Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 04-Jun-2019 | Report No: PIDC26693

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
North Macedonia	P170267		North Macedonia: Local Roads Connectivity (P170267)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EUROPE AND CENTRAL ASIA	Sep 30, 2019	Dec 11, 2019	Transport
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Ministry of Transport and Communications	

Proposed Development Objective(s)

The project development objectives are to improve the municipalities capacity to manage their local road assets and provide safe and resilient access to services and markets.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	79.54
Total Financing	79.54
of which IBRD/IDA	79.54
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	79.54

Environmental and Social Risk Classification	Concept Review Decision
Substantial	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

The Republic of North Macedonia is a land-locked, middle-income country in the Western Balkans with a GDP of $12.7 billion in 2018. In terms of connectivity, the country sits on two Pan-European corridors, namely the Corridor VIII and Corridor X, and its proximity with the EU provides access to a large export market with more than 510 million customers. According to the last census of 2002, the population is about 2 million, of which 25 percent live in the capital Skopje, while 40 percent live in rural areas. Ethnic Macedonians make up 64 percent of the total population, ethnic Albanians 25 percent, other ethnicities, such as Turks, about 4 percent, and Roma about 3 percent. It is not possible to determine the current ethnic distribution in the absence of a more recent census. Ethnic relations have been a cause of tensions in the past.

Following the resolution of the extended political and electoral crisis of 2015–2017, and the name issues[1], the Government is committed to an ambitious reform agenda and acceleration of EU and NATO accession. The extended political crisis in 2015–17 highlighted institutional weaknesses and affected the citizens' confidence in state institutions. A new government was inaugurated in May 2017. Resolution of the name issue with Greece is essential to consolidate North Macedonia's EU and NATO accession process and enable it to become more deeply integrated with regional and global markets. The name change agreement entered into force in February 2019. The European Commission recommended on May 29, 2019 the opening of EU accession negotiations with North Macedonia, after being a candidate member for 14 years. The government's program focuses on economic growth, job creation, fair taxation, support to SMEs and reform of the social protection for the most vulnerable.

The macroeconomic outlook is positive with an annual average growth rate at 3.2 percent during 2019-2023. A gradual fiscal consolidation will have a very modest negative impact on growth. Investment (including in the two highways,[2] and private investment in energy and tourism) will be the main driver of growth supported by exports and personal consumption. The unemployment rate in 2018 is 20 percent. Expected job creation will support more sustainable growth of household incomes and consumption. Poverty (measured at US$5.5 in 2011 purchasing power parity) is projected to decline to 20 percent by 2021, subject to private sector employment rebound, including in construction and tourism.

[1] The country became a member of the United Nations in 1993, but, as a result of an ongoing dispute with Greece over the use of the name Macedonia, was admitted under the provisional description "the former Yugoslav Republic of Macedonia".

[2] The highway construction on two sections Miladinovci-Štip (47 kilometers) and Kičevo-Ohrid (57 km) in the amount of €579 million (or 7.1 percent of the 2013 GDP) faces delays and a cost overrun of around 1.5 percent of GDP.

Sectoral and Institutional Context

Infrastructure investment levels in North Macedonia in the past 10 years have been extremely low and therefore the National Program 2017-2020 has a focus on providing infrastructure in support of a modern economy. The Government's main infrastructure goals are stated as "megalopolis" infrastructure connection between largest centers taking no more than 90 minutes, "free of accident blackspots" and "without mud." The Government's vision also includes decisions on large investment projects that will be developed transparently and through consultations with citizens.

There is a total of 14,000 kms of road in North Macedonia, of which about 9,000 kms are local roads. Local roads are under responsibilities of each 80 municipalities and consist of a mixture of rural roads connecting villages and towns, and streets within urban areas and villages. Most municipalities manage about 100 km of local roads. Roads of national significance including motorways, national and regional roads are managed by the Public Enterprise for State Roads (PESR), which is not the focus of this project.

There is no detailed data on the condition of the local roads network, but it is generally considered that most of the main links are in place but in need of renewal and climate proofing. The network has had little in the way of systematic maintenance over the past few decades. There are significant numbers of urban and rural streets that are unpaved, these become muddy when wet and impact on the quality of life.

The governance of local roads is decentralized to municipalities. Although on behalf of central government, PESR transfers a maintenance budget to each municipality on annual basis, neither Ministry of Transportation and Communication (MoTC) nor PESR monitor how the budget are spent and have a clear idea about the inventory of roads or their conditions. North Macedonia has eight planning regions, some of which have undertaken studies to assess municipal priorities for local roads development, but because of the lack of funding and the lack of a mandate for execution, these plans are never implemented. The main body which represents the voice of municipalities at the central level is the Association of the Units of Local Self-Government (ZELS). ZELS lobbies on behalf of the municipalities and represents their interests.

At the municipal level, the institutional arrangements depend on the size of the municipality, but most cannot sustain a dedicated local roads department. They rely on the department for urban planning for planning and prioritization, the department for construction for design and supervision activities, and the public procurement department for procurement activities. The municipalities do not have formal asset management systems or inventories. Prioritization is undertaken through committees which in theory could work well given the small networks but in practice are criticized for lack of transparency. Maintenance is carried out in a variety of ways and most municipalities have a system in place even though underfunded: Small rural municipalities use public multi-sectoral communal enterprise to carry out routine maintenance, while Large municipalities such as Gostivar, Tetovo, Bitola, outsource the routine maintenance using call down contracts with private contractors. Whereas other municipalities such as Negotino, Kavadarci, Skopje, Debar, Resen have a mix of both arrangements. Other methods include "lengthman" or "villageman" type contracts where a person is responsible for a specific section of the network. The municipalities have limited appetite to enter into inter-municipal co-operation agreements to allow for larger area wide maintenance contracts.

Funding for local roads is insufficient and piecemeal. The main sources of local roads finance come from municipal local revenues, and a maintenance budget distributed by PESR as a proportion of the total revenues in the road fund which consists of tolls, 20 percent excise on fuel, vehicle registration taxes, permits etc. In addition, as envisioned in the National Program 2017-2020, the Government will set up a fund to support municipal projects, financed from IPA and other EU programs, to provide reliable funding for capital infrastructure projects including construction and reconstruction of 1,000 km of local roads. There is also project specific financing from development partners and nationally funded agriculture programs. The country, however, still faces a financing gap to address much needed rehabilitation and maintenance of local roads - poor quality of municipal infrastructure is considered as a factor which prevents people from utilizing regularly social and educational services and considering job opportunities outside their area of living.

The World Bank has financed several programs for municipal roads including the closed Regional and Local Roads Program Support Project (P107840) and the ongoing Second Municipal Services Improvement Projects (MSIP2) (P154464). The closed project, rated as Satisfactory by Impact Evaluation Group, provided rehabilitation and maintenance of about 420 km paved and unpaved local roads at actual cost of US$35.26 million. A key outcome from the project was the development of a national system for the allocation of road fund revenues to the municipalities which was adopted in the law on public roads. This proposed project will assess the continued relevance of this formula, propose changes if necessary, and adopt the formula for allocation of loan proceeds under the project. The European Bank of Reconstruction and Development (EBRD) also finances local roads through their local and regional roads projects.

The Ministry of Agriculture has a number of programs that directly support local roads development. This includes Euro 500k annually that focus on support to rural municipalities and specifically unpaved field access roads. In addition, there are funds through the Instrument for Pre-accession Assistance for Rural Development (IPARD) program, which can be up to Euro 10 million per year and covering asphalt roads that connect two villages (up to 1km), asphalt roads that connect two towns (up to 5km), and water supply schemes. IPARD is currently just being managed using domestic funds but when these windows are accredited by the EU it is likely they will have more funds to manage. But there is a major problem of absorption, not only because there is a lack of ready and eligible projects but also because the municipalities cannot afford their counterpart contributions in the form of VAT payments. This proposed project will explore options to leverage project funds to improve absorption of IPARD funds.

This project will seek to improve access between villages and schools to address the higher transport burden that will emerge from a consolidated school network. The large out migration taking place in the country and many schools operating below full capacity, at high costs per student, will require a consolidation program, which would allow the running of fewer schools but providing a higher quality education. Any investments will also follow “safe schools” best practice requirements. The municipalities also spend considerable sums on school bus services and this aspect of service delivery will also be addressed.

To the extent possible, this proposed project will develop synergies with other projects particularly around the school’s consolidation agenda and improving connectivity between farms and markets. Going forward the World Bank also has several other projects in the municipal space including a new energy efficiency project focusing on schools, an agriculture project focusing on marketing centers and a digital project providing high speed broad band coverage to rural areas. The

Bank has also prepared an interim white paper on the financial sustainability of municipalities in North Macedonia and issues of debt sustainability, revenue raising capabilities and consistency of funding are all raised as important issues which also have an impact on a sustainable transport sector.

Women and men have different needs and priorities regarding road infrastructure. If these differences are not reflected into the road selection and designs, they can negatively affect all but especially women in terms of their mobility and access to various services and income-generating opportunities. Furthermore, the women's employment in the sector remains male-dominated: only 12.8 percent of women are employed in transport and storage and only 6.6 percent of females are engaged in construction[3]. The project will benefit from the lessons learned in an ongoing Albania Regional and Local Roads Connectivity project (P163239) in terms of amending the bidding documents to include gender-specific requirements (with a view to promoting women's employment in road works) and enhancing the capacity of the municipalities and contractors to reach out and recruit women in envisaged road works.

North Macedonia is increasingly susceptible to natural disasters due to climate change. The risk of flooding is rated as high[4]. After a major flooding in 2015, attention was paid to the national and regional roads, while local roads were left behind. Enhancing climate resilience in the road network would help ensure a more sustained ability to providing the desired transport services.

Relationship to CPF

The ***World Bank's proposed Country Partnership Framework (CPS) (FY19-23)*** calls for a three-pronged approach to addressing these economic development challenges focusing on (a) fostering a more dynamic and competitive private sector; (b) developing a more competitive and adaptive human capital and closing opportunity gaps; and (c) achieving sustainability. Investments in local roads will improve competitiveness contributing to Pillar 1, enhance the quality of public services and skills development under Pillar 2, and support Pillar 3 by ensuring a more sustainable use of public budgets for transport and improving the climate resilience of the resulting infrastructure and services.

C. Proposed Development Objective(s)

The project development objectives are to improve the municipalities capacity to manage their local road assets and provide safe and resilient access to services and markets.

Key Results (From PCN)

[3] "Women and Men in North Macedonia", 2019, Republic of North Macedonia State Statistical Office, 2017 figures, ages 15 and above

[4] http://thinkhazard.org/en/report/241-the-former-yugoslav-republic-of-macedonia

D. Concept Description

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

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 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 contractor's site offices and possibly but highly unlikely workers' camp can be potential sources of temporary adverse impacts.
Potential social issues would mostly be related to small scale land take impacts. Becouse of rehabilitation and reconstruction nature of the investments there will be no resettlement nor any impact on any business or residency related structure. There will be project related traffic especially for the interventions in rural streets as the works will be done inside settlements and thus affected communities will be exposed to higher frequency and heavier traffic

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document**.**

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APPROVAL

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