

INTEGRATED SAFEGUARDS DATA SHEET

CONCEPT STAGE

Report No.: ISDSC13055

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I. BASIC INFORMATION

A. Basic Project Data

Country:	Macedonia, former Yugoslav Republic of	Project ID:	P154464
Project Name:	Second Municipal Services Improvement Project (P154464)		
Task Team Leader(s):	Toshiaki Keicho		
Estimated Appraisal Date:	20-Oct-2015	Estimated Board Date:	04-Feb-2016
Managing Unit:	GSU09	Lending Instrument:	Investment Project Financing
Sector(s):	Water supply (30%), Wastewater Collection and Transportation (15%), Solid waste management (15%), Energy efficiency in Heat and Power (20%), Sub-national government administration (20%)		
Theme(s):	City-wide Infrastructure and Service Delivery (60%), Municipal finance (25%), Municipal governance and institution building (15%)		
Financing (In USD Million)			
Total Project Cost:	28.97	Total Bank Financing:	28.97
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		0.00	
International Bank for Reconstruction and Development		28.97	
Total		28.97	
Environmental Category:	B - Partial Assessment		
Is this a Repeater project?	Yes		

B. Project Objectives

The proposed Development Objective of MSIP2 Project (PDO) is to improve transparency, financial sustainability and inclusive delivery of targeted municipal services in the participating municipalities.

C. Project Description

The proposed Second Municipal Services Improvement Project (MSIP2) of EUR25 million presents the second phase of the on-going Municipal Services Improvement Project (MSIP, P096481) with an aim to respond to the strong demand by the municipalities for the local infrastructure financing. It will be built on the experience of MSIP and its lessons learned to enhance the impact of a well-performing project.

MSIP aims at improving the transparency, financial sustainability, and delivery of targeted municipal services. Its implementation is progressing well, and the sub-project results so far demonstrate good progress towards achieving its PDO. To date, a total of 51 sub-loan agreements have been signed with eligible municipalities under the MSIP component of Municipal Investments (loan component), out of which 33 sub-projects were completed and 11 are under implementation, while others are either at the tendering stage or about to start the tendering process. Furthermore, 22 sub-projects are currently under preparation by the respective municipalities with support from the Project Management Unit (PMU). In addition, 19 municipalities submitted applications to access funds under the MSIP component of Performance-based Investment Grants, with six performance grants agreements signed, and four grant activities already successfully completed. Some of the MSIP accomplishments to date include: more than 11,000 households with new water connections; about 240,000 people with access to regular solid waste collection; and all participating municipalities/ utilities publish their budget information on their websites.

The original IBRD Loan for MSIP (approved on March 26, 2009) was in the amount of US\$25 million equivalent. It was followed by Additional Financing loan of US\$50 million equivalent approved by the Board on May 10, 2012. More recently, a new Component introducing the EU IPA-financed Rural Investment Window of EUR15.5 million, Recipient Executed Trust Fund (RETF), was added on December 22, 2014 to provide grants for priority rural infrastructure investments in eligible municipalities through the existing MSIP implementation mechanism.

To date, more than 40 percent of MSIP total loan amount (including both original loan and AF funds) has been disbursed. In addition, about EUR47.2 million have already been committed for municipal investments under the existing sub-projects pipeline. This represents 98 percent of all available MSIP investment funds, excluding the IPA-financed window. Thus, the MSIP funds are now fully committed and the project cannot respond to new applications from the municipalities. At the same time, municipalities continue to express growing interest and demand in using MSIP financing.

Given a persisting needs for improving municipal infrastructure and based on the positive experience in implementation of MSIP, the Government of FYR Macedonia requested the Bank for a new project or additional financing to MSIP in the amount of EUR25 million. Since the on-going MSIP already has two additional financings, including the recently approved IPA window, it was decided to proceed with preparation of a new operation that would present the second phase of MSIP. This is also a good opportunity to take stock of implementation experience under MSIP and bring in the needed adjustments if any.

MSIP2 will continue to focus on improving the transparency, financial sustainability, and delivery of targeted services under the responsibility of participating municipalities and their CSEs, such as water supply, sanitation, and solid waste management, as well as energy efficiency, urban transport, and other services delivered by municipalities. It will adopt the implementation arrangements and mechanisms that proved to be effective under the MSIP with some adjustments introduced based on the MSIP experience and lessons learned. In addition, MSIP2 aims to enhance inclusive service

delivery by targeting poorer and marginalized communities for infrastructure improvements through the grant component. The positive aspects of MSIP experience, which the new project will adopt, include the access to loans affordable to municipalities (sub-loans), demand-driven process with participating municipalities selecting priority investments out of the wide variety of municipal investments, support for municipalities throughout sub-project cycle contributing to capacity building, and increased transparency and disclosure of information by participating municipalities as an eligibility condition. The lessons learned include the need to improve construction supervision and quality of technical documentation prepared by the municipalities.

While MSIP2 is expected to largely employ the institutional arrangements and implementation mechanism developed under the existing MSIP operation, an idea to establish a more sustainable and institutionalized financing mechanism for municipal infrastructure development, going beyond the current project-based Project Management Unit (PMU) approach, has been discussed with the Borrower. The MoF has informed the Bank of its plans to transfer the municipal infrastructure financing mechanism to the government-owned Macedonian Bank for Development Promotion (MBDP) in the future, whose current roles are to provide finances to small and medium-sized enterprises and export oriented companies. An option of creating a new institution such as a municipal development fund has been referred as too excessive for a relatively small country. Through its TA component, MSIP2 could support a transition to MBDP or identify alternative options to ensure sustainability of the municipal financing instrument.

MSIP2 will likely have a composition of the components similar to MSIP, with the several adjustments, as follows:

Component A - Municipal Investments (tentative allocation – Euro 18.5 million): will provide sub-loans to municipalities for investments in (i) revenue-generating public services, and (ii) other projects of high priority for the municipalities and with cost-saving potential.

Component B - Poverty/Social Inclusion Investment Grants (tentative allocation – Euro 5 million): will provide investment grants to municipalities as an incentive for them to invest in infrastructure improvements in poorer and marginalized communities within their jurisdictions. A set of new performance criteria including the poverty/social inclusion criteria will be designed and agreed upon with the MoF during the project preparation.

Component C - Project Management, Monitoring and Evaluation, and Capacity Building TA (tentative allocation – Euro 1.5 million): supports operational costs of the PMU and assists with project implementation and monitoring, as well as finance consultancy services and technical assistance for (i) sub-project preparation/implementation and local capacity building for municipalities and CSEs to improve service delivery, and (ii) national level institutional strengthening.

Distribution of funds between the components will be confirmed during the project preparation.

D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The Project activities will be located throughout the country. Location of sub-projects are not known at present, as it will be determined on eligibility basis based on multiple criteria analysis. The sub-projects are likely to be located in all regions of the country. Until now, sub-projects prepared for First Municipal Services Project were located in municipalities of Vinica, Berovo, Bosilovo. Kriva

PAIanka, Rankovce, Petrovec, Cashka, Shuto Orizari etc, about 40 rural and urban municipalities and have included activities such as: improvement of public street lightning; rehabilitation and energy efficiency measures in public buildings (schools, kindergartens, municipal administration buildings); reconstruction of municipal roads; rehabilitation of water supply networks; construction and/or rehabilitation of storm water drainage systems; provision of basic equipment and vehicles for communal waste management.

E. Borrowers Institutional Capacity for Safeguard Policies

The Borrower is implementing on going Municipal Services Improvement Project. The EAMF The EAMF and POM of the ongoing project detail the implementation roles of the Borrower and the Bank in preparation, approval and execution of EMPs for each sub-project.

As part of sub-project identification, the Project Management Unit (PMU) undertakes environmental screening for each proposed sub-project and develops respective environmental management and mitigation plans (EMPs), which are subsequently included in bidding documents. Environmentally-related activities and procedures are carried out by the Borrower as designed, with due diligence and sufficient attention to details. Compliance with measures prescribed in sub-project specific EMPs is reviewed by PMU staff at regular intervals and written reports on findings prepared and filed in the PMU.

Contracts for civil works under the project are subject to screening for environmental impacts by the Ministry of Environment in the Borrower country. All studies and bidding documents related to civil engineering works include measures to minimize and/or mitigate potential environmental damage. Separate EMPs alone or site-specific EA/EIAs and EMPs are prepared for each sub-project; even if EA/EIA studies are not required by the national legislation, the Borrower observes requirements set in the EAMF Report and respective EMPs prepared for this project. Those EMPs/EAs/EIAs are reviewed and endorsed by both the responsible environmental entity in the Borrower country and the World Bank.

Monitoring compliance in accordance with the findings of the Environmental Assessment Report and requirements of relevant EMPs, including progress monitoring on EMP implementation, is undertaken by the Ministry of Finance and reported to the World Bank twice per year in the semi-annual progress reports.

In addition to the environmental safeguard above, the ongoing project triggered involuntary resettlement safeguard policy (OP 4.12). The PMU checks potential for this trigger in all investments and ensures: (i) whether land acquisition or access to land is required; (ii) if private land acquisition can be avoided; and (iii) where land acquisition/resettlement is required, that it is done in accordance with agreed procedures. The procedures will continue to be the same also for the new project, given to the same nature of the sub-projects

As a conclusion the borrower has knowledge and capacity to comply with the World Bank requirements for Environment and Social Safeguards.

F. Environmental and Social Safeguards Specialists on the Team

Bekim Imeri (GSURR)

Cesar Niculescu (GENDR)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

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Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The design of this project follows that of the first except the grant component is not conditional; grants will now go to the poorest neighborhoods without condition of having achieved certain goals with loan support. Physical works are expected to be small scale rehabilitation (of water supply networks, schools, heating pumps, streets and sewerage (with support from IPA additional financing), for which EMP Checklist will likely be sufficient. The Environmental Assessment and Management Framework (EAMF) for the first project will be updated as needed; it includes screening criteria and processes for land acquisition and environmental aspects.</p> <p>The EAMF will present overview of the legal framework of environmental and local-self government sectors in Macedonia; procedures for environmental assessment for the project development required under national legislation; procedures for environmental assessment for project development under World Bank procedures, and analysis of potential environmental impacts caused by sub-projects during implementation of different types of activities. The EAMF will list potential negative environmental impacts for each type of project activities and will provide list of environmental mitigation and monitoring activities in order to mitigate and neutralize the relevant impacts. This will provide a framework outlining how Environmental Management Plans (EMPs) will be developed for each type of sub-project, , and when site-specific EA/EIA are needed.</p> <p>Sub-projects which would qualify for Category A rating according to OP 4.01 will be ineligible for financing under the project.</p>
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	

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Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	Yes	The project has programmatic nature of design, it will finance sub-projects proposed by municipalities. Implementing agency will prepare Resettlement Policy Framework because the project will finance demand driven municipal infrastructure available to any municipality and some sub-projects may require temporary access to land, possibly land acquisition. However, subprojects are not likely to require resettlement. The PMU will check potential for this trigger in all investments and ensure: (i) whether land acquisition or access to land is required; (ii) if private land acquisition can be avoided; and (iii) where land acquisition or resettlement is required, that it is done in accordance with agreed procedures in RPF
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	Yes	The project will support activities that could take place on trans-boundary waterways as defined in OP 7.50. – Macedonia is a small country and has several rivers that flow trans-boundary. Nevertheless, it is anticipated that investments supported under MSIP2 will not (i) adversely change the quality or quantity of water flows to the other riparians; and (ii) will not be adversely affected by the other riparians' possible water use. Project investments are expected to support the rehabilitation, improvement or minor additions or minor expansions of existing schemes. However, as the initial project, the MSIP2 consists only of rehabilitation and improving efficiency of water use, and it aims to contribute substantially for reducing extremely high water consumption rates. Based on this, the exemption from the notification requirement under OP 7.50, Para 7a, will be requested to be applied for this project.
Projects in Disputed Areas OP/BP 7.60	No	

III. SAFEGUARD PREPARATION PLAN

- A. Tentative target date for preparing the PAD Stage ISDS: 04-Sep-2015**
- B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing¹ should be specified in the PAD-stage ISDS:**

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

Environment and Social Management Framework to be completed at draft stage acceptable to the Bank and disclosed by last week of August 2015. Same applies for site specific Environment and Social Management Plans for identified sub-projects. A Draft Resettlement Policy Framework to be completed at a stage acceptable to the Bank by last week of October.

IV. APPROVALS

Task Team Leader(s):	Name: Toshiaki Keicho	
<i>Approved By:</i>		
Safeguards Advisor:	Name: Agnes I. Kiss (SA)	Date: 08-Jul-2015
Practice Manager/ Manager:	Name: Bernice K. Van Bronkhorst (PMGR)	Date: 09-Jul-2015