



# Environmental and Social Review Summary

## Concept Stage

### **(ESRS Concept Stage)**

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**BASIC INFORMATION**

**A. Basic Project Data**

Country	Region	Project ID	Parent Project ID (if any)
North Macedonia	EUROPE AND CENTRAL ASIA	P149990	
Project Name	North Macedonia Public Sector Energy Efficiency Project		
Practice Area (Lead)	Financing Instrument	Estimated Appraisal Date	Estimated Board Date
Energy & Extractives	Investment Project Financing	11/4/2019	12/10/2019
Borrower(s)	Implementing Agency(ies)		
Ministry of Finance	Ministry of Finance		

Proposed Development Objective(s)

The project development objectives are: (i) reduce energy consumption in the municipal sector; and (ii) support the establishment and operationalization of a sustainable financing mechanism for the public sector

Financing (in USD Million)	Amount
<b>Total Project Cost</b>	<b>25.00</b>

**B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]**

The project will support the renovation of public buildings (central and municipal) through the provision of an IBRD loan through a project implementation unit under the Ministry of Finance. In parallel, TA will be provided to help design and operationalize an energy efficiency revolving fund scheme to provide financing on a more sustainable basis. Cofinancing for TA will be sought.

**D. Environmental and Social Overview**

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

Public Disclosure



Macedonia is a land-locked country in the center of Balkans, characterized by mountainous terrains intersected by valleys and hills. Currently, the power sector heavily depends on inefficient and outdated coal-fired generation operated by the state-owned power generation company ELEM. About 40% of electricity supply comes from a 40-year old lignite-fired PP Bitola. Recently, renewable energy generation has grown from 4 to 7.4%. Conventional hydropower generation supplies up to 20% of electricity demand depending on the quite volatile hydrological conditions. Gas-fired combined heat and power plants have increased their market share from 2.4. to 7.4%; import meets the rest of power demand, and vary depending on hydrological conditions Fossil fuels account for more than 80% of country's energy consumption, and an increasing amount of this is imported, including all liquid fuel and natural gas, which makes the sector the top contributor to the country's total greenhouse gas (GHG) emissions. Without a natural gas network, heating of buildings provided by electricity (25%), biomass/wood (64%) and district heating (9%) is highly inefficient. The high consumption of unmanaged and unregulated firewood is also unsustainable and can lead to forest degradation, giving rise to adverse environmental, economic and health impacts. The project will be implemented country-wide, with investments targeting up to 2,441 central government and municipal buildings which have been identified for retrofitting under the National Program for Energy Efficiency in Public Buildings (NPEEPB), and are mainly located in urban and peri-urban areas of the country. Anticipated adverse environmental impacts will be associated with the implementation of Component 1 activities, namely, civil works needed to improve energy efficiency of the buildings, such as replacement of windows, doors, wall and roof insulation; fixing the heating systems including boilers, piping, radiators, valves, meters and promoting switch of fuel from lignite and oil to biomass, and where feasible, solar, wind; optimization of cooling and ventilation, maximizing natural lighting; and introduction of improved operation and maintenance practices. Given that the project activities will finance energy efficiency retrofitting type of measures with the first component the project will not have land impacts. The project could also be used to in addition to EE measures improve physical accessibility of the buildings where feasible. In terms of the works, for these types of investment there is lot of competition in the country and thus all of the labor force will come from the project site localities. Given the small size of the contracts expected under the project, only local based , small or medium sized construction firms would be contracted under the project, and thus the risks related to labor influx is limited. There would be no foreseen issues with labor influx any other social risk related with the workers influx. Second component foresees technical assistance to the Ministry of Economy and other relevant central government institutions to establish EE fund in order to secure the sustainability of the program. The TA will envisage feasibility studies, overview of the institutional arrangements of the EE funds in other countries comparable to North Macedonia, study tours, budget and financial analyses etc. The TA component might also provide support to local governments for the EE related initiatives such as how to assess and calculate savings from the EE measures.

#### D. 2. Borrower's Institutional Capacity

The project will be implemented by the Project Implementation Unit (PIU) established by the MoF for the currently ongoing Municipal Services Improvement Project 1&2 (MSIP 1&2). As such, the PIU has gained good knowledge of, and considerable experience in ensuring the environmental and social compliance of the World Bank-funded projects. There is a full-time designated Environmental and Social specialist (E&S Specialist) in the PIU who ensures environmental compliance of the project/sub-projects, including day-to-day supervision, guidance to sub-project applicants, review of documents and providing inputs to the PIU Director. Since the E&S Specialist is experienced primarily with the requirements of the World Bank safeguard policies and has not yet had any exposure to the new Environmental and Social Framework (ESF), customized training (on line e-course on the ESF) is required. With this capacity building measure, and some additional technical staff, the capacity of the PIU is found satisfactory for the proposed new project. In case an Inter-Ministerial Committee is established to approve the final selection of sub-projects to be financed, the members of the Committee will apply the selection/screening criteria to be determined



by the project ESMF. As such, the members of the Committee shall be aware of World Bank’s ESSs and requirements applied to the project activities, as the quality of the environmental and social due diligence of sub-projects will factor the decision-making and approval process. The satisfactory capacity applies also for the social issue as the project will be implemented by the on going Municipal Services Improvement Project. The PIU has well established protocol and procedures for environmental and social due diligence and monitoring for the Municipal Project which has much wider scope of investments, in addition to EE measures in local government buildings.

## II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

### A. Environmental and Social Risk Classification (ESRC)

Moderate

#### Environmental Risk Rating

Moderate

The environmental risk is assessed as Moderate because the anticipated risks and impacts associated with the implementation of civil works on sub-project level are localized, site-specific with low probability of serious adverse effects to human health and/or environment, limited in time, predictable and small in magnitude. At the same time, generation of some hazardous waste, considerable volumes of demolition debris and excess material is expected, and will require proper handling to avoid negative impacts on the health and safety of labor, communities and the natural environment. The overall environmental footprint of the project will be positive. The capacity of the client to manage the environmental risks is satisfactory.

#### Social Risk Rating

Low

The work activities are limited in the nature and scope to energy efficiency measures in buildings. There will be no land acquisition impacts with the activities financed by the project. It is expected that small and medium construction companies that operate regionally within Northern Macedonia will be hired. This the labor influx risk is low. The PIU has experienced E&S staff and engineers which are cognizant and apply The Occupational Safety and Health Standards and safety at work standards with the contractors for the MSIP project. Given the low nature of risks and experienced staff at the implementing agency the Social Risk Rating proposed for the operation is Low.

### B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

#### B.1. General Assessment

##### ESS1 Assessment and Management of Environmental and Social Risks and Impacts

##### **Overview of the relevance of the Standard for the Project:**

Component 1 of the project will support civil works, including typical building-level energy efficiency measures such as replacement of windows, walls, insulation of walls and roofs, improving or installing heating systems, and introducing switch of fuel from lignite/oil to biomass and district heating, or use of alternative energy sources, cooling, ventilation, optimization of natural lighting, etc. All buildings under the NPEEPB are eligible for financing, however, the applications will be demand-driven, with specific sites to be selected in the course of the project implementation. The ESMF will provide for a set of selection/screening criteria to be applied for the identification of sub-project sites. In order to address anticipated environmental impacts, including: nuisance to neighboring communities and facilities, generation of construction and domestic wastes, need to handle excess materials, noise and dust from construction machinery and works, disposal of hazardous waste (e.g. asbestos) which may be generated during the building repair, the client will develop an Environmental and Social Management Framework



(ESMF). The ESMF will identify typical environmental risks likely to occur during the project implementation, specify legislative and regulatory framework, consider procedures and institutional responsibilities and provide an outline for site-specific Environmental and Social Management Plans (ESMPs) to be developed by the client for each specific site. The ESMF will also address environmental and social aspects of TA to be provided under Component 1 (consultancy services to conduct energy audit, prepare detailed design and bidding documents, monitoring, ensuring the quality and integrity of site-specific ESMPs), and under Component 2 supporting the establishment of the Energy Efficiency Fund (EEF). As the TA under Component 2 will support the studies on the design and operationalization of the EEF, the ESMF will provide for specific requirements regarding the environmental and social aspects to be considered in the framework of those studies, which shall be further incorporated into the respective Terms of References (TORs). The ESMF will be prepared and disclosed by the client and cleared by the Bank prior to the project Appraisal. Following the identification of specific facilities to be retrofitted in the course of the implementation, the client will prepare site-specific ESMPs which will address specific environmental and social impacts and determine adequate mitigation measures. The ESMPs will have to be disclosed by the client prior to the commencement of civil works. With the anticipated large number of sub-projects (up to 2,441), the first ten ESMPs will require prior review and approval of the Bank, with all following ESMPs being subject to post-review on a selective basis. This approach is taken because all anticipated civil works will be similar in nature, with potential risks to be ranging from moderate to low, limited environmental footprint during the retrofitting and positive environmental impacts during the operation. In addition, the ESMF will provide for a pre-approved template for ESMPs which will facilitate their preparation. The social section of the ESMF will address the organization and the protocols for the project related Grievance Redress Mechanism as well as how the workers related grievance will be established and will function. The activities to be financed will not cause any impacts that is scope of the Land Acquisition, Restrictions on Land Use and Involuntary Resettlement Standard- ESS5. The Labor and Working Conditions- ESS2 will apply to the direct Project Employees, workers hired by third parties (contractor and sub-contractor employees) and to the energy efficiency agency, to be established with the support of the project. The EE fund will be public entity but at the moment it is not know, what will be the format. However, the employees will be hired by the public entity and will fall either under the civil servants category or employees in the public entities (such as funds or public companies). As part of the Community and Health Safety Standard the ESMF will provide framework and site specific ESMP will define potential disturbance to the nearby communities as well as improve the physical accessibility of the selected buildings for retrofitting.

**Areas where reliance on the Borrower’s E&S Framework may be considered:**

Given the weak capacity of the national environmental authorities to handle project related environmental and social aspects, and considering existing deficiencies in the legislation framework related to the integration of social aspects into the environmental due diligence, the Borrower’s framework will not be used for the project as a whole, nor for any of its parts.

**ESS10 Stakeholder Engagement and Information Disclosure**

Stakeholder Engagement Plan will be prepared and developed as soon as possible and the draft acceptable to the Bank team will be ready by appraisal. The Stakeholder Plan will in addition to identification of the stakeholders , and the proposal for the engagement during the all phases (preparation and implementation) will identify vulnerable groups and propose how these groups will have voice in the project. There will be two dimensions of the stakeholder engagement. One within program level. The engagement plan will identify stakeholders - could be industry actors such as construction industry, relevant public entities, sector related associations and professional interest groups as well as other interested associations and civic initiations - and will propose a plan for engagements, on a program and



national level. This is the first dimension. The second dimension is stakeholder identification and engagement within a sub-project level. On a local government and social infrastructure building user level. This is in a community level and it can include, depending of the selected social infrastructure buildings - parents, local government employees, users of the services of the relevant institutions. While on the first dimension stakeholders will be engaged and contribute on program designs and implementation issues the stakeholders on the local level will be engaged and contribute in a sub-project level preparation and implementation (investments)

## **B.2. Specific Risks and Impacts**

**A brief description of the potential environmental and social risks and impacts relevant to the Project.**

### **ESS2 Labor and Working Conditions**

The project will engage direct employees and these will be full time consultants working for the PIU. In addition to the direct employees there will contractors who will engage staff and most probably sub-contractors engaged by the contractor for whom the standards will apply. These will be workers hired from third parties category under standard. Given that the second component will support the government to establish government related public EE fund, and the aim is to establish the fund during the life of the project the scope of the standard will apply also for the EE funds. Most probably the companies engaged will be medium firms and small sub-contractors from the localities or national sub-regions. There is sufficient offer and skill for the types of investments needed for the project within the country. The labor related laws in Macedonia are up to ILO standards and the ESS2 requirement. The social and environmental staff in the PIU will oversee application of the standard and ensure the compliancy. The only GAP is lack of the grievance mechanism for the employees apart from the courts. The project will introduce labor , contractor and sub-contractor workers related grievance mechanism as a part of the labor management procedures in place which will be prepared during the preparation.

### **ESS3 Resource Efficiency and Pollution Prevention and Management**

The project by its nature is expected to significantly improve the use of energy resources and generate significant benefits through the introduction of resource-efficient practices. The design of public buildings eligible for retrofitting will incorporate energy saving features, will aim at maximizing the use of natural lighting and can also suggest resource-efficient measures such as reduction of water loss, paper recycling practices, switch to e-documentation vs. paper-based documentation, etc. The establishment of the Energy Efficiency Fund shall help to make the achievements of the project more sustainable. Environmental damage due to improper management of construction waste, domestic waste and excess material may cause expansion of project's environmental footprint. These risks and required types of mitigation measures will be determined by respective ESMPs. The implementing agency shall commit to require from the selected works contractors to develop detailed Waste Management Plans (WMPs) prior to commencement of the civil works, and enforce their implementation by contractors. WMPs will carry specific information on estimated volumes of various types of waste, including hazardous waste such as asbestos, arrangements for their temporary storage and final placement, and clearances/permits for waste disposal obtained from relevant national authorities. Specific arrangements for re-use or recycling of particular types of waste as well as agreement on hand-over to secondary users will be included where feasible.

### **ESS4 Community Health and Safety**



Adverse impacts on the health and safety of surrounding communities/building tenants and staff may occur during retrofitting/renovation of buildings. Risks include generation of waste, noise, dust, transportation of construction materials, and possibility of unauthorized entrance to renovation sites. There are also risks related to natural disasters such as floods, landslides and earthquakes which should be taken into account when selecting the sub-project sites and preparing the design for building renovation. The types of communities and project-affected persons (PAPs), the types and magnitude of potential negative impacts as well as adequate measures to mitigate the anticipated impacts, including the disaster related ones, will be discussed in the ESMF and further detailed in site-specific ESMPs. Those ESMPs, once prepared, will be duly disclosed and discussed with communities likely to be affected, to raise awareness of the project activities, educate people on potential and precautionary measures to be taken by contractors, including site safety and access restrictions. The project will be used also to assess and if feasible to improve accessibility, for disabled, of the selected facilities.

#### **ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

The EE measures does not foresee any land impact.

#### **ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

This standard is not relevant because the project will support works in the already existing buildings within urban and peri-urban areas, thus, no impact on biodiversity and living natural resources is envisaged.

#### **ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

This ESS is not relevant because no indigenous people are known to reside in Macedonia

#### **ESS8 Cultural Heritage**

Since renovation and retrofitting will be conducted for the public buildings which have been in use for some time, encountering any chance finds in the specific sub-project areas is highly unlikely. However, in order to ensure that no cultural heritage objects, both tangible and intangible are affected by the project activities, the ESMF will provide an overview of respective legislation and major cultural heritage objects country-wide. The ESMF will also set specific criteria to screen sub-projects for potential cultural heritage risks, and provide general requirements to contractors with respect to protection of any cultural heritage objects during the implementation of respective contracts. Site-specific ESMPs will consider the potential impacts in detail. If any cultural heritage object, or intangible cultural heritage, are identified during the preparation of site-specific ESMPs, respective provisions will be incorporated which would call for the civil works to be conducted in such a way as to avoid any potential adverse impacts on historical monuments and other tangible and intangible cultural heritage.

#### **ESS9 Financial Intermediaries**

This ESS is not relevant because no financial intermediaries are party to the project implementation modality.



**C. Legal Operational Policies that Apply**

**OP 7.50 Projects on International Waterways** No

**OP 7.60 Projects in Disputed Areas** No

**III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE**

**A. Is a common approach being considered?** No

**Financing Partners**

The European Commission is supporting a range of municipal infrastructure investments and some energy efficiency grants, mostly through its Instrument for Pre-Accessions Assistance (IPA) mechanism, and is interested to provide increased support for municipal service delivery and energy efficiency in cooperation with the Bank. Ongoing coordination of efforts and partnering to leverage policy reforms and investment financing are underway. There is a positive experience of coordination of such efforts under MSIP 1 & 2, where Bank safeguard mechanisms are applied. It is expected that this approach will be agreed with potential donors in this case as well.

**B. Proposed Measures, Actions and Timing (Borrower’s commitments)**

**Actions to be completed prior to Bank Board Approval:**

- Preparing, disclosing and conducting consultation on the ESMF before appraisal;
- Preparing labor management procedures for the project before appraisal;
- Preparing, disclosing and conduction consultation on SEP before appraisal.

**Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):**

- Preparing, disclosing and obligating works contractors to implement site-specific ESMPs;
- Requiring companies bidding for the delivery of civil works under the project to include their Environment, Social, Health and Safety Code of Conduct into the bidding documents;
- Requiring construction contractors to develop and adhere to the labor management procedures, including GRM for their workers and workers of sub-contractors;
- Reporting to the Bank on the environmental and social performance of the project as part of the established progress reporting procedure

**C. Timing**

**Tentative target date for preparing the Appraisal Stage ESRS** 07-Oct-2019

**IV. CONTACT POINTS**

Public Disclosure





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**Borrower/Client/Recipient**

Borrower: Ministry of Finance

**Implementing Agency(ies)**

Implementing Agency: Ministry of Finance

**V. FOR MORE INFORMATION CONTACT**

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**VI. APPROVAL**

Task Team Leader(s):	Jasneet Singh, Rhedon Begolli
Safeguards Advisor ESSA	Surhid P. Gautam (SAESSA) Cleared on 04-Apr-2019 at 10:30:11
Practice Manager	Sameer Shukla (PMGR) Concurred on 07-Apr-2019 at 17:59:44