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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-Jan-2021 | Report No: PIDA30097

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Micronesia, Federated States of	P172225	Federated States of Micronesia Prioritized Road Investment and Management Enhancements Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EAST ASIA AND PACIFIC	27-Jan-2021	31-May-2021	Transport
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Federated States of Micronesia	Department of Transportation, Communications & Infrastructure	

Proposed Development Objective(s)

To improve the climate resilience of FSM's road network.

Components

Component 1: Spatial and Sector Planning Tools
Component 2: Climate Resilient Infrastructure Solutions
Component 3: Strengthening the Enabling Environment

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	40.00
Total Financing	40.00
of which IBRD/IDA	40.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	40.00
IDA Grant	40.00

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Geography and Demography.** The largest nation in the Micronesian sub-region, the Federated States of Micronesia (FSM), is made up of four semi-autonomous states (Chuuk, Pohnpei, Kosrae and Yap) located between Palau and the Philippines to the west, and the Republic of the Marshall Islands (RMI) to the east. Although its land area covers just 700 square kilometers, FSM consists of more than 600 islands scattered over an Exclusive Economic Zone area of about 2.6 million square kilometers.[1]

2. As with other Small Island Developing States (SIDS) in the region, FSM faces significant challenges related to its small size, remoteness, geographical dispersion, environmental fragility and exposure to external shocks.[2] Frequent natural disasters and climate change impose high costs and may even threaten the physical viability of some areas of the main islands[3] in each state and the more remote outer islands. Furthermore, such events cause severe damage to infrastructure and other economic assets and have adverse impacts on livelihoods. As an archipelagic nation, FSM's economy is highly dependent on marine resources for international, inter-state and inter-island trade. Citizens of outer islands depend on maritime transport for travel to main and other outlying islands, and for access to education, markets and health services. Although seven islands have airstrips, only two planes provide domestic air service to the outer islands, one of which is a seven-seater and the other is a nineteen-seater.

[1] An Exclusive Economic Zone is a sea zone prescribed by the United Nations Convention on the Law of the Sea (UNCLOS) over which a state has special rights regarding the exploration and use of marine resources, including energy production from water and wind.
[2] World Bank, *Systematic Country Diagnostic*, Report No. 102803, World Bank, January 20, 2016.
[3] Main islands include Weno Island, Chuuk; Pohnpei Island, Pohnpei; Kosrae Island, Kosrae; and Yap Island Group, Yap.

3. The overall population of FSM is estimated to be 113,815 (2019), of which approximately 45 percent live in Chuuk, 37 percent in Pohnpei, 11 percent in Yap, and 7 percent in Kosrae. Although the population declined from a high of 107,432 in CY2000 to 102,843 in CY2010, the trend stabilized in 2012, with slight annual increases continuing through to the current year.[4] FSM has also experienced considerable internal migration across states, mostly from outer islands to the main islands' urban areas, and especially to Pohnpei, which hosts the Country's capital Palikir, as individuals are particularly drawn to employment with the National Government. Access to basic services is also generally higher in Pohnpei. Each State is diverse in terms of language, cultural norms, environmental and land tenure laws.

4. FSM is reported to have the highest estimated rates of poverty among the nine small remote islands (PIC9) covered in the Regional Partnership Framework (RPF) for FY17 to FY21.[5] These findings are based on a household income and expenditure survey conducted in 2013/14, which found about 41 percent of FSM's population is struggling to meet basic needs and 10 percent are living below the food poverty line. The survey also documented stark variation across FSM, with the basic needs poverty rate most severe in Chuuk (46 percent), followed by Pohnpei and Yap (39 percent), and Kosrae (21 percent).

5. **Economy and Market Considerations.** Following independence in 1986, FSM entered into a Compact of Free Association (Compact) with the United States of America (U.S.), whereby the U.S. provides yearly financial transfers to the FSM, access to a range of National Government services and programs, and open migration to the U.S. for FSM citizens among other arrangements. In 2003, certain provisions of the Compact were amended, most notably the economic provisions.[6] The most recent agreement not only supports Compact Sector Grants designed to help sustain the delivery of public services, but also establishes a Compact Trust Fund intended to replace the Sector Grants when they terminate in 2023. Through the Trust Fund, the Compact seeks to prepare FSM for self-sufficiency and economic sustainability post 2023. However, recent projections indicate that the expected value of the Trust Fund corpus in 2023 will not be sufficient to both preserve its real value and provide annual disbursements equivalent to the current level of sector grants – meaning a fiscal adjustment may be required. It will be a major challenge for FSM to carry out such a fiscal adjustment without reducing access to and quality of public services, especially those delivered to the poor.[7] In 2019, during the FSM Presidential inauguration, the U.S. Secretary of State visited FSM to announce the willingness of the U.S. to negotiate post-2023 Compact Sector Grants continuation. In November 2019, the U.S. conducted a Compact Listening Tour to all three Compact Countries – FSM, Marshall Islands and Palau – to hear what had and what hadn't worked under the current Compact terms.

6. In 2018, Gross Domestic Product (GDP) was about US$401 million, which equates to some US$3,568

[4] World Bank, *World Development Indicators database*, updated August 15, 2020.
[5] Household income and expenditure survey, 2013/14; World Bank Group, *Regional Partnership Framework for Nine Pacific Island Countries*, FY17-21, Report No. 120479, World Bank, 2016.
[6] The FSM Congress approved the amendments on May 26, 2004 following earlier ratification by the four FSM states. On June 25, 2004, the FSM and U.S. Governments signed documents to officially implement the Compact, as amended. http://www.uscompact.org/about/cofa.php
[7] World Bank Group, *Regional Partnership Framework for Nine Pacific Island Countries*, FY17-21, Report No. 120479, World Bank, 2016.

per capita.[8] The public sector is a major part of the FSM economy, accounting for around 32 percent of GDP and 48 percent of formal sector employment. Outside of the public sector, agriculture and fisheries are the main economic activities, contributing around 23 percent of GDP. Small scale service industries, such as inbound tourism, wholesale and retail trade, make up the remainder of the economy. Most goods are imported and there are few exports. During 2018, FSM ran a trade deficit, with the total value of exports at around US$143 million and the total value of imports at around US$263 million. Fiscal policy is highly dependent on foreign aid and fiscal transfers, primarily from the U.S. via the Compact, typically for public investments, and service provision in education and health. Foreign grants have averaged 37 percent of GDP over the past decade.

7. **COVID-19.** The economic and market considerations noted above are in flux due to the impact of COVID-19. FSM's pre-existing structural inequalities and difficulties in service delivery have been exacerbated by COVID-19 restrictions. Inadequate information, key healthcare gaps, and barriers to service delivery are also prevalent. The accompanying economic downturn and self-imposed travel restrictions have substantially depressed demand for labor, goods, and services both in the formal and informal economies, curtailing income generating opportunities. Loss of work due to COVID-19, a sharp decline in remittances due to increasing global unemployment, and travel restrictions[9] translate into a spike in poverty and food insecurity. The National Government of the Federated States of Micronesia (GoFSM) was proactive in their approach and response to COVID-19. GoFSM declared a state of emergency early in the COVID-19 Pandemic on January 31, 2020 which expanded to include travel restrictions, the establishment of a taskforce, and a release of funding. As of January 2021, there is one confirmed case of COVID-19 in FSM, and stringent travel restrictions are in place.

8. FSM's economy is highly vulnerable to the impacts of COVID-19 due to a high reliance on Overseas Development Assistance (ODA), contributing over 20 percent of gross national income, remittances, and inbound tourism expenditure, each accounting for approximately seven percent of GDP. A migration survey conducted in 2012 indicated that 49,840 Micronesian nationals currently reside in the U.S. who are likely to have been severely impacted by lockdown measures and unable to continue to provide resources to their families and communities in FSM.[10]

9. The FSM Maritime Investment Project (FSMIP) utilized US$2.5 million through its Contingent Emergency Response Component (CERC) to address urgent COVID-19 emergency response and preparedness needs. The CERC funding is being used to supply medical equipment, pharmaceuticals and personal protective equipment (PPE).

10. **Natural Hazards and Climate Change in FSM.** As with other small island nations in the region, FSM faces significant challenges related to its small size, remoteness, geographical dispersion, environmental fragility and sensitivity to external shocks.[11] Droughts, typhoons, storm waves, flooding

[8] World Bank, *World Development Indicators database*, updated August 15, 2020.
[9] Pacific Humanitarian Team, Pacific Humanitarian Team COVID-19 Response Plan, accessed May 15, 2020, https://reliefweb.int/sites/reliefweb.int/files/resources/PACIFIC%20HUMANITARIAN%20COVID-19_Appeal_May0720.pdf
[10] FSM Department of Transportation, Communications & Infrastructure, *Federated States of Micronesia Infrastructure Development Plan FY 2004-FY2023*, (2004), https://policy.asiapacificenergy.org/sites/default/files/idp.pdf
[11] World Bank, *Systematic Country Diagnostic*, Report No. 102803, World Bank, January 20, 2016.

and landslides all affect FSM. The climate in FSM varies considerably from year to year due to the El Niño-Southern Oscillation (ENSO). In Pohnpei, El Niño tends to bring drier conditions during the dry season, but higher than average rainfall during the wet season, and La Niña tends to bring above average rainfall in the dry season. The West Pacific Monsoon affects the western states of Chuuk and especially Yap more than the eastern states of Pohnpei and Kosrae. The West Pacific Monsoon moves farther east during El Niño resulting in more rainfall, and to a more western position during La Niña resulting in less rainfall.

11. FSM is particularly vulnerable to the impacts of climate change and is likely to suffer serious adverse environmental, social and economic losses as a result of climate change induced hazards. For example, in 2015, Typhoon Maysak wiped out 90 percent of key agricultural crops in Chuuk and Yap, affecting 29,000 people and causing US$8.5 million in direct damages.[12] The population of FSM is vulnerable to storms and increased precipitations and those located close to the coastline, which represent the vast majority of the population, are also exposed to the consequences of sea level rise and coastal erosion. The negative impacts of climate change are already evident in FSM. For instance, saltwater intrusion from rising sea levels damage crops and is contaminating freshwater supplies, while there is an increased incidence of extreme weather events such as storm surges. Formally self-sustaining atoll communities now rely on imported food and water during times of stress. Exacerbated by sea level rise, extreme spring tides, known in FSM as 'king tides', are causing intense marine inundation that damages taro beds, soil, agro-forestry resources, and critical infrastructure along the coast, especially on low atoll islets.[13]

12. Climate impacts all aspects of life in FSM and understanding the possible future climate of FSM is important so that people and GoFSM can plan for changes. The following projections have been gathered by the National Weather Services Offices of FSM and the Pacific-Australia Climate Change Science and Adaptation Planning Program. Projections for all emissions scenarios indicate that the annual average air temperature and sea-surface temperature will increase in the future. By 2030, under a very high emissions scenario, this increase in temperature is projected to be in the range of 0.6-1.1 degrees Celsius relative to the period 1986-2005. Almost all the global climate models project an increase in average annual and seasonal rainfall over the course of the 21st century. However, there is some uncertainty in the rainfall projections and not all models show consistent results. Models generally suggest a greater increase in wet season rainfall and extreme rainfall days over FSM, and drought frequency is projected to decrease. FSM is in a region where projections tend to show a decrease in typhoon frequency by the late 21st century. Furthermore, sea level is expected to continue to rise in FSM, where by 2030 under a very high emissions scenario, this rise in sea level is projected to be in the range of 41 – 90 centimeters. The sea level rise combined with natural year-to-year changes will accentuate the impact of storm surges and coastal flooding.[14]

[12] United States Agency for International Development, Micronesia – *Typhoon Maysak Fact Sheet #3, Fiscal Year (FY) 2015, (2015), accessed* April 23, 2015, *https://reliefweb.int/sites/reliefweb.int/files/resources/04.22.15%20-%20USAID-DCHA%20Typhoon%20Maysak%20Fact%20Sheet%20%233.pdf*

[13] University of Hawaii, *Climate Change in the FSM – Food and water security, climate risk management, and adaptive strategies*, (2010).

[14] Pacific-Australia Climate Change Science and Adaptation Planning Program, *Current and future climate of the Federated States of Micronesia*, (2015).

13. **Gender.** For women in FSM there are multiple barriers to having equal opportunities, as well as a life free from violence and coercion. Priority areas of the GoFSM national gender planning include addressing female unemployment and occupational sex segregation in the labor market, teenage pregnancy, violence against women and girls, and limited access to justice and protection for women. The labor force participation rate for women in FSM was only 48.4 per cent as of 2010, compared with 66.1 per cent for men. The number of female wage and salary earners was less than half that of males – and women comprised only 14 percent of the non-agricultural sector.[15] Not only are women less represented in the paid workforce, they are concentrated in lower positions, with comparatively less pay, thereby impacting lifetime earnings.[16] Participation of women at the highest levels of decision making remains very limited, and women continue to be highly under-represented at the legislative and executive levels of government. In addition, FSM is one of only three countries worldwide that has zero women represented in the National Legislature.

14. **Sexual Exploitation and Abuse (SEA) and Sexual Harassment (SH).** SEA and SH prevalence levels in FSM are significant: one in three women (32.8 percent) have experienced physical and/or sexual violence by an intimate partner in their lifetime, 18 percent experienced sexual violence by an intimate partner, and eight percent have experienced sexual violence by someone other than a partner. Fourteen percent of women experienced child sexual abuse in before the age of 15.[17]

Sectoral and Institutional Context

15. **Road Infrastructure.** FSM's road network is vulnerable to climate change induced risks such as sea level rise, intensified storm surge, increased precipitation and flooding. The road network facilitates the movement of goods and services and is therefore of critical importance to the country's economic development, as well as providing access to social services such as schools and health facilities. In addition, most of the population in FSM lives close to the coast, and critical infrastructure including roads, schools, places of employment, port facilities, tourist facilities, power plants and airports, are located primarily in the coastal zone. The road network in FSM is Government owned and maintained, and in general, there is only one circumferential route on the main island of each of the four FSM states. Road condition is mostly good to fair, with some sections of the network poor and very poor. Inadequate drainage and the insufficiency of routine maintenance are the main contributors to poor condition. Since there is generally only one circumferential route per island, even a few poor or very poor sections can severely interrupt the flow of people, goods and services. Since the road network is not comprehensive (i.e. has limited to no redundancy) and is characterized by high rainfall and

[15] United Nations Conference on Trade and Development, *Small island developing States: Challenges in transport and trade logistics*, (2014).

[16] In 141 countries, the loss in human capital wealth due to lifetime gender income inequality is approximately $160.2 trillion. This suggests that globally, human capital wealth could increase by 21.7 percent and total wealth by 14.0 percent, with gender equality in earnings. Occupational sex segregation key driver. For further information see- Wodon, Quentin, and Benedicte de la Brière. 2018. Unrealized Potential: The High Cost of Gender Inequality in Earnings. The Cost of Gender Inequality Notes Series. Washington, DC: World Bank. Accessed September 2019. https://openknowledge.worldbank.org/handle/10986/29865

[17] FSM Department of Health and Social Affairs, Federated States of Micronesia Family Health and Safety Study: A prevalence study on violence against women. (2014).

undulating terrain, reconstructed and rehabilitated roads should be designed, built and maintained for all year-round access.

16. **Maintenance and Asset Management.** Ongoing management and maintenance of existing infrastructure is severely limited, largely attributed to a lack of proactive asset management and constrained budget allocations. Lack of preventative maintenance is expensive and can potentially put lives at risk as the deterioration of infrastructure and a reduction in service levels can reduce access to critical services (e.g. schools and, hospitals), reduce network safety and increase crashes, and prevent the further expansion of infrastructure services. In addition, it is also costly in a financial sense given preventative maintenance provides a better financial return than investments in new infrastructure.[18] For example, a least-cost analysis for sealed roads in Papua New Guinea found that the cost to the government of maintaining the road in a useable condition under a preventative maintenance strategy is four times less than under the build-neglect-rebuild scenario.[19] Though the importance of preventative maintenance is known, there has been little appetite for allocating sufficient and regular budget for this. Compounded with the fact that the network is vulnerable to extreme weather events and climate change, the road network is at the risk of rapid deterioration. As a result, PRIME will assess current maintenance regimes and industry capacity and implement systems to move toward a more proactive preventative maintenance and rehabilitation program, which will replace the ad-hoc approach that is currently in place.

17. The remote geographical setting of FSM, increasingly harsh climatic conditions, the small populations of states, and unavailability of materials and equipment, all combine to make maintenance and management of infrastructure assets, and road sector assets in particular, a major challenge. Road works are undertaken by a mix of actors including state-owned enterprise, state road agency force account, as well as state-based and international private contractors. Like many SIDS, the development of the private contracting industry is curtailed primarily by a lack of reliable and sufficient funding for major works and maintenance. Force account is the primary mechanism used for routine and periodic maintenance. Routine and periodic maintenance of the sealed road network is ad-hoc at best, and non-existent at worst. Currently, only Kosrae has an inventory of its network drainage assets, and no state has an active network management system due to a lack of sufficient funding.

18. The sealed roads in FSM were originally asphalt-surfaced decades ago, with varying approaches to routine and periodic maintenance in each state:
    (a) Pohnpei – the Pohnpei Transportation Authority (PTA) is a state-owned enterprise that is responsible for road maintenance and management. It owns an asphalt plant, and aggregate is available from local quarries, so it has capacity, but lack of funding limits its ability to undertake routine maintenance of the network, or periodic maintenance through resurfacing.
    (b) Kosrae – the original asphalt surface has been resurfaced on occasion with double seal surface dressing, with imported materials and equipment through an international contractor, but routine maintenance is limited to pothole patching by force account or through local contractors.

[18] Pacific Region Infrastructure Facility (PRIF), *Infrastructure Maintenance in The Pacific - Challenging the Build-Neglect-Rebuild Paradigm,* (2013), https://www.theprif.org/documents/regional/infrastructure-planning-and-management/infrastructure-maintenance-pacific
[19] Ibid.

(c) Yap – a donor-funded project has rehabilitated an asphalt-surfaced part of the network, but the routine maintenance is done by force account. There is a privately-owned asphalt plant on the island; however, for major periodic maintenance interventions, there is a need for all materials and equipment to be imported.
(d) Chuuk – the original asphalt-surfaced network has all but disappeared through lack of maintenance and all recent road reconstruction is in concrete, either through local or international contractors. A local quarry provides concrete aggregate.

19. **Institutions and Functions.** Within the National Government, DoTC&I has the responsibility for the delivery of infrastructure, including Compact projects, and similar agencies deliver infrastructure at the State level. Funding for road maintenance and capital road works is allocated annually by the National Government to State Governments. GoFSM has established a Central Implementation Unit (CIU) within the National Government's Department of Finance and Administration (DoFA), to support all World Bank-financed projects, including environmental and social management, procurement and financial management support. DoTC&I has a program management unit (PMU) that has responsibility for all Compact-funded infrastructure projects and for Overseas Development Assistance (ODA)-funded infrastructure projects (including the World Bank, Asian Development Bank [ADB], United States Federal Aviation Administration, People's Republic of China and the United Nations) except energy (managed by the Department of Resources and Development) and telecommunications (managed by the DoTC&I Communications Division). The primary focus of the PMU is on program management, with day-to-day project management tasks for ODA-projects devolved to project implementation units (PIUs).

20. **Road safety**. FSM is one of the best performing countries on the East Asia and Pacific Region, with only two World Health Organization road fatalities estimated in 2016, and 30 serious injuries.[20,21] This result is achieved despite FSM having no road safety lead agency, national road safety strategy, or national road safety targets. There are no safety regulations restricting the import of new and used vehicles, no national seatbelt laws or blood alcohol concentration (BAC) -based national drink driving laws.[22] Maximum speed limits for urban and rural roads are set to 40 kilometers per hour, which is likely a significant contributor to the low rate of fatalities and serious injuries.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To improve the climate resilience of FSM's road network.

[20] World Health Organization, *Global Status Report on Road Safety 2018* (2018).
[21] Serious injuries have been calculated assuming a ratio of 15:1 (15 serious injuries for every death). World Bank, *Guide for Road Safety Opportunities and Challenges: Low- and Middle-Income Countries Country Profiles* (2019).
[22] World Bank, *Guide for Road Safety Opportunities and Challenges: Low- and Middle-Income Countries Country Profiles* (2019).

Key Results

21. Progress will be measured against the following **PDO-level results indicators**:
    (a) Identified planning tools being used to improve climate resilience of roads (Number);
    (b) Length of road upgraded with climate resilience measures (Kilometers);
    (c) Number of water crossings reconstructed or rehabilitated with climate resilience measures (Number); and,
    (d) Identified enabling environment solutions implemented (Number).

D. Project Description

22. **Pacific Climate Resilient Transport Program (PCRTP) Series of Projects (SOP).** PRIME will be included within PCRTP, which has four broad pillars that focus on increasing resilience in the transport sector through: (i) utilizing spatial and sector planning tools; (ii) investing in climate resilient infrastructure; (iii) strengthening the enabling environment; and (iv) supporting post-disaster recovery. The activities proposed under PRIME are aligned with these four broad pillars of support.[23] The value of the programmatic approach is that it will support the systematic improvement of resilience across the countries included within the program to address commonly shared issues. In addition, the program offers a multi-pronged approach to support FSM by considering risks in a holistic manner, through the integration of resilient transport interventions into decision-making and implementation.

23. **Component 1: Spatial and Sector Planning Tools.** This Component involves technical assistance for sectoral and spatial planning tools that will improve the way that climate change is addressed in FSM's road sector to enable policymakers to make informed decisions based on the most accurate and up-to-date information available. The following Sub-components are proposed:
    (a) Vulnerability Assessment (VA) and Climate Resilient Road Strategy (CRRS). Preparation, implementation and updating of a road sector VA and a CRRS to assess levels of vulnerability to climate change and severe weather events (e.g. sea-level rise, extreme rainfall, landslide, storm surge, etc.) across FSM's existing primary road corridors and GoFSM-selected existing strategic secondary road corridors. The VA and CRRS will also identify measures to enhance resilience and prioritize investments to balance vulnerability reduction against cost implication. Training will be provided to relevant national and state officials in the use of VA and CRRS tools.
    (b) Climate-informed road asset management system. Provision of hardware, software and ancillary tools to establish and maintain a climate-informed road asset management system to be used by DoTC&I and the Governments' respective transport departments. Training will be provided to relevant National and State officials in the use of the system.

24. **Component 2: Climate Resilient Infrastructure Solutions.** This Component involves feasibility studies, design and construction of identified priority road assets to improve their resilience to climate-related hazards. The integration of climate change considerations into infrastructure activities will help

[23] Component 4 in PCRTP SOP projects is commonly a 'Contingency Emergency Response Component' (CERC). Such a component was not included in PRIME given that the ongoing FSMIP project already includes a CERC to respond to emergency repairs to infrastructure in the case of a disaster event.

strengthen the resilience of assets and improve functionality of the road network. Component 2 is split into two parts:

(a) Urgent priority works (including design and supervision). Critical climate resilient road, bridge, causeway and drainage improvement works that should be implemented urgently to maintain a basic level of road connectivity in each state. Urgent works proposed for financing under PRIME include: (i) improving the narrow, low-level Lelu causeway in Kosrae; (ii) replacing the 12-meter Awak bridge in Pohnpei; (iii) improving the 1.5-kilometer airport to Pou Bay bridge road in Chuuk; and, (iv) replacing two short-span (6-meter-long) steel and concrete composite bridges in Yap.

(b) Works informed by the VA and CRRS (including design and supervision). In addition to the urgent priorities under Sub-component 2a, a selection of near, medium and long-term road works would be financed to enhance the resilience of the network in each state to climate change impacts and natural hazards, as to be agreed by FSM and the World Bank based on the recommendations from the VA and CRRS undertaken as part of Component 1. Works will be restricted to road networks within the existing primary road corridors. Interventions will include measures to strengthen network resilience including but not necessarily limited to: pavement strengthening, drainage improvements, spot slope stabilization, rock wall revetment strengthening, road safety improvements and other improvements to causeways and bridges.

25. **Component 3: Strengthening the Enabling Environment.** This Component will provide funding to support institutional and regulatory reforms for road sector asset management and maintenance, including measures to strengthen local capacity and to increase the sustainability of climate resilient road sector investments. In addition, this Component will help strengthen coordination among relevant institutions, will look at ways in which road sector management can be improved, and will address any emerging priority issues that can help support GoFSM in addressing climate change risks. Proposed Sub-components include:

(a) Institutional and Governance Review. A review of institutional arrangements, key policies, regulations, legislation, financing mechanisms and roles and responsibilities of principle stakeholders involved in the road sector with recommendations to strengthen such arrangements.

(b) Project Management. Provision of technical and operational assistance to FSM on project management and implementation. This sub-component will support the establishment and maintenance of a PIU to support the implementation of PRIME. In addition, this includes operating costs for PRIME-related travel and communications costs. Additionally, this sub-component includes the provision of technical assistance activities to assess environmental and social risks and impacts and prepare environmental and social instruments that enhance the sustainability of PRIME's climate resilient road sector activities in accordance with the World Bank Environmental and Social Framework (ESF) and the laws and policies of FSM.

(c) Road Safety Program. Provision of technical assistance activities to improve road safety.

(d) Capacity Building Initiatives. This sub-component aims to improve the planning, management and regulation of climate resilient road network, and provide support to address potential sexual exploitation and abuse and sexual harassment related to project implementation. In particular, the assessment of current preventive maintenance techniques and industry capacity will be conducted. Technical trainings will also be provided to sector agencies and local consultants and contractors to better operate and regulate a more climate resilient road network. A focus of the training segment will be upskilling women for technical careers working on the road sector in

DoTC&I, complemented by internal process improvements within DoTC&I to improve the recruitment and retention of qualified women.

(e) Driver Licensing Pilot. A pilot program to study and implement activities that address gaps in the possession of a driver's license. A beneficiary survey will be undertaken that includes a focus on gender and persons with disabilities, that will help assess the impacts of the major climate resilient works carried out under the Project and inform driver licensing pilot focused on closing gaps for women and persons with disabilities.

(f) Emerging Priority Issues. Provision of technical assistance to strengthen the Recipient's capacity to address emerging priority issues that could have an impact on the Recipient's ability to manage a climate resilient road network.

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

26. **Environmental Risk Rating.** The overall environmental risk is assessed as Substantial. Component 1 VA and CRSS activities will cover future road improvements in the primary and targeted secondary road network. Component 2 road works will take place at discrete locations within the existing primary road corridor. Component 3 institutional strengthening will provide benefits across the public road network. Project risks are likely to be identifiable, localized, short term or small scale, not irreversible or unprecedented, and can be addressed through conventional mitigation and management measures. The environmental risks relate primarily to road network rehabilitation and improvement activities and include the management of waste (demolition, road materials, hazardous, solid and liquid wastes), erosion and sedimentation from earthworks especially those that take place near waterways or sensitive environments (estuaries, lagoons, mangroves and streams). Furthermore, road workers and the public are at risk from traffic-related hazards. These impacts can be readily managed through Good International Industry Practice mitigation measures, ESHS measures prescribed within the standard procurement documents, good engineering designs informed by environmental and social risk assessments and good practices for civil construction and transport-related impacts. Traffic-related hazards and transport impacts along haul routes associated with heavy vehicles (noise, dust, road safety and road surface condition) can be managed through the establishment of a robust Traffic Management Plan (TMP), incorporated into Contractors' Environmental and Social Management Plans (CESMP). Off-site activities include quarrying and asphalt plant operations, which if not managed properly, may cause localized adverse impacts. Coral rock and coastal sand mining will be avoided in this project, but environmental assessments and due diligence will be carried out on other sources of local or imported aggregates. The project applies to all four states of FSM. Environmental management

and permitting is at the state level though enforcement of environmental and OHS laws is weak. Furthermore, the government does not have a formal grievance mechanism for land issues. The DOFA CIU has two full-time Safeguards Specialists to support this project. However, the CIU safeguards team sit in Pohnpei and therefore, there are logistical challenges for managing construction related risks. This capacity gap will be filled by training the State focal points with key skills for ESHS construction supervision. Ongoing World Bank support and capacity building will be needed to mitigate these risks.

27. **Social Risk Rating**. The overall social risk is assessed as Substantial. Social risks relating to road construction and maintenance activities include the health and safety risks for workers and the community (noise, dust, traffic), the management of foreign workforce and the risk of increased gender-based violence (GBV) through sexual exploitation and trafficking, and involuntary resettlement impacts for private structures and assets adjacent to road improvement sites. These types of risks can be managed through effective codes of practice for road works, training of workers and good supervision and oversight of mitigation measures. It is expected that special attention will be needed to monitor and enforce compliance in the application of ESS2 (Labor and Working Conditions) and ESS4 (Community Health and Safety), since minor to moderate worker influx are expected. Early engagement with land owners, local communities, vulnerable groups and traditional/local leaders would be critical to ensuring their support in agreeing to the removal of property encroaching in project works areas. Gender-based violence is prevalent: 33 percent of women have experienced physical and/or sexual violence by a partner and 8 percent by someone other than a partner. Sexual exploitation of locals has occurred in the past by foreign work forces. The risk of sexual exploitation and abuse/sexual harassment is screened as moderate.

E. Implementation

Institutional and Implementation Arrangements

28. DoTC&I will be the Implementing Agency of the Project. As the PRIME roads fall under the jurisdiction of the relevant State Governments, Project Implementation Agreements (PIAs) with each of the States will be required. For FSMIP, and other World Bank projects in FSM, PIAs or similar have been utilized, where the World Bank has signed a Financing Agreement with DoFA; and DoTC&I, as the IA, has entered into separate PIAs with the State agencies. Under this arrangement, which is also proposed for PRIME, signed procurement contracts will be between the National Government and the contractors. These PIAs provide greater clarity regarding the expected roles, responsibilities and accountabilities, and create binding contractual relationships between the National Government and the State agencies. The State agencies will also appoint local coordinators to manage state-specific activities under PRIME. To ensure the four States are adequately represented in decision making, a PSC will be established similar to FSMIP.

29. The two existing implementation units (CIU and DoTC&I PMU) are relatively young and are performing competently. PRIME will establish a PIU which will be a sub-unit of the DoTC&I PMU, similar to the FSMIP PIU and will run in parallel to the FSMIP PIU. Initially, the PIU will be staffed with a PIU Project Manager, based in Pohnpei, with additional PIU project management support to be recruited, as needed. Experience from other World Bank-supported projects in SIDS in the Pacific have highlighted key considerations around capacity limitations, including the need for realistic timelines, limited capacity of local project implementation teams, and the need for intensive World Bank implementation

support.

30. **PIU Implementation Support.** The PIU, which will be established by not later than 3 months after the effective date of the Financing Agreement, will be responsible for day to day management and implementation of the project. The PIU will coordinate the implementation of PRIME with DoTC&I management, DoTC&I PMU, CIU, State focal points, and the State transport agencies in a manner that is to be set forth in the PIAs that outlines the roles of each organization. The PIU will also be responsible for preparing and implementing PRIME in accordance with annual work plans and budgets, which are to be prepared by not later than 2 months after the effective date of the Financing Agreement and July 1 of each subsequent year during project implementation and which will detail PRIME's activities and eligible expenditures. The PIAs will clarify, among other things, the necessary state and intra-government cooperation and support necessary for PRIME. The Project Manager, who leads the PIU, will be responsible for working collaboratively with all stakeholders to facilitate implementation by providing technical support and also by working with the CIU to facilitate the procurement, budgeting and work programming process. The PIU will also comprise, at a minimum, a project officer, and will be supported by specialists from the CIU.

31. **CIU Implementation Support.** The already established CIU, within DoFA, is a functional unit that supports the implementation of the World Bank portfolio. The World Bank portfolio in FSM has grown quickly and is anticipated to expand even further over the next few years. GoFSM identified the need for strong implementation of the World Bank portfolio and to look for ways to maximize efficiencies. The CIU provides support on core implementation functions needed for all projects. In PRIME, CIU will provide project implementation support to the IA and include staff performing the following key functions in support of the project: Project management, procurement, financial management, social and environmental standards, monitoring and evaluation, as well as outreach and communications. The individuals responsible for these functions report to the CIU Program Manager and provide services and hands on support to the IA for preparation, implementation and capacity building activities. Project implementation responsibilities however remains with the IA.

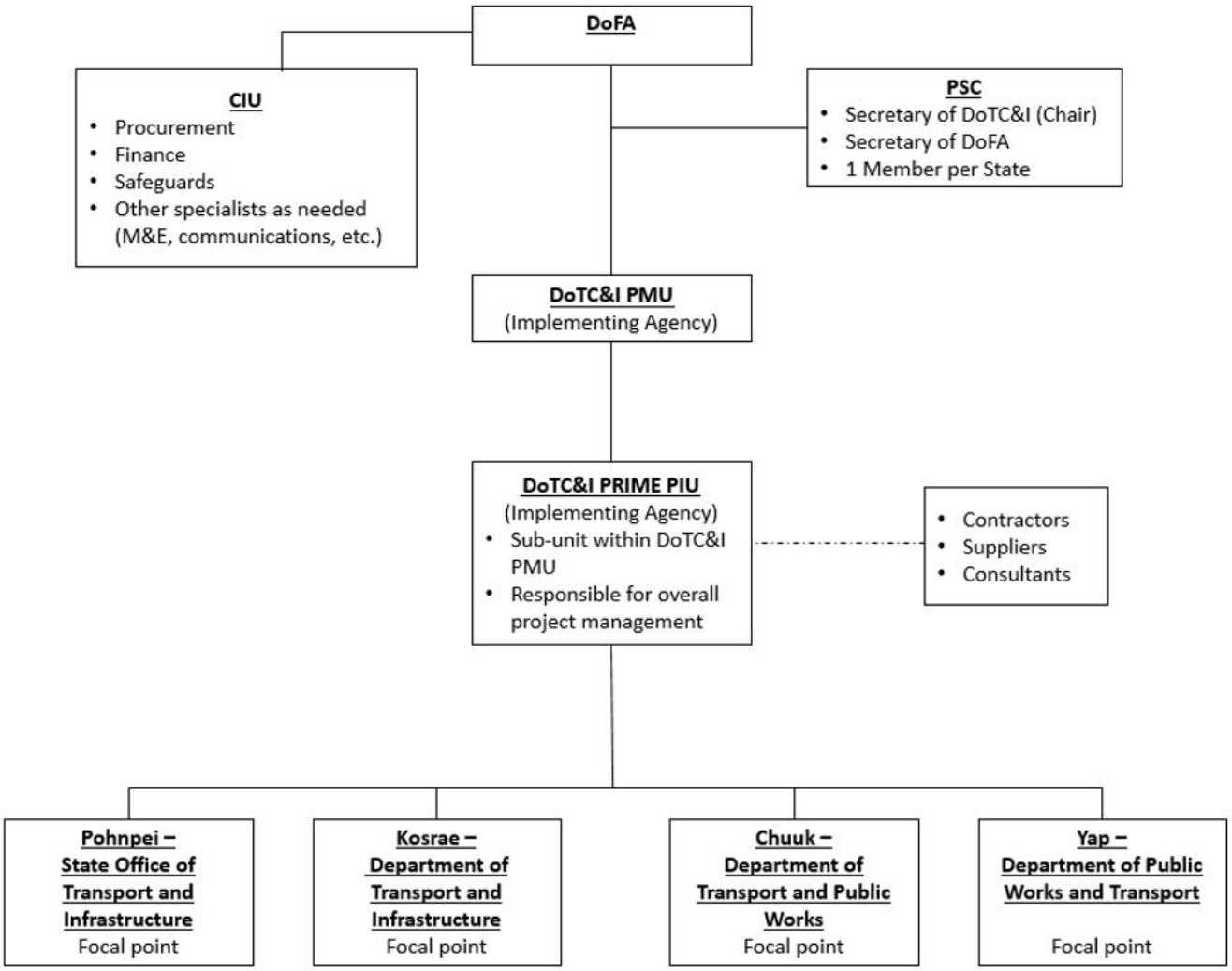
32. **Role of DoTC&I and States with respect to contract signing and invoicing.** All contracts with consultants, contractors and suppliers will be signed by the DoTC&I Secretary, with the administration and contract management tasks of the contract being implemented by the PIU as their day to day responsibility. DoTC&I Secretary will sign off on all consultant and contractor invoices and authorize CIU to make payments. However, before doing so, the PIU will consult with each State focal point to ensure services and works have been completed and are satisfactory, where necessary.

33. **Role and Composition of the PSC.** To ensure the four states are adequately represented in decision making, a PSC will be established and chaired by DoTC&I by not later than 3 months after the effective date of the Financing Agreement. The Secretary of DoFA or designee will be a member, along with a member appointed by the Governor of each of the four states. The PSC will provide general oversight and policy direction to PRIME stakeholders during project implementation, convene key stakeholders in the event of disagreement, and periodically review project progress. The PSC will have a role in identifying priorities for allocating project funds after the completion of the Vulnerability Assessment and Climate Resilient Road Strategy. Further details of the PSC will be reflected in the Project

Implementation Agreements and the Project Operations Manual (POM).

34. The proposed implementation arrangements are depicted in Figure 1 below:

Figure 1. PRIME Implementation Arrangements



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