PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC11492

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 Transport and Roads Infrastructure
Implementing Agency	State Road Administration
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	21-Aug-2014
Date PID Approved/ Disclosed	10-Apr-2015
Estimated Date of Appraisal Completion	05-Jun-2015
Estimated Date of Board Approval	10-Sep-2015
Concept Review Decision	

I. Introduction and Context

Country Context

1. As a small open economy in which agriculture has a significant role, Moldova's growth performance has been strong but volatile. The economy recovered from the 2008-09 global economic crisis with average annual GDP growth exceeding 5 percent over 2010-13. As a result, Moldova experienced the highest cumulative GDP growth, relative to the pre-crisis year of 2007, of all regional partners. However, growth has been volatile, reflecting vulnerability to climatic and global economic conditions. In 2010–11, remittances and investment fueled domestic demand, and growth in exports was strong. Real GDP grew by 7.1 percent in 2010 and 6.4 percent in 2011. In 2012, GDP contracted by 0.7 percent, as the economy was hit by a drought-induced contraction in agriculture (-22.3 percent) and weaker external demand due to the Eurozone crisis. Finally in 2013, growth rebounded, driven by a record harvest in agriculture, with GDP increasing by 8.9 percent. Despite substantial macroeconomic risks, Moldova's economic performance over the last few years has been relatively strong, aided by improved economic management, particularly in what regards

fiscal, monetary and exchange rate policy. European integration anchors the government's policy reform agenda with an Association Agreement with the European Union (EU) signed in June 2014.

2. Moldova's recent economic performance reduced poverty and promoted shared prosperity. The national poverty and extreme poverty rates fell from 30.2 percent and 4.5 percent in 2006 to 16.6 percent and 0.6 percent respectively in 2012, making Moldova one of the world's top performers in terms of poverty reduction. Similarly, consumption growth among the bottom 40 percent of the population outpaced average consumption growth: estimates for 2006-11 suggest an annualized overall growth in consumption of 2.9 percent over the period, as compared to 5.8 percent for the bottom 40 percent. These developments were driven by economic growth and the associated growth in earnings, as well as by an increase in private transfers such as remittances. However, evidence suggests that the bottom 40 percent are disproportionately affected by weaknesses in the quality and efficiency of health and education services, and particularly in rural areas where students lag behind their urban peers by more than a year of schooling. Moldova performs well in some areas of gender equality, yet disparities persist in education, health, economic opportunity, agency and violence against women. Human trafficking is an issue. Moldova is a source, and to a lesser extent a transit and destination country, for both sex trafficking and forced labor.

3. To improve the efficiency of education and health service delivery government policy is now focused on the reallocation of resources from maintaining an oversized network of schools and health facilities to funding quality programs in consolidated schools and health facilities in rural areas. This consolidation of social infrastructure is imperative to reducing the human capital gaps between rural and urban areas within Moldova and between Moldova and other European countries. However, for the consolidation program to work there is a requirement to improve the overall quality of the rural roads network to provide safe and year round access, and to ensure the availability of rural transport services. This project is designed to provide the overall investment and policy framework to develop effective rural transport systems which will facilitate the higher level policy goals of government.

Sectoral and Institutional Context

4. With support from the World Bank, the Government of Moldova (GOM) prepared a Land Transport Infrastructure Strategy (LTIS) for the years 2008-17, which has served as a framework for the modernization of the road sector. 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 EU and CIS countries. The strategy identified infrastructure recovery (maintenance), institutional strengthening, and infrastructure development as the three main priorities. The LTIS included a road map of reform and a 10 year Road Sector Investment and Expenditure Plan (together called the Road Sector Program). The Road Sector Program addressed the underlying causes behind the road infrastructure degradation and proposed a range of institutional and physical solutions. It constituted the framework for all actions, investments and expenditures in the road sector from 2008 until 2017, has formally been adopted by government and provides the framework for the engagement of all development partners.

5. Successful implementation of the Road Sector Program. The Road Sector Program is primarily focused on the national roads network but the development of this framework has been very successful in pushing forward much needed reform in the sector. Over the period of the program there has been a ten-fold increase in investments, maintenance funding has been secured through a

road fund, revenues for maintenance have increased by nearly six fold, and the process of privatizing the road maintenance companies has begun. Review of progress in implementing the Road Sector Program is undertaken jointly with the government, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the European Commission (EC), the Millennium Challenge Corporation (MCC) and the World Bank (WB).

6. There were challenges in the early days of the program and both the Bank and EBRD had to declare mis-procurement with the early contracts. Following the mis-procurement the Bank's project, the Road Sector Program Support Project (RSPSP), was reduced in size to US$ 5 million to cover just the institutional part of the project. However, the Bank remained engaged, supported the preparation of the LTIS and provided a coordinating role in implementation of the government program. The Bank was able to bring about efficiencies in the preparation and supervision of the investments, and lead the policy and institutional reform dialog with the Government on behalf of the development partners.

7. Towards a Local Roads Strategy For Moldova. The emphasis to date has largely been on the national roads network but it is becoming increasingly apparent that the poor condition of the local roads network is a significant impediment to the development of the agricultural sector and the implementation of the consolidation program for schools and health facilities. In a similar way to the national roads program the Bank has now undertaken some analytical work to identify the main issues and to start developing a program of reform and prioritized investment and rehabilitation program. As with the national roads program there is strong support both from government and the development partners and an agreement to move forward with coordinated action. The main findings and recommendations from the analytical work are described below.

8. The local roads network is in very poor condition. Currently, the Ministry of Transport and Road Infrastructure, through the State Roads Administration (SRA), is managing 9,322 km of roads, of which 3,335 km are national roads and 5,987 km are local roads. There are also 1,200 km of roads that are managed by the local governments mainly on the left bank of the Nistru river. Approximately 92.5 percent of national road length and 46.1 percent of local road length is paved with permanent or semi-permanent pavements. In 2012, about 26 percent of national roads are in good to fair condition, 5 percent in poor condition and about 20 percent in very poor condition. There is no accurate data for the condition of the local roads network but recent sample surveys suggest that over 90 percent of road length is in either poor or very poor condition.

9. There is an urgent need to bring the local road network to an acceptable standard. However, agreeing on what is an "acceptable standard" and balancing this with what can be afforded is a key challenge. The needs far exceed the resources in the short and medium term and there is currently no transparent method for prioritization in the country, as a result, the process has become highly politicized. Prioritizing local roads is not easy as traffic levels are usually low and data difficult to access. The system of prioritization currently being proposed is to take a "network" based approach such that the improved local road connects with other local roads within the administrative boundary for each raïon and with the national road network. The system should also be made consistent with other development plans such as the education and health optimization program. The proposed order of priorities for investments in each part of the local roads network would be as follows:

- 1st - Investments to restore basic access such that communities can be reached and normal traffic can pass in all seasons of the year;

- 2nd - Investments in periodic maintenance to preserve an existing road link that might otherwise fall into disrepair;
- 3rd - Investments to improve or upgrade an existing link to a higher standard.

10. Establishing a regular and sustainable system for the execution and finance of maintenance. The enactment of the new Road Fund Law in December 2009 was a practical milestone in increasing maintenance funding and 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. 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 continue increasing the size of the Road Fund and importantly 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.

11. Increasing funding for maintenance alone is unlikely to be sufficient. There is also a need to increase the efficiency 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. The local road network is extensive and comprises a large number of relatively short links. Moreover, funding for both improvement and maintenance is likely to remain constrained. This situation lends itself to an asset management type approach to planning whereby budgets for maintenance and improvement are optimized over a network to give the maximum net return to investments. This would require the establishment of an appropriate asset management system based on the collection and analysis of data on the road network characteristics and condition.

12. 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 maintenances companies are gradually being transformed into more commercial organizations with the intention that they will bid for maintenance contracts on a more competitive basis. It is hoped that this will open the market for more private contractors and allow the use of more efficient multi-year and performance based contracts. Moreover, there could be scope for new approaches for simple and repetitive routine maintenance activities such as vegetation control and ditch cleaning. These are operations that could be carried out manually and would be attractive either for small scale contractors with little or no equipment for some form of community contracting. These could offer a low-cost solution with the additional benefit of creating local employment opportunities for low skilled workers who are typically in the bottom 40 percent income group.

13. 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. The communal roads and municipal streets will remain the responsibility of the commune mayors.

14. Decentralization of the network will require capacity development and a changed governance structure. The existing institutional set-up for implementing local roads is inadequate for managing a major program of local road investments. Decentralization of management responsibilities to under-resourced Local Public Administrations (LPA) risks making this situation worse. Moreover, despite high public concern over local roads there are few channels for social accountability. Any Local Roads program will have to include a significant component of capacity building as well as a better developed social accountability framework. This is to both ensure satisfactory implementation of the program and provide for future sustainability. The management of local roads to LPAs should be done in a phased way such that transferred responsibilities are matched by adequate resources and capacity. There must also be improved accountability through the carrying out of technical audits, introducing citizens monitoring, increasing the disclosure of investment and maintenance plans, and establishing local and regional road user committees with representatives of all affected groups including both men and women.

15. Maintaining a strong user focus with safety as a central element is essential. If the government’s objectives in the agricultural, health and education sectors are to be realized then participation and consultation with local communities is key. Related to this is understanding the gender dimensions of travel and particularly to characterize women’s travel patterns, to involve women in the decision making process and to integrate women into transport-related occupations. A key concern will be related to road safety because improved local roads mean more and faster moving traffic. Local roads typically have a higher proportion of vulnerable road users including pedestrians and farm carts which conflict with the faster moving conventional vehicles. There is a specific issue with respect to the larger number of school children travelling by bus to school in rural areas as a result of the school consolidation program. Safety around bus stops and school crossings will be particularly important as children will be getting on and off buses or walking to and from the bus stops. One accident involving a school bus could severely undermine the whole consolidation program.

Relationship to CAS

16. This project supports a key area of the joint IBRD/IFC Country Partnership Strategy (CPS) for Moldova for the period of FY14-17. The CPS supports three pillars: (i) increasing competitiveness, (ii) enhancing human capital and minimizing social risks, and, (iii) promoting a green, clean and resilient Moldova. Specifically, this project supports the second pillar with spill overs and linkages to the first pillar of increasing competitiveness, particularly through an improved transport network that improves access to markets. The project will contribute to providing better access to social services in rural areas, mainly education and health, and improving access by farmers to markets and export opportunities. Consolidation of social infrastructure is imperative so as to reallocate resources to improving quality and closing the widening human capital gaps with other European countries. With the inevitable consolidation of social infrastructure, improving access to larger and better quality regional services will help reduce opposition to reforms. This support will be provided under a proposed local roads project that will leverage support from other development partners and international financial institutions (IFIs).

17. The project also supports the Government of Moldova's current development framework that covers the period up to 2020 and is described in its National Development Strategy (Moldova 2020). The main objective of this Strategy is to achieve sustainable economic growth and reduce, in the near future, the gap between Moldova and developed European economies. It seeks to shift the existing growth model based on consumption fuelled by a high level of remittances to one based on investments and the development of the export of goods and services. A diagnostic analysis of the constraints and critical issues to achieving this identified seven development priorities. One of these is directly relevant to the road sector: Increasing public investment in the national and local road infrastructure, in order to reduce transportation costs and increase the speed of access.

18. The project will also address the eradication of poverty and sharing of prosperity to the bottom 40 percent. The project roads will provide improved access to rural areas where the poorest people live and improve their access to essential social services and market opportunities. Accesses to these social and administrative functions are a key determinant in providing the opportunities to escape poverty. The local roads program itself will also support employment opportunities for the bottom 40 percent through work on new construction contracts and through the longer term maintenance of the roads. Generally local roads program are much more labor intensive than other road projects with a higher percentage of the investment and maintenance costs going directly to local employment.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

19. The Project Development Objective (PDO) is to improve accessibility to education, health and market facilities by provision of a safe and sustainable local roads network in selected areas of Moldova.

Key Results (From PCN)

20. Success in achieving the results will be measured by the following project development indicators:

(i) Reduction in travel time to basic service facilities in selected areas of Moldova (schools, hospitals and markets);
(ii) Reduction in road accidents around basic service facilities in selected areas of Moldova;
(iii) Improved condition of the local roads network in selected areas of Moldova; and
(iv) Percentage of project beneficiaries (gender disaggregated) expressing satisfaction with the project roads

III. Preliminary Description

Concept Description

The Local Roads Improvement Project will support Moldova's National Development Plan through better access to social services in rural areas, mainly education and health, and improve access by farmers to markets and export opportunities. The project will be supported by the World Bank but with opportunities for significant additional financing from other institutions within the same overall framework of support.

The Bank project will comprise two components – Road works and Institutional Strengthening. In this first phase, the interventions in road works should aim to provide lessons on how to effectively carry out the maintenance and improvement of the local road network including standards and technology. The Institutional Strengthening component should develop improved systems and procedures as well as approaches to capacity building that could be replicated nationally. These improved systems and procedures would provide the common framework for scaling up the investment support by government and development partners.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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		✕	

V. Financing (in USD Million)

Total Project Cost:	60.00	Total Bank Financing:	55.00
Financing Gap:	0.00		

Financing Source	Amount
BORROWER/RECIPIENT	5.00
International Bank for Reconstruction and Development	30.00
International Development Association (IDA)	25.00
Total	60.00

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