PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA30814

Project Name	Local Roads Improvement Project (P150357)
Region	EUROPE AND CENTRAL ASIA
Country	Moldova
Sector(s)	Rural and Inter-Urban Roads and Highways (100%)
Theme(s)	Rural services and infrastructure (80%), Decentralization (10%), Micro, Small and Medium Enterprise support (10%)
Lending Instrument	Investment Project Financing
Project ID	P150357
Borrower(s)	Ministry of Finance
Implementing Agency	State Road Administration
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	04-Aug-2015
Date PID Approved/Disclosed	06-Aug-2015
Estimated Date of Appraisal Completion	14-Aug-2015
Estimated Date of Board Approval	08-Oct-2015
Appraisal Review Decision (from Decision Note)	The team was authorized to appraise the project starting August 10.

I. Project Context

Country Context

1. Despite regional challenges, Moldova’s economy performed well in 2014, however real GDP is projected to decline in 2015 because of negative shocks from weaker external demand. Moldova experienced the highest cumulative GDP growth relative to the pre-crisis year of 2007 compared to all its regional partners. However, growth has been volatile, reflecting the country’s vulnerability to climatic and global economic conditions. In 2012, GDP contracted by 0.7 percent, as the economy was hit by a drought-induced contraction in agriculture and weaker external demand due to the Eurozone crisis. In 2013, growth rebounded, driven by a record harvest in agriculture, with GDP increasing by 9.4 percent. Growth declined to 4.6 percent in 2014. Economic troubles in Russia and Ukraine, together with Russia’s restrictions on agro-food imports from Moldova will contribute a 2% decline in GDP in 2015.

2. Moldova’s recent economic performance reduced poverty and promoted shared prosperity, however the unfavorable external environment have started to affect poverty outcomes. National poverty and extreme poverty rates fell from 30.2 percent and 4.5 percent in 2006 to 12.7 percent and 0.3 percent respectively in 2013, making Moldova one of the world’s top performers in terms

of poverty reduction. The most vulnerable groups at risk of poverty are persons with low education levels. The likelihood of escaping poverty has remained significantly lower for those employed in agriculture than for those employed in other sectors. Farmers and agricultural workers account for 40 percent of Moldova's poor and 44 percent of those in the bottom 40 percent of the population. Most of the observed poverty reduction has been driven by growth, and the main channels have been private transfers such as remittances and higher employment and earnings. The consumption of the bottom 40 percent of the population grew by 2.8 percent in the period 2007–12, outpacing the growth in consumption of the general population (- 0.1 percent). However, evidence suggests that the bottom 40 percent are particularly affected by weaknesses in the quality and efficiency of the health and education services and especially vulnerable to climate shocks.

3. Moldova is facing a demographic decline, caused by a low birth rate of only 12.21 births per 1,000 people according to 2014 statistics (i.e. 1.56 children born per woman, which is below the replacement rate of 2.1). The negative trends in the birth rate and high rates of migration abroad has caused a population decline in the 1997-2006 period by 76.800 persons overall, while the urban population decreased with 46.100 persons and rural 30.700 persons. Population decline could have serious implications for the economy and for poverty reduction, particularly in the more remote areas, as local residents may have to travel further to reach the facilities they want.

Sectoral and institutional Context

4. The current state of roads is a major impediment to the rural population's access to quality social services. Due to a declining number of school age children and as part of a plan to improve educational standards and efficiency, the GOM has embarked on a major school optimization program. Under this program, the number of schools in rural areas is planned to decrease steadily to achieve a more efficient teacher to pupil ratio and concentrate resources into "hub schools". This calls for reallocation of resources from maintaining an oversized school network towards funding quality programs in consolidated schools in rural areas where most of the bottom 40 percent live. An important consequence of this is that many children in rural areas will have to travel longer distances to school. Preliminary information is showing that lack of access to the new hub schools is negatively impacting schools attendance by children.

5. There is a similar consolidation process under implementation in the health sector. Under the National Hospital Master Plan (2009-2018), the GOM intends to reduce the number of public hospitals in rural areas to 7-8. Under this Plan, each hospital would cover 5-6 raïons. The objective is to provide higher quality services than those currently available in most public hospitals. Primary health care and emergency medical services would continue to be provided through local sub-centers. Currently, the average time taken to arrive to a health care facility varies between 40 and 52 minutes, but in the localities with the worst road quality it can take up to 124 minutes to reach a health care facility.

6. Improvements to local roads are critical for the agriculture sector, as they improve linkages between farms and markets and help realize the full potential of the investment for the rural communities and the economy at large. Agriculture is one of the mainstays of the Moldovan economy, accounting for 12 percent of the country's GDP and employing 28 percent of the active labor force . It is an important sector for exports; agro-food exports constitute 45-50 percent of total exports and the agro-processing industry adds approximately 8 percent to GDP. However, poverty in rural areas, especially among farmers and farm workers, is high at around 40 percent. By

comparison, poverty in urban areas is 10 percent and in rural areas overall it is 30 percent . The prospects for improving this situation focus on the high potential for growth of the agricultural sector, particularly through exports. However, this depends fundamentally on overcoming problems with product quality and market linkages. Local roads provide a critical segment of the logistics chain.

7. The overall transport sector in Moldova is governed by the Transport and Logistics Strategy (TLS) for the period 2012-2022. The TLS was approved in July 2013 and now forms the basis for the framework of reform and investment in the country. The main objective was to provide the country with an efficient transport system that supports citizens' need for mobility and which facilitates trade in domestic and international markets, with a strong view of the role Moldova can play as a bridge between European Union (EU) and the Commonwealth of Independent States (CIS) countries. The strategy identified infrastructure recovery (maintenance), institutional strengthening, and infrastructure development as the three main priorities. The TLS includes a road map of reform and a ten year Road Sector Investment and Expenditure Plan (together called the Road Sector Program).

8. The condition of the roads network declined significantly in the post-Soviet era but in the last 5 years a substantial capital improvement program and increased maintenance expenditures have seen conditions improve. The enactment of the new Road Fund Law in December 2009 was a practical milestone in increasing maintenance funding. The GOM has recently made significant increases in the amounts allocated to the Road Fund and this trend is expected to continue in the future albeit at a more modest pace. The SRA has been able to absorb the increased amount of funding by executing the full committed resources to maintenance.

9. Despite the increase, funding for the existing local road network is well below the estimated level required for its satisfactory improvement and maintenance under an ideal unconstrained budget situation. There is also a problem with the predictability of funding that adversely impacts on the ability to plan and implement maintenance activities. Going forward the government will have to establish a fixed minimum percentage of the Road Fund to be allocated to local roads. Given the overall increases in the size of the road fund there is also a need to improve systems for monitoring Road Fund expenditures to streamline management and enhance accountability.

10. Increasing funding for maintenance alone is unlikely to be sufficient. There is also a need to increase the ef ficiency with which the available resources are spent. The unit costs of maintenance appear high by international standards and administrative costs exceed 25–30 percent of total spending. There will be a need to change management approaches, planning strategies and the procedures for implementation and maintenance.

11. There is scope for increased involvement of private sector contractors and small scale community contractors. Currently, most maintenance activities are carried out by Joint Stock Maintenance Companies on a direct contract basis. These maintenance companies are gradually being transformed into more commercial organizations with the intention that they will bid for maintenance contracts on a more competitive basis. EBRD is currently financing the reform program for the commercialization and final privatization of the Road Maintenance Companies (RMC). The present system of maintenance is based on a series of contracts with the 12 RMCs awarded at set prices on a non-competitive basis for routine maintenance in the 12 regions covering the whole of Moldova, where the companies effectively each cover one region, combined with the

execution of paved road periodic maintenance through the contracting industry using open tenders. It is generally accepted that the 12 RMCs should be privatized in due course and they are indeed, already constituted as Joint Stock Companies, albeit with Government owing virtually the whole of the shares. The GoM is preparing to implement pilot projects covering the introduction of Performance Based Maintenance contracting in the next cycle of maintenance procurement, with pilot PBM contract to comment around Feb 2016.

12.. The management of the local roads system in Moldova is in transition. Currently, the State Roads Administration (SRA) is responsible for the network of national and local roads. Communal mayors are responsible for communal roads and municipal streets. However, as part of the governments planned decentralization process some local roads are in the process of being identified as “regional roads”: these are roads connecting at least four communities. The SRA have indicated that about half of the current length of local roads may be designated as regional roads. With decentralization, the regional roads will remain the responsibility of SRA. The management of the remaining local roads will be decentralized to Level 2 Local Public Authorities (LPAs) i.e. raions. Decentralization of the network will require capacity development and a changed governance structure. The transfer of management of local roads to LPAs should be done in a phased way such that responsibilities are matched by adequate resources and capacity.

13. Road safety remains a major social and public health issue in Moldova. Government data show significant reduction in numbers of accidents and of fatalities-and-seriously-injured in 2013 as compared with similar period in 2012, and a consistent trend of moderate reduction in the general number of road accidents recorded by the Government from 2010 to 2013. Despite this reduction, the level of road traffic safety remains very low compared to EU average, and much faster improvements are needed. 2014 figures shows reduction in deaths for only 0.6% compared to 2013. Although GoM has increased its attention to road safety reforms, including the adoption of the Road Safety Strategy and Action Plan in 2010, it should further advance on its implementation.

II. Proposed Development Objectives

The Project Development Objective (PDO) is to provide safe and sustainable local road accessibility to education, health and market facilities along selected corridors.

III. Project Description

Component Name

Rehabilitation of Local Road Network

Comments (optional)

Component A: Rehabilitation and Maintenance of Local Roads Network. This component will finance the rehabilitation and upgrading of about 300 km of priority Local Roads. The focus will be to provide road access between villages and the national road network by developing cost-effective, coherent networks with good connectivity. The works will include rehabilitation and periodic maintenance works and upgrading economically justified roads to a sealed standard. These will be carried out across the regional road network and in the local road network in the selected raion(s) using a new and improved system of selection and prioritization of key local road works. An important part of the component will be activities that improve road safety in villages.

Component Name

Institutional Strengthening

Comments (optional)

Institutional strengthening (US$5 million financed by IBRD and IDA). This component will finance a program of institutional strengthening to build capacity within the sector for efficiently and effectively maintaining and improving the regional and local road networks. The support to government institutions will be focused on building capacity for road network management in SRA and selected local authorities. This activity will finance a project management consultant who will support SRA in day to day management of the project but also provide specific services.

IV. Financing *(in USD Million)*

Total Project Cost:	87.50	Total Bank Financing:	80.00
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
BORROWER/RECIPIENT	7.50
International Bank for Reconstruction and Development	15.00
International Development Association (IDA)	65.00
Total	87.50

V. Implementation

14. The project will be implemented under the general supervision and responsibility of the Ministry of Transport and Road Industry (MTRI). MTRI will execute the project through the State Road Administration (SRA) as the direct executing agency. This delegation to the SRA will be done through an Project Agreement. Direct responsibility for the day-to-day implementation of the Project will be with the SRA under the Investment Department which will handle the project activities. SRA's responsibilities will include procurement, financial management, contract management, project/program monitoring and evaluation, and reporting. To strengthen SRA's capacity to carry out those functions, up to 6 local experienced specialists are being recruited through a competitive selection process. A Project Management Consultant (PMC) will be procured and will work with existing SRA staff to transfer skills, organize activities, and generally increase the efficiency of the agency. The Project will also use qualified international consultants for supervision of civil works.

15. SRA Investment Department currently has responsibility for the implementation of internationally-funded improvements and rehabilitation of national road infrastructure. The Investment Department will supplement and enhance its existing skill mix in the SRA operational departments and work in tandem with those departments in the implementation of LRIP . SRA also benefits from a full time team of international advisors who are funded through EC but provide support for the overall road sector investment program.

16. A Project Implementation Steering Committee will be established within the SRA under the direction of the General Director with representatives of the SRA's operational Departments: Directorate of Investments, Directorate of Construction and Capital Works, Directorate of Road and Bridge Maintenance, and Directorate of Road Management and Records to ensure the project activities are coordinated and implemented effectively.

17. At the GoM level a Steering Committee (SC) has been established by the Prime Minister to ensure broad Government oversight and guidance for the Government's entire Road Sector Program,

including those activities funded by external partners. The Steering Committee of four members is headed by the Deputy Prime Minister and includes the Ministers of Transport, Finance and Economy. The Steering Committee will meet at least twice a year to review implementation progress of the Road Sector Program and take any high-level decisions which may be needed.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

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