional investment to continue expanding support to Solidarity Lanes.



Source: World Bank analysis of State Customs Service data

7. **Rural transport infrastructure is a critical part of eradicating poverty in Moldova.** Poverty in Moldova is predominantly a rural phenomenon. Approximately 35.3 percent of rural households are considered poor vs. about 14.0 percent of urban households. Over 82 percent of Moldova's poor are less educated, older, and self-employed individuals who work in agriculture and live outside of Chişinău (or other cities). On average, rural households spend about 5.1% of their monthly consumption expenditures on transport which is more than they spend on health and education (National Bureau of Statistics, 2021). It is notable that rural population spends twice as much time travelling by public transport as the urban population, and this is likely due not only to lifestyle differences (such as the need to travel to sell agricultural products) but also transport infrastructure deficiencies⁵ According to Moldova's most recent Labor Force Survey (2021), approximately 464,300 people out of 1,528,341 living in rural areas were considered "employed."

8. **Transport infrastructure is also important in addressing gender disparities in rural Moldova.** The Moldovan labor market does not exhibit large gender gaps, but both women and men have low labor market engagement. The overall level of employment between genders is comparable and about 52% of employed rural people were male and 48% were female in 2021. However, the nature of that employment differs by gender which contributes to gender pay gap. Specifically, rural men are concentrated in agriculture, forestry, and fisheries (while women dominate jobs in public administration, health, education, and social work (vertical segregation), and within the employment hierarchy, women tend to occupy lower positions (vertical segregation). For example, in agriculture, women tend to be in accounting, finance, and marketing or in positions requiring education in chemistry or biology, but not in leadership or managerial positions⁶. As is the case in many countries, women in Moldova have a heavier reliance on public transport than men due to their limited access to private cars⁷. Also, female farmers own less than 12 percent of all machinery and equipment⁸,

⁵ National Bureau of Statistics and United Nations Moldova, 2014. "How much do Moldovans spend for various types of transport?" Analytical Brief. <u>https://www.undp.org/moldova/publications/analytical-brief-3-how-much-time-do-moldovans-spend-various-types-transport</u>

⁶ FAO 2022a. "National Gender Profile of Agriculture and Rural Livelihood of the Republic of Moldova". Food and Agriculture Organization of the United Nations

⁷ Ibid. National Bureau of Statistics and United Nations Moldova, 2014

⁸ FAO 2022b "Moldovan efforts work toward gender equality". FAO regional office for ECA. <u>https://www.fao.org/europe/news/detail-news/en/c/1601671/</u>



making it more difficult for them to transport agricultural products to local and regional markets⁹. Adequate rural transport infrastructure is therefore critical for all but more so for women to help them overcome their spatial constraints, accumulate and maintain a higher level of human capital (e.g., education, health) and access wider income-generating opportunities on both formal and informal markets. The project will endeavor to both quantify the gender differences in travel behavior by using travel survey instruments and to improve the road transport access that is believed to deliver disproportionate benefits with respect to female rural employment Subject to the survey findings, the project could consider improving/establishing roadside market facilities along the project roads and providing women (and men) with business advisory and skills training¹⁰.

9. **Road safety is a vital development priority for Moldova and challenges have increased due to the ongoing refugee crisis.** Despite a decreasing trend in recorded road accidents and fatalities, Moldova still has one of the highest levels of road crash fatalities per capita in the ECA region. In 2020, Moldova has recorded the 3rd highest road crash fatality rate (9.24 fatalities per 100,000 inhabitants), registered in the Eastern Partnership (EaP) region and in EU-27. Moldova's fatality rate is higher than the EaP and EU-27 average fatality rates by 10.4% and 54.5% respectively. The socio-economic cost of road crash fatalities and serious injuries in Moldova is estimated at around 3.1% of GDP in 2020. Road Safety enhancement is a priority linked to the refugee crisis management. According to the Ministry of Interior data, in 2022, the number of road accidents involving foreign vehicles (mostly Ukrainian) has tripled compared to the same period last year. Between February-July 2022, 187 road crashes involving vehicles registered in Ukraine were recorded, resulting in 43 injuries and 1 fatality. Out of the total number of road crashes, 32 crashes were qualified as serious and 155 were qualified as crashes resulting in material damage. During the same reporting period, 2,722 traffic violations were committed by drivers of Ukrainian registered vehicles were recorded.

Relationship to CPF

10. The overarching objective of the draft Moldova CPF 23-27 is to support green, resilient, and inclusive development (GRID) and competitiveness in Moldova. It is designed to provide key elements to support the country in its efforts to transition to a new growth model, delivering targeted activities that respond both to the immediate crisis and to address Moldova's longer-term development agenda with the goal to advance the agenda toward EU accession. The framework is based on three high-level objectives: (i) increased formal employment; (ii) improved human capital; and (iii) increased green and resilient investments. The project will help address all HLOs, as investments in rural roads are currently prioritized by the Government, due to its immediate effect on local jobs creation and formal employment. Investments in TEN-T infrastructure and border crossing facilitation are green transport investments that would foster the country's economic integration with the EU. The project would also support the capacity building theme of the CPF through enhancing the expertise of the local industry to implement and manage roads projects, as well as the digitalization theme through the modernization of the equipment and processes at BCPs. Enhanced road safety is directly supporting the human capital objective, as it leads to decreased number of road accidents and fatalities around the country, while protecting the most vulnerable road users. In relation to the CPF's climate change cross-cutting theme, the proposed project will aim to maximize the climate adaptation and mitigation co-benefits through improved infrastructure and

⁹ Ibid. FAO 2022a

¹⁰ This proposal is informed by the Transport team's recent experience in other projects in ECA where poor roads and transportation to access markets, lack of adequate local market infrastructure and lack of business management skills were named by women as some of their needs to improve their economic well-being.



adaptation of road design standards for enhanced climate resilience. The proposed Project would build on and enhance the results of the ongoing LRIP (P150357).

11. The proposed Project supports Moldova's National Development Strategy "European Moldova – 2030" (NDS) and aligns with the Association Agreement between the EU and Moldova. The transport sector overall is a key part of the National Development Strategy and accounts for over half of its planned investments (53%, USD 1.3 billion). General Objective 2 of the NDS ("improvement of living conditions") includes Specific Objective 2.1 on "Increasing mobility through efficient, sustainable and safe transport systems" which is directly aligned with the project's objectives. In addition, the proposed Project supports Moldova's regional connectivity and integration with the EU through facilitation of road border crossings. The proposed project would enable the Government of Moldova (GoM) to unlock grant resources from the Connecting Europe Facility (CEF) that would be provide as government co-financing to Component A of the project. This aligns with Chapter 15, Article 80 of the Association Agreement between the EU and Moldova, which includes the stated agreement between parties to "endeavor to enhance the main transport links between their territories."¹¹

C. Proposed Development Objective(s)

The Project Development Objective is to facilitate road transit through Solidarity Lane border crossings with the EU and to improve the quality of connectivity that selected local communities have to international corridors.

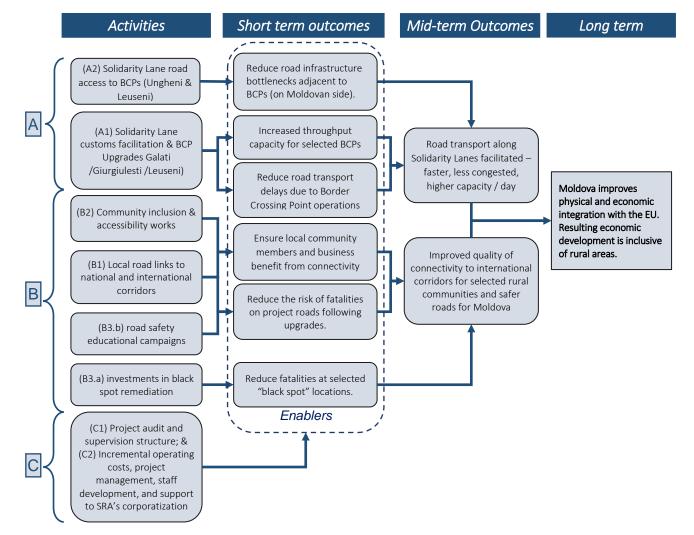
Key Results (From PCN)

12. The Project's "Theory of Change" targets economic development through physical integration with the EU as well as the enabling factors that can ensure that development is inclusive of rural populations. The indented results, objectives, and expected outcomes from the proposed Project are summarized below in a theory of change that links to the proposed project components and IBRD-financed activities.

¹¹ https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:22014A0830(01)&from=EN#d1e1997-4-1



Figure 2 Theory of change



13. **Beneficiaries:** Component A of the project ("Solidarity Lanes") is expected to directly benefit between 350,000 and 400,000 heavy goods shipments per year. Benefits will primarily accrue to shippers in Moldova, Ukraine, and Romania whose goods are transiting into, out of, or through Moldova's road BCPs. Component B of the project ("linking local communities") is expected to benefit approximately 41,938 people, 133 businesses, 27 health facilities, and 84 schools located along rural road corridors selected for rehabilitation and upgrading. A household survey instrument and forthcoming data collection initiative (supported by the IBRD-financed LRIP) is expected to further define the characteristics of beneficiary households under the project. This instrument includes gender disaggregated data collection for travel behaviors and employment related variables.



Corridor	Name of Corridor	Length (km)	Schools	Health facilities	Businesses	Population served
Corridor 5	R13 – Ivanovca-Izvoare- Varnita-Ocolina-M2	35.5	36	8	74	13,804
Corridor 8.1 & Corridor 8.2	Cornesti-Boghenii Noi – Napadeni-M5(G88)	33.5	27	8	23	12,543
Corridor 24	R34-Ciobalaccia-Tartaul-R56- Baimaclia-Enichioi-R37	43.3	21	11	36	15,591
Total		112.3	84	27	133	41,938

Table 2. Summary of project beneficiaries under Component B "linking local communities"

D. Concept Description

14. The Project will use an IPF instrument under the policy framework provided by OP/BP 10.0 Investment Project Financing. The proposed Project's design consists of four components: (i) Component A will facilitate trade and expand Solidarity Lanes, by modernizing the Ungheni, Leuseni and Giurgiulesti border crossing points (BCPs) and the access roads that connect to them; (ii) Component B will finance physical works needed to link local communities with economic opportunities; (iii) Component C will finance interventions aimed at enhancing delivery capacity and supporting essential project management functions; and (iv) Component D will provide a standby Contingent Emergency Response capability should the need arise. Specific details for each component are provided below.

Component A: Facilitating trade and expanding Solidarity Lanes (US\$ 18.0 million)

- <u>A.1: Solidarity Lane road access to BCPs (Ungheni & Leuseni)</u>: This subcomponent will include: (i) constructing a new access road to the Ungheni bridge; (ii) upgrading the access road to the Ungheni BCP facility; (iii) upgrading the access road to the Leuseni BCP; and
- A.2: Solidarity Lane customs facilitation and BCP Upgrades (Galati/Giurgiulesti/Leuseni): This subcomponent will include: (i) BCP traffic organization and electronic queuing on the Moldovan side of the Giurgiulesti BCPs; (ii) works for expanding the capacity of the existing parking / waiting facility in Giurgiulesti and providing basic services (toilets, water supply points) to truckers; (iii) procurement and installation of scanning equipment and software at the Giurgiulesti-Galati BCP facility; (iv) expansion of the Ungheni BCP facility; and (v) expansion of the Leuseni BCP facility.

Component B: Linking local communities with economic opportunities (US\$ 77.8 million)

- <u>B.1: Upgraded local road links to national and international corridors</u>: This subcomponent will include: (i) road upgrading along three local corridors for enhanced access and increased climate resilience; and (ii) new road safety improvements along those same corridors.
- <u>B.2: Community inclusion & accessibility</u>: This subcomponent will include: (i) Community requested complementary works; and (ii) Non-Motorized Transport (NMT) infrastructure along and adjacent to Project Road corridors. The approach to identifying community requested works will be linked to the Project's citizen engagement activities and



Stakeholder Engagement Plan. Examples of community requested works include sidewalks, development of public green space, rehabilitation of public parking at amenity sites (monuments, parks, public services buildings),

<u>B.3: Safer roads for Moldova</u>: This subcomponent will include: (i) remediation of road safety "black spots" (6 locations) for reducing known risks of road crash fatalities; and (ii) road safety educational and informational campaigns. For the avoidance of doubt, the location of "black spots" selected for remediation is outside the corridors selected under Component A.

Component C: Building delivery capacity and project management support (US\$ 4.2 million)

- <u>C.1: Project audit and supervision structure</u>: This subcomponent will finance: (i) annual project audits; and (ii) Supervision Engineers for overseeing all civil works.
- <u>C.2: Incremental operating costs, project management, staff development, and support to SRA's corporatization</u>: This subcomponent will include: (i) salary top-ups for staff in each PIU in accordance with Moldova's civil service regulations; (ii) consultancy support to each PIU (including 1 social and 1 environmental specialist); and (iii) incremental operating costs for each PIU; and (iv) consultancy support for enabling SRA's transition to a corporatized entity that operates under commercial principles.

Component D: Contingent emergency response (US\$ 0 million)

15. Given the inherent uncertainty created by the Russia's invasion of Ukraine, this zero-dollar component is designed to provide swift response in the event of an emerging crisis or emergency. The Government of Moldova would be able to request the World Bank to reallocate Project funds to address an eligible crisis or emergency needs that may materialize. The activities financed by the CERC will be demand- and event-driven and will be detailed in a GoM Action Plan of Activities, which together with an official declaration of a specific emergency by the GOM represent the two obligatory conditions for triggering the component. The definition of an eligible emergency and a positive list of activities will be included in the project's legal documents, and the mechanics of the decision-making process and implementation of the will be reflected in the CERC Operational Manual, part of the overall POM.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The environmental risks associated with the proposed project are assessed as Moderate. The project will provide a combination of investments in connectivity and rural roads rehabilitation, road safety, upgrade border crossing physical capacity and improve key roads level crossings, technical assistance and support for specific regulatory and institutional



reforms. Although the long-term impacts of the project are likely to be positive, its activities carry several risks that are mainly generated by the activities under Components A and B. The project will not finance construction of new roads or their major upgrading and, the proposed activities are essentially road rehabilitation and maintenance within the "Right of Way" (ROW) areas. Thus, expected environmental impacts related to air and water pollution, solid and hazardous wastes, labor security etc., are expected to be low, site specific and mostly temporarily. The impact on natural vegetation associated with operating the quarry and borrow areas and constructing detour and access roads to the borrow material pits and quarry sites, will not be applicable as there will be used the existing borrow/quarry sites which operate based on legal licenses and permits. The moderate risk rating is justified mainly because the likely impacts will be site specific, limited to the immediate surroundings and can be managed through conventional mitigation and management measures. It is also expected that the project will not have adverse impacts to environmentally or socially sensitive areas. 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 biotope, and momentary interference to neighboring settlements through various operation activities. Off-site activities include quarry, burrow pit and asphalt plant operations, which if not managed properly, may cause localized adverse impacts. The project will not support any activities which might involve conversion of natural areas and forests or impacts on them as all project activities will be implemented on ROW. Similarly, there will be no impact on physical cultural resources as all proposed activities will be implemented on existing local roads and no expansion of them will be financed. Long-term impacts of the project are considered positive. The project is designed to improve accessibility and facilitate trade by modernizing three BCPs and the access roads that connect to them, to improve the links of rural communities with basic services, with economic opportunities and access to markets. It will contribute also to increasing the roads safety and reducing air pollution. The above specified environmental risks will be managed through robust and well-implemented mitigation measures, which will be identified in Environmental and Social Impact Assessments (ESIA) and described in Environmental and Social Management Plans (ESMP) and/or checklists as well as the Contractor's Code of Conduct that will be prepared by MIRD and MCS. ESIA/ESMP will refer to activities that can be addressed with good engineering and construction practices, as well as by preparing and implementing adequate mitigation measures and applying the adequate work-related health and safety practices (OHS aspects) during construction both for the construction workers and the related communities. If the project activates its Contingent Emergency Response Component (CERC), an ESMF will be prepared to provide E&S guidance for the management of risks associated with the emergency scenario once this is determined.

The project social risks are assessed as Substantial. The project's key interventions under Component A will include roadworks and infrastructure development that require Right of Way land access and expropriation of new areas of farmland to build a new road and customs facilities estimated to involve economic displacement of more than a dozen agricultural landowners. Associated facilities developed across the border by the Romanian authorities are not under the control of the Borrower but will be considered as part of the project's environmental and social assessment and social risks associated with land taking are to be clarified. Road traffic safety and indirect impacts on local communities of the facilitation of expansion of trade and transport in previously quiet rural areas also need to be further assessed and addressed. Other activities include minor rehabilitation works on existing local roads including upgrading of ancillary facilities such as sidewalks, pedestrian bridges, bus stops and associated small scale community works such as side roads, car parks, farm entrances, safety fences and others still to be identified. Road rehabilitation activities under Component B will take place on the existing right of way and are not expected to involve land acquisition. Displacement will be avoided in design of the activities. There are some minor and relatively easily manageable risks associated with community health and safety, including risk of traffic accidents, injuries and fatalities, and potential for road rehabilitation to redirect storm water and cause localized flooding of private property if not well designed. Border works and local road works will be undertaken mainly by groups of local community workers with some skilled migrant workers. There is low risk of genderbased violence being exacerbated or associated with project activities. The project activities will be designed and



implemented in close collaboration with local stakeholders through the established SIMCs and it will be important to ensure that these function so as to identify and represent the interests of local stakeholders and vulnerable groups who might otherwise be left out of decision-making. These include women, youth, the elderly and disabled, and residents who may be living informally in local communities such as ethnic minorities and refugees. Social assessment and stakeholder mapping will be undertaken and protocols for effective local community inclusion in design decision-making included in a Stakeholder Engagement Plan (SEP) and Grievance Mechanism (GM).

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APPROVAL

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Approved By				
Practice Manager/Manager:				
Country Director:	Inguna Dobraja	03-May-2023		