

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 28 November 2023¹

MOLDOVA

Moldova Roads Rehabilitation V

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

AADT	Annual Average Daily Traffic
ATQ	Assessment of Transition Qualities
BCR	Benefit-Cost Ratio
BOQ	Bill of Quantities
CIS	Commonwealth of Independent States
CO ₂ e	Carbon dioxide equivalent
CRO	Climate Resilience Outcome
EHSS	Environment, Health, Safety, and Security
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIP	European Union's Economic and Investment Plan
EIRR	Economic Internal Rate of Return
EMP	Environmental Management Plan
ENPV	Economic Net Present Value
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ETI	Expected Transition Impact
EURIBOR	Euro Interbank Offered Rate
FIDIC	International Federation of Consulting Engineers
GNI	Gross National Income
ICE	Internal combustion engine
ILO	International Labour Organization
j-MDB	Joint Multilateral Development Bank
LCP	Low-carbon pathway
LIP	Local Inclusion Partner
MoIRD	Ministry of Infrastructure and Regional Development
NDC	Nationally Determined Contribution
NPV	Net Present Value
OHS	Occupational Health and Safety
OECD	Organisation for Economic Co-operation and Development
PIU	Project Implementation Unit
PSD	Project Summary Document
RAMS	Road Asset Management Systems
RAROC	Risk-adjusted return on capital
RSAu	Road Safety Audit
RTSP	Real Time Streaming Protocol
SEP	Stakeholder Engagement Plan
SIF	Sustainable Infrastructure Fund
SMA	Stone mastic asphalt
SRA	State Road Administration
SSF	EBRD Shareholder Special Fund
TEN-T	Trans-European Transport Network
TLS	Transport and Logistics Strategy
VSL	Value of a Statistical Life

Currency / Exchangerates

Exchangerates EUR / MDL used in the calculations:

Year	2021	H1 2022	2022	H1 2023
Exchange rate - average	20.9255	20.1990	19.8982	19.8854
Exchange rate – end of period	20.0938	20.1130	20.3792	19.9690

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Moldova (the “Borrower”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Borrower in the amount of up to EUR 150 million, tranché. The loan will finance the rehabilitation and widening of the M2 Chisinau ring road (section 2) and the purchase of specialised equipment and software for the Road Asset Management System (Tranche 1) and the rehabilitation of the M1 Chisinau to Leuseni road section (Tranche 2) (together the “Project”).

The Project is of a strategic priority for the Republic of Moldova and will support the Government's efforts to halt the deterioration of the road network and ensure key road links are maintained to acceptable standards to facilitate economic growth, regional integration and connectivity by strengthening core transport links with a focus on extended TEN-T network. The Project is aligned with the European Union's Economic and Investment Plan for Neighbourhood East and its post-2020 Eastern Partnership Priorities, is included in the Eastern Partnership TEN-T Investment Action Plan, and is consistent with the Solidarity Lanes approach by focussing on core corridors to ensure transportation of goods between Ukraine and the European Union.

The expected transition impact of the Project will derive from regional integration by improving transit connection and corridors between its main cities and between Moldovan neighbouring countries (*Integrated Quality*), including a special focus on development of the national E-mobility strategy dedicated to promoting the deployment of electric fleets and vehicle infrastructure in the country. The Project will also support equality of opportunity and human capital development for young people in Moldova (*Inclusive Quality*), by introducing inclusive procurement practices to provide on the job training opportunities for the local youth during construction. In addition, the Project will develop and implement systematic training and onboarding practices to address existing skills gaps within the State Road Administration (“SRA”). The Project is Gender Additional through mainstreaming gender in the forthcoming National E-mobility Strategy. The Project is also digital through the acquisition of the state of the art technologies for the Road Asset Management System.

The pre-signing Technical Cooperation (“TC”) support for the Project preparation has been provided by the Sustainable Infrastructure Fund. The post-signing TCs to support implementation, policy dialogue and capacity building are proposed to be financed by an international donor and/or EBRD Shareholder Special Fund (“SSF”).

I am satisfied that the operation is consistent with the Bank's Strategy for the Republic of Moldova, the Transport Sector Strategy, the Green Economy Transition (“GET”) Approach 2021-2025, the Equality of Opportunity Strategy for 2021-2025, the Strategy for the Promotion of Gender Equality for 2021-2025 and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

MOLDOVA MOLDOVA ROADS REHABILITATION V PROJECT DTM 54423	
Transaction/ Board Decision	Board approval ² is sought for a sovereign loan of up to EUR 150 million, tranché, in favour of the Borrower to finance (i) the rehabilitation and widening of M2 Chisinau ring road (section 2), and the purchase of specialised equipment and software for the Road Asset Management System (“RAMS”) (Tranche 1 [REDACTED]) and (ii) the rehabilitation of M1 Chisinau to Leuseni road (Tranche 2 [REDACTED]).
Client	The Borrower is the Republic of Moldova, represented by the Ministry of Finance. The Project will be implemented by the Ministry of Infrastructure and Regional Development (“MoIRD”), through the SRA (“Implementing Agency”).
Main Elements of the Proposal	<p>Transition impact: The Project will promote the Integrated transition quality by delivering substantial improvements to the current infrastructure between neighbouring countries that currently have inadequate transport links. The rehabilitated roads under the Project, as part of the TEN-T Network extension, are expected to contribute to a fast and safe corridor connecting Ukraine, Moldova and Romania. The Project will also pave the way for future electrification of road transportation by supporting the development of a National E-mobility Strategy for the deployment of EV fleet and charging infrastructure in Moldova. The Project will also support the Inclusive transition quality by promoting equality of opportunity and human capital development for young people in Moldova through introducing inclusive procurement practices to provide on the job training opportunities for local youth. It will also develop and implement systematic training and on boarding practices to address existing skills gaps within the SRA.</p> <p>Additionality: The Bank will provide long-term financing, which is presently not available from local commercial banks and will complement other IFIs. It will also support the MoIRD and the SRA to achieve higher standards through its conditionalities (procurement, environmental and social, gender, digitalisation) as well as support institutional and regulatory changes in the sector. The Bank will also support the SRA in mainstreaming gender in the forthcoming E-mobility strategy to ensure it is gender-responsive (Gender Additional).</p> <p>Sound banking: The transaction is a sovereign loan. The Bank’s Standard Terms and Conditions apply.</p>
Key Risks	<p>Sovereign Creditworthiness: Moody’s improved Moldova’s rating at B3 and stable outlook in August 2023, noting a manageable debt and high debt affordability. Moldova’s public debt was 33.7 per cent of GDP as of the end of 2022 [REDACTED].</p> <p>Implementation: The Project will be implemented by the Implementing Agency’s staff, which has previous experience in implementing IFI-funded projects and will be supported by an independent Supervision consultant. The Lender’s Monitor will provide additional oversight and will enhance monitoring activities. All works and services financed from the Bank’s loan will be procured following an open tendering procedure in accordance with the requirements of the Bank’s Procurement Policies and Rules (“PP&R”) for public sector operations.</p>
Strategic Fit Summary	The Project is consistent with the Bank’s Strategy for Moldova, the Bank’s Transport Sector Strategy and with the Agreement Establishing the Bank. The Project’s focus on human capital development and promotion of equality of opportunity is in line with EBRD’s 2021 – 2025 Strategic Capital Framework, as well as the Bank’s Equality of Opportunity Strategy for 2021 – 2025, and its Strategy for the Promotion of Gender Equality for 2021 – 2025.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign loan of up to EUR 150 million in two tranches to the Borrower to finance:</p> <ul style="list-style-type: none"> • Tranche 1 [REDACTED] for the rehabilitation and widening of M2 Chisinau ring road (section 2) and the purchase of specialised equipment and software for the Road Asset Management System (committed upon signing); and • Tranche 2 [REDACTED] for the rehabilitation of M1 Chisinau to Leuseni road section (to be committed upon the completion of relevant due diligence). <p>[REDACTED]</p>
Existing Exposure	Sovereign exposure: The total amount of sovereign portfolio stands at EUR 698 million, of which EUR 208 million is operating assets(OpID numbers: 40267; 41442; 42856; 44085; 45094; 46112; 47087; 50601; 52019; 52512; 53417; 54122).
Maturity / Exit / Repayment	Tenor is 18 (eighteen) years [REDACTED]
Potential AMI eligible financing	None.
Use of Proceeds - Description	<p>The proceeds of the loan will be used to finance</p> <ul style="list-style-type: none"> - civil works contracts in relation to the rehabilitation and widening of the M2 Chisinau ring road (section 2, ca. 8.22km) and the rehabilitation of the M1 Chisinau to Leusieni road section (up to ca. 100km); - consultancy contracts for the related Supervision support; - goods contract for the purchase of specialised equipment and software for the Road Asset Management System.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<p>Ministry of Finance</p> <p>Ministry of Infrastructure and Regional Development</p> <p>State Road Administration</p>
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan.
Other material agreements	<p>Loan Agreement between the Bank and the Borrower.</p> <p>Project Agreement between the Bank and the SRA.</p>
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-Signing:</u></p> <ul style="list-style-type: none"> • TC 1: Environmental and Social Assessment and Road Safety Audit (for Tranche 2). The cost of the assignment is EUR 74,850, financed by the Sustainable Infrastructure Fund (“SIF”). • TC 2: Feasibility Study (for Tranches 1 and 2). The cost of the assignment is EUR 262,930, financed by the SIF. <p><u>Post-Signing:</u></p> <ul style="list-style-type: none"> • TC 3: National E-Mobility Strategy to assist the MoIRD, in coordination with relevant stakeholders, to develop a gender-responsive E-Mobility Strategy for Moldova including an Action Plan in line with international best practice. [REDACTED] • TC 4: Inclusive Procurement and SRA Training Facility. [REDACTED]

	<ul style="list-style-type: none">• TC 5: Lender's Monitor to monitor the Project's progress, support the Bank with regular updates and provide technical and engineering support in reviewing and responding to the Client's requests. [REDACTED] <p>B. Blended Concessional Finance None</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Moldova is a landlocked country situated between Romania and Ukraine, with the exception of a short frontage of 500-800m on the river Danube in the extreme south of the country where the EBRD-financed International Port of Giurgiulesti is located. The Pan European Corridor IX, linking Moscow, Kyiv and Bucharest, runs east-west through Moldova, passing through the capital, Chisinau and its ring road, and further via M1 Chisinau- Leuseni. This corridor also has connections to the southern ports of the Black Sea and Istanbul, which provide access eastwards to the Caucasus and Central Asia.

To secure sustained economic growth, Moldova's road sector must provide improved access to EU markets and maintain access to its traditional markets in the CIS countries and beyond. Whilst the war in Ukraine and the sanctions imposed by the EU on Russia have severed these traditional trade links, Moldova's strategic position is of great importance to ensure transportation and continued trade flows from Ukraine to Romania, to the Danube river via Giurgiulesti port, and to other EU countries. Furthermore, it is also necessary to take a long-term view when planning improvements to Moldova's road network. [REDACTED]. The Bank's continued engagement in the road sector in Moldova, working closely with the Government and other financial institutions and donors, financing priority investments, ensures that road network improvements are implemented to enhance the road infrastructure and to increase the effectiveness of its road networks.

The Bank has been active in the road sector in Moldova for many years, supporting the rehabilitation of priority road sections on key European networks. Through its ongoing policy dialogue, the Bank has also worked closely with the Government to improve the road infrastructure, governance and transparency. It is achieved through reforming routine maintenance procedures and promoting the private sector involvement in periodic road maintenance through competitive tendering, enhanced road safety and streamlined procurement processes.

As part of the Government's efforts to deliver on the ongoing road rehabilitation programme, with the funding from the IFIs, as well as intensified road maintenance focus, the Government has approached the Bank with a new request to provide long-term financing for the Project roads and to support investments in the Road Asset Management System. The Project is expected to bring the roads to motorway standards addressing road safety aspects; increase and improve transport volume of freight and passengers between the countries of the region and consequently, generate positive social impacts in terms of employment, enhance connectivity and seamless integration within the region.

The Project is aligned with the Economic and Investment Plan (the "EIP") for Neighbourhood East and its post-2020 Eastern Partnership Priorities, in particular, its priority to enhance transport connectivity by strengthening core transport links with a focus on extended TEN-T network. The Project is included in the Eastern Partnership TEN-T Investment Action Plan³ and is considered under one of the five flagship initiatives identified for Moldova under the EIP, namely "Flagship 4: Improving connectivity – anchoring Moldova in the Trans-European Network for Transport". The Project will support country and regional connectivity through

³ [Amendment to TEN-T Network](#), July 2022

the rehabilitation of priority roads between Moldova, the European Union and Ukraine. The Project is also consistent with the Solidarity Lanes by focussing on core corridors to ensure that Ukraine can export grain and other agricultural products and import the goods it needs.

Moldova faces a number of challenges related to human capital. In the last three decades, Moldova's population has fallen by 26 per cent, mainly due to emigration. A growing number of young people leave Moldova due to economic reasons – poverty, lack of decent employment opportunities, and low salaries are the main factors fuelling youth migration⁴. Young people face a clear labour market disadvantage in Moldova. According to the Organisation for Economic Co-operation and Development (“OECD”), although the rate of youth unemployment (15.8 per cent for male and 14.9 per cent for female youth) is comparable to the average of other countries in the EU, the risk of being unemployed is twice as high for young people as for adults. On the other hand, more than a quarter of firms reported having experienced a labour shortage, mostly due to a lack of qualified staff. Employers felt strongly that applicants do not possess the skills required to be effective workers⁵. Gender inequalities are still present in the workplace and strengthening the female labour participation rate will require addressing discouraging social norms.

To address these challenges, it is vital to expand access to market relevant skills and training for young people. The Project will thus support the Client to introduce inclusive procurement to commit the selected contractors for road rehabilitation works on the two sections to provide on-the-job training as part of construction, enhancing the trainees' overall competitiveness in the market and supporting them to seek and retain income-generating opportunities. The Project will also provide policy recommendations to support the SRA in mainstreaming inclusive procurement in upcoming infrastructure projects. Additionally, in response to the lack of any existing training, professional development and formal onboarding arrangements for staff, the Project will support the SRA in establishing its first dedicated in-house training facility focusing on the development of occupation-critical skills integral for core operational functions for the Procurement and Engineering departments. The Project is Gender SMART through mainstreaming gender in the forthcoming National E-mobility Strategy to ensure that women's perspectives and needs are an integral dimension of the design, implementation, monitoring and evaluation of policies and initiatives related to electric mobility and that women are actively involved in decision-making and can benefit equally from the opportunities created by the nascent sector.

The Project is consistent with the Bank's Strategy for the Republic of Moldova, aiming to enhance inclusive infrastructure development, thereby fostering economic growth, improving connectivity, and promoting trade. This is achieved through “supporting road networks, including those that are part of TEN-T” and “support ... skills initiatives to address gaps, including to develop green skills, and create a better qualified and gender inclusive workforce”. The Project is also consistent with the Bank's Transport Strategy, which identify “Investment in upgrading and modernising of motorways, national, regional, local and rural cross border road infrastructure...” and “investment in and planning for road transport charging infrastructure growth to facilitate move from short distance, urban fleet electrification to electrification of long-distance...”.

⁴ [Key Issues affecting Youth in Moldova - OECD](#)

⁵ [Skills mismatch measurement Moldova.pdf \(europa.eu\)](#)

1.2 TRANSITION IMPACT

Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	The Project delivers material quality improvements of the current infrastructure between or within regions that are currently inadequately integrated.	<p>The Project will facilitate Moldova's economic development and its physical integration by improving transit connections and corridors between its cities and between Moldova and neighbouring countries, including Ukraine and Romania. The Project will also improve the road infrastructure between cities and on key corridors/regional connections through the rehabilitation of the M2 Chisinau ring road (section 2) and the M1 Chisinau to Leuseni road section, which are in poor condition.</p> <p>The Project also envisages TC support to assist Moldova in the development of a National E-mobility Strategy (and Action Plan) fully dedicated to promoting the deployment of electric fleet and charging infrastructure in the country. [REDACTED]. The National E-mobility Strategy (and Action Plan) is envisaged to (i) develop a roadmap for the most cost-effective and fastest introduction of electric fleet and charging infrastructure; (ii) assess the baseline, identify existing challenges and policy gaps; (iii) coordinate all relevant stakeholders; (iv) outline an approach for the development of incentives, public awareness and resource mobilisation; and (v) define relevant actions, policy measures and infrastructure needs. Gender equality considerations will be mainstreamed throughout.</p>

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	EMPLOYABILITY: The Project broadens access to market-relevant skills and training opportunities, boosting the supply of human capital with demonstrably high need and outstanding effectiveness.	The SRA will, for the first time in the country, integrate inclusive procurement requirements as part of the tender process for road rehabilitation works. As a result, contractors will be committed to provide on the job training for the local youth as part of the road construction. This will complement certified theoretical training on construction currently delivered by the National Employment Services and undergraduate engineering education delivered by local universities. On-site training opportunities will be provided for [REDACTED] young people during construction.
	EMPLOYABILITY: The Project delivers inclusive business policies, practices or standards at the client level with verifiable commitment within 1-2 distinct behavioural change areas	<p>The Project will also realise significant improvements in the SRA's practices under two distinct behavioural change areas.</p> <p>The Project will develop policy recommendations on incorporating inclusive procurement in upcoming infrastructure tenders which will be adopted by the SRA. These improved practices will ensure that the SRA replicates the approach in [REDACTED] future tenders [REDACTED] to support on-the-job training, build human capital and promote economic opportunities for new entrants into the workforce.</p>

		Additionally, in response to the lack of any existing training, professional development and formal onboarding arrangements for staff, the Project will support the SRA in establishing a dedicated in-house training facility. The training will focus on developing occupation-critical skills integral to core operational functions for the Procurement and Engineering Management departments, tangibly upgrading their training practices and developing a talent pipeline to respond to their ongoing business needs.
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Delivery Risk: Delivery risks to the transition impact relate to the Client's willingness to deliver on the reform agenda, including the development and adoption of the National E-mobility Strategy and the implementation of the Inclusive Procurement. These risks are mitigated by (i) the key benchmarks associated with the National E-mobility Strategy and Inclusive Procurement being covenanted in the Project's legal documentation; (ii) the Government's strong commitment to the Paris Agreement's objectives⁶ and willingness to address skill gaps; and (iii) the Bank-funded TCs tailored to support the Client to deliver on transition objectives and provide targeted training to the Client's staff.

Digital Approach: The Project is aligned to the Adaptation area of intervention outlined in the EBRD Approach to Accelerating the Digital Transition 2021-2025; the digital component of the Project is in support of the Integrated Transition Quality through the enhancement of the RAMS. This enhancement aims to optimise the management and maintenance of road infrastructure, thereby ensuring the safety, efficiency, and long-term sustainability of the road network. For more details please refer to Annex 4.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client with the same use of proceeds and in the same destination country	The Project is a repeat sovereign transaction with Moldova and the MoIRD / SRA in the road sector.
Additionality sources:	Evidence of additionality sources:
Financing Structure <ul style="list-style-type: none"> - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions [REDACTED]. Such financing is necessary to structure the Project. - EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. 	<ul style="list-style-type: none"> - The Bank will provide the necessary long-term financing with tenor [REDACTED] longer than currently available in the market for the road sector. Due to current market inefficiencies, such financing is not readily available from commercial banks. - The Project is part of a larger investment programme co-financed by other IFI and international donors.
Risk mitigation <ul style="list-style-type: none"> - EBRD's long-term relationship with key parties provides comfort to them to be willing to take on more risk. 	<ul style="list-style-type: none"> - EBRD's long-term relationship and ongoing policy dialogue with the Government, the MoIRD and the SRA enables the Bank to promote further the reform agenda in the road sector and go beyond what commercial funding or public sources would require, including procurement procedures, environmental and social requirements, gender and equality, digital. - The Project will leverage the results achieved through the EBRD's previous projects in the road sector in Moldova.

⁶ [Updated Nationally Determined Contribution of the Republic of Moldova](#)

Knowledge and innovation - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project's objectives.	- EBRD provides expertise, innovation, knowledge and capabilities that are material to the timely realisation of the Project's objectives supplemented by the related TC support.
Standard-setting: helping projects and clients achieve higher standards Gender SMART: The client seeks use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans.	- The EBRD will support the Client in mainstreaming gender equality considerations in the upcoming E-mobility strategy to ensure that women's perspectives and needs are an integral dimension of the design, implementation, monitoring and evaluation of policies and initiatives related to electric mobility and that women are actively involved in decision-making and can benefit equally from the opportunities created by the nascent sector.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Sovereign risk / Moldova's creditworthiness as the Borrower	Medium / High	According to Moody's, improvements to energy security, combined with substantial financial support from international partners, have helped mitigate negative spillover effects from the war in Ukraine. Moldova's economic and fiscal positions have demonstrated better-than-anticipated resilience to challenging external conditions. Historically a heavy importer of Russian energy products, the country has worked to improve its energy resilience since the start of the war. Financial and technical support from bilateral and multilateral partners has allowed Moldova to diversify its energy consumption, switching from natural gas to heavy fuel oil for heating, while also building its natural gas reserves. Synchronisation with the Continental European Grid has also enabled electricity imports from the European Union. Furthermore, Moody's expects international support for Moldova to continue, providing a financial cushion against negative shocks while also encouraging institutional reforms. According to the IMF (April 2023), Moldova remains at low risk of external and overall debt distress.
Construction / Implementation risk	Low / High	The Project will be implemented by the Implementing Agency's PIU, which has extensive experience in implementing IFI-funded projects. All works and services financed from the Bank's loan will be procured following an open tendering procedure in accordance with the requirements of the Bank's PP&R for public sector operations. The PIU will be supported by the PIU Support Consultant funded by the EIB, covering both EIB's and EBRD's projects. The Lender's Monitor will also provide monitoring oversight and checks on behalf of the Bank.

2. MEASURING / MONITORING SUCCESS

Primary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	TC
1.1	New or updated technology introduced	Purchase of specialised equipment and software to enhance the Road Asset Management Systems to support the rehabilitation of the roads, their maintenance and road safety, including the M2 Chisinau Ring Road	No	Yes	[REDACTED]	N

		Sections and M1 Chisinau to Leuseni Road Section.				
1.2	Improved quality of infrastructure within regions	Rehabilitated and widened M2 Chisinau Ring Road (Section 2), which will facilitate (in terms of capacity and traffic safety) the forecasted increase in the Annual Average Daily Traffic (AADT) [REDACTED]. Rehabilitated M1 Chisinau to Leuseni road section, which will facilitate (in terms of capacity and traffic safety) the increased AADT (to be determined by the due diligence results).	No	Yes	[REDACTED]	N

Secondary Quality: Inclusive

<i>Obj. No.</i>	<i>Monitoring indicator</i>	<i>Details</i>	<i>Baseline</i>	<i>Target</i>	<i>Due date</i>	<i>TC</i>
2.1	Tailored training programme developed and implemented [Donor TC]	As a result of the introduction of inclusive procurement by the SRA, the contractors will provide on the job training for unemployed youth.	No	Yes	[REDACTED]	Y
2.2	Practices of the relevant stakeholder improved (skills development) [Donor TC]	The SRA will establish a dedicated in-house training facility focused on the development of occupation-critical skills for existing and new staff in procurement and engineering management departments. As a result, the average time spent on onboarding activities by management staff will decrease [REDACTED], which will be verified through an employee time use survey.	No	Yes	[REDACTED]	Y
2.3	Practices of the relevant stakeholder improved (inclusive value chain) [Donor TC]	Through the policy recommendations developed under the TC support, SRA will replicate the Inclusive Procurement approach in at least 2 future infrastructure tenders in the next 5 years.	No	Yes	[REDACTED]	Y
2.4	Number of individuals enhancing their skills as a result of training [Donor TC]	[REDACTED] young people will be trained by the contractors as a result of the introduction of inclusive procurement practices. A 50:50 split between male and female trainees will be sought for all engineering trainees.	0	50	[REDACTED]	Y

3. KEY PARTIES

3.1 BORROWER

The Borrower is the Republic of Moldova, represented by the Ministry of Finance.

3.2 IMPLEMENTING AGENCY / CLIENT

The Implementing Agency is the MoIRD, operating via the SRA. Planning and oversight of the road network in Moldova is the responsibility of the MoIRD who also controls the SRA, which is the agency responsible for executing road investments, maintenance and safety measures.

The SRA is responsible for the efficient administration of the financial resources allocated from the state budget, the road fund and external sources for the rehabilitation, development, modernisation and maintenance of the national public road network of the Republic of Moldova.

4. MARKET CONTEXT

The total length of the Moldovan road network is 10,544 km (3,667 km national roads, 6,867 km local roads, including a number of bridges with a total length of 25.9 km). The road network is sufficiently developed, but its condition is considered poor and it requires rehabilitation and modernisation. According to the latest data, available through the SRA, 92.5 per cent of the national and 46.1 per cent of the local roads possess either permanent or semi-permanent pavement structure (asphalt concrete, cement concrete, and bituminous mixtures); the rest being macadam or earth roads. Road safety remains the Government's priority, including through the implementation of the approved National Road Safety Strategy, focusing on the roads condition improvements, driver behaviour and enforcement of traffic rules.

The Government is developing the Mobility Strategy for 2023-2030 that defines the Government's policy in transport and transport infrastructure, in order to develop an accessible, sustainable, interoperable and safe transport system, in line with the provisions of the National Development Strategy "European Moldova 2030".

The Mobility Strategy aims to set the objectives that will ensure the sustainable development of the transport sector and an efficient management in order to improve the efficiency of passenger and cargo transport, improve the infrastructure, the connectivity of the strategic transport network of Moldova to international transport networks, especially the Trans-European Transport Network (TEN-T), with a minimal impact on environment.

5. ECONOMIC ANALYSIS

5.1 SOVEREIGN ASSESSMENT

Moldova is one of the economies hardest hit by the war on Ukraine, with gross domestic product (GDP) falling 5.0 per cent in 2022. Soaring inflation (peaking at 34.6 per cent in October 2022) and tight monetary policy stifled domestic demand, while a severe drought led to a steep decline in agricultural production. These negative trends continued in the first half of 2023, when GDP contracted by 2.3 per cent year on year, mainly due to a further 4.7 per cent fall in private consumption. Industrial output dropped 7.6 per cent year on year during the

same period and exports of goods declined 10.9 per cent. With imports remaining flat, the current account deficit-to-GDP ratio remained at double-digit levels. On a more positive note, the combination of more stable energy prices and tight monetary policy contributed to a sharp deceleration in the annual inflation rate, to 10.8 per cent in July 2023, allowing the National Bank of Moldova to cut the policy rate to 6 per cent.

Official creditors' external financing is supporting the Republic of Moldova. In April 2023, the International Monetary Fund (IMF) approved the disbursement of USD 96 million for immediate budgetary support out of a total USD 795 million from the Extended Credit Facility /Extended Fund Facility. In addition, the EU increased its Macro-Financial Assistance by EUR 145 million in January 2023, while the World Bank paid out additional grant funding of USD 43 million in May 2023 through its emergency response.

The progress achieved on energy resilience and the expected rise in real incomes are likely to improve growth prospects in 2024. EBRD forecasts no GDP growth in 2023, followed by growth of 3.5 per cent in 2024. The prospects for the EU accession and associated reforms could drive a stronger recovery in the medium and long term.

In 2022, Moldova's public debt as a percentage of GDP increased to 33.7 per cent (USD 4.6 billion) from 28.1 per cent in 2019 due to COVID-19 response costs. Around 57.5 per cent of this debt is in foreign currency, largely owed to multilateral donors with concessional terms. Public debt is expected to peak at 37.1 per cent of GDP in 2025 due to developmental spending, but risks include economic shocks, currency depreciation, contingent liabilities, and a lack of structural reforms. Maintaining fiscal discipline is crucial for sustaining public debt.

5.2 ECONOMIC AND SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP) for Tranche 1 and 2. Tranche 1 was subject to Environmental and Social Due Diligence (the "ESDD") and Road Safety Audit (the "RSAu") conducted by independent consultants. ESDD and RSAu for Tranche 2 are ongoing, and the ESAP will be updated accordingly for Tranche 2 prior to its commitment.

Findings from the ESDD and the RSAu for Tranche 1 and preliminary findings for Tranche 2 suggest that, in general, the Client complies with EBRD's Performance Requirements ("PRs") and potential E&S impacts can be limited and addressed through good international construction practice and additional mitigation measures.

The ESDD has also confirmed that the overall capacity of the Implementing Agency and related Environment, Health, Safety, and Security ("EHSS") management systems are generally aligned with the Bank's PRs. Furthermore, this is an existing client of the Bank and has demonstrated satisfactory performance to date on the previous projects.

It is understood that the Project may be subject to local Environmental Impact Assessment ("EIA"). However, this still needs to be decided by the local authorities.

The ESDD also included an assessment of the Client's past engagement and the development of a Stakeholder Engagement Plan ("SEP") for the Project. The ESDD confirmed the need to improve stakeholder engagement as several concerns and requests have been received from the public. Consultation activities are to be strengthened with the Project affected people and all affected Local Public Authorities. Additional information will be needed to cover the benefits and impacts of the Project with more specific information in relation to road safety, bicycle lanes, informal businesses and accessibility. Furthermore, continuous stakeholder consultation activities are required in parallel with the project development in line with the SEP.

Occupational health and safety ("OHS") risks are related mainly to the construction phase and will be further elaborated and included in a Construction Environmental and Social Management Plan to be provided by the contractors. The construction contractors will be required to comply with the relevant requirements in PR2; recruitment procedures and adoption of a workforce Code of Conduct addressing the Gender-Based Violence and Harassment (GBVH) issues and accommodation standards. If any on-site accommodation is required for the workforce, it will need to be sited appropriately to minimise E&S impacts and align with the EBRD/IFC worker accommodation guidelines.

There is no physical resettlement associated with the Project. However, the Project requires certain land acquisition of 105 private land plots, 97 public land plots and permanent economic displacement for two businesses, including a petrol station and office building. ESDD highlighted the potential for additional land being required if the design changes and for construction purposes, all of which still require further consideration. The exact number of plots is required to be confirmed following the completion of the ESDD.

A Resettlement Policy Framework has been updated to be in line with both national and EBRD requirements. Once the design is finalised, the Project is required to prepare and publicly disclose a Resettlement Plan, which will include further socio-economic surveys and a full census of the affected plots and businesses.

The Project implementation is limited to the urban area within the boundaries of the existing urban development and no sensitive ecological receptors or protected zones will be affected. No negative biodiversity impacts are expected. Additional noise impact analysis identified areas where the installation of noise screens and additional monitoring are required, and these requirements have been incorporated into the Project.

The RSAu has been completed and identified potential impacts on the residential areas and pedestrian infrastructure along the road and specifically on vulnerable road users, including children, elderly and women. Specific recommendations to improve road design and add specific road safety measures have been provided and are under discussion with the Client and need to be integrated into the Project's design.

The ESDD has identified several areas for improvement to be further addressed through the implementation of an ESAP. Focus is needed on management systems, labour, land acquisition, stakeholder engagement and health and safety. The ESAP has been developed to address the issues raised above and to include further improvements to the environmental and social management at all stages of the Project implementation. Among others, the ESAP includes design change management procedure to assess the E&S risks and impacts of any material changes; inclusion of E&S provisions in the construction contracts and preparation and implementation of a Construction Environmental and Social Management Plan; integration of climate adaptation measures, improvements in noise monitoring; formalising and developing improved labour and OHS procedures and practices; a Traffic Management

Plan, Emergency Preparedness and Response Plan during construction in accordance with PR2 and PR4; development and implementation of a Resettlement Plan. In addition, a workers' grievance mechanism will be implemented by both the Client and the construction contractor. The ESAP and RSAu recommendations have been agreed in principle with the Borrower and are set to be incorporated into the Project Agreement.

The environmental and social performance of the Project and implementation of the ESAP will be monitored through annual E&S reports and site visits when deemed necessary.

6.2 INTEGRITY

Updated integrity due diligence was undertaken on the relevant ministers as well as the senior management of the SRA. The review did not identify negative findings on any of the counterparties. [REDACTED].

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project. The Project files contain the integrity checklists and other required documentation, which have been properly and accurately completed to proceed with the Project.

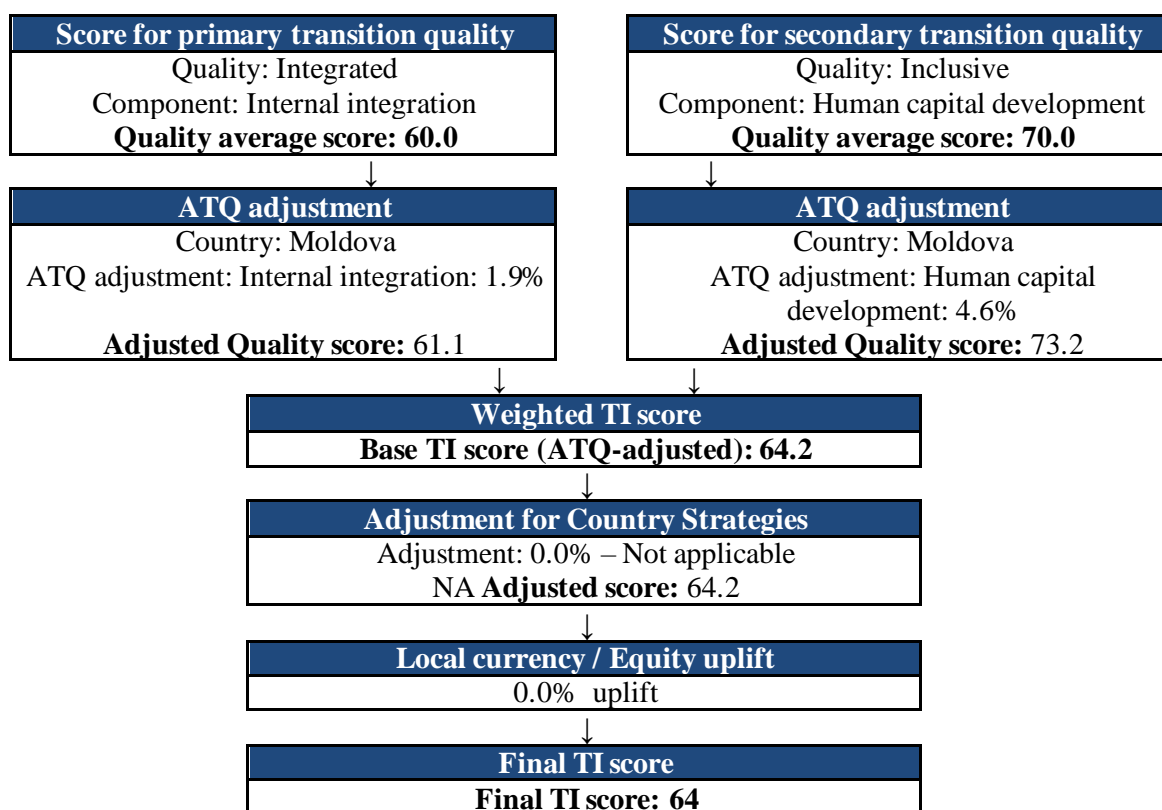
ANNEXES TO OPERATION REPORT

ANNEX 1	The Project Map
ANNEX 2	Transition Impact Scoring Chart
ANNEX 3	Green Assessments
ANNEX 4	Digitalisation
ANNEX 5	Project Implementation

ANNEX 1: THE PROJECT MAP



ANNEX 2: TRANSITION IMPACT SCORING CHART



ANNEX 3: GREEN ASSESSMENTS

Introduction

This green assessment only covers Tranche 1 for the rehabilitation and widening of the M2 Chisinau Ring Road (section 2 as a segment of the national road M2, for a total of 8.2 km), to be committed at signing. Tranche 2 will be assessed prior to its commitment.

The design foresees upgrade (widening and renovation) of the existing infrastructure to reach the express road standard - two lanes both ways. The Project is included in the Eastern Partnership TEN-T Investment Action Plan and is considered under one of the five flagship initiatives identified for Moldova under the European Union's Economic and Investment Plan (EIP), namely "Flagship 4: Improving connectivity - anchoring Moldova in the Trans-European Network for Transport". **The Project is assessed as positively aligned for both the mitigation and adaptation goals of the Paris Agreement.** In line with the GET Handbook and the j-MDB methodology for attribution of climate adaptation finance, the Project is attributed 25 per cent GET for adaptation.

Paris Agreement alignment

Alignment with the mitigation goals of Paris Agreement

The Project was subject to a specific assessment for alignment with the mitigation goals of the Paris Agreement. The key findings from this assessment are as follows:

The Project is consistent with the Moldova Nationally Determined Contribution (NDC). Republic of Moldova is committed to an unconditional target of 70 per cent reduction of its net greenhouse gas emissions by 2030 as compared to 1990 levels, as stated in its NDC2 submitted in 2020⁷. The 2050 Low Emission Development Strategy is under elaboration. Transport contributed 16.7 per cent of total emissions in 2019. The NDC does not quantitatively disaggregate the contribution of individual sectors emissions reductions to the unconditional target. As such, it is not possible to draw any further conclusions from the NDC.

The Project is consistent with a low-carbon pathway (LCP). In the absence of a national low-carbon pathway for passenger and freight connectivity, the Bank assessed the Project against the EU LCP considering Moldova is targeting EU accession, implies alignment with EU ambition on transport decarbonisation. Consistency of the Project with the LCP primarily entails being compatible with EVs and other alternative fuel vehicles, and being able to accommodate infrastructure required for charging of future low-carbon vehicle fleets. The Project is an 8.2km section of a ring-road of the city of Chisinau. Along the section, there are four EV charging points active and this number will likely increase over time as EV adoption increases and policies are adopted to promote EV charging capacity deployment.

The Project demonstrates a low-risk of carbon lock-in. Road infrastructure delivers passenger and freight connectivity, and the infrastructure needs to be considered in the context of a wider transportation system alongside other modes. This Project is part of Eastern Partnership TEN-T Investment Action Plan for Moldova, the section being part of the TEN-T corridor connecting the Romanian border with the Ukrainian Border. The Eastern Partnership TEN-T corridor network in Moldova is conceived alongside alternative modes, including rail. Other parallel investment programs are supporting the upgrade of the railway sector in the country, so the Project does not lock-out increased investments in, and usage of, rail transportation. Carbon lock-in assessment also looks at whether there is a high likelihood of transition to low-

⁷ <https://unfccc.int/NDCREG>

carbon vehicle fleets within the lifespan of the asset. Scenarios for fleet electrification were prepared for the Bank as part of technical due diligence to inform the economic assessment. The scenarios set out the expected uptake of electric vehicles based on current market trends and scenarios. Conservative scenarios see a significant displacement of internal combustion engine vehicles in the overall fleet. Given that the Project is conceived in the context of an integrated planning process (TEN-T), is an existing inter-urban road, does not prevent alternative modes from being developed, and there is a high likelihood of transition to low carbon vehicle fleets, the risk of carbon lock-in is assessed as low.

The Project is economically viable, incorporating a shadow price of carbon. The Project has an annual average absolute scope 3 emissions of 147ktCO₂e during the evaluation period (2027-2056) and an annual average net scope 3 decrease of 3.8kt CO₂e per year compared with the no project scenario. The traffic and economic assessment of the M2 Chisinau ring road section 2 results in a positive economic case incorporating a shadow price of carbon, compared with a no-project scenario.

Based on the assessments undertaken above, the Project is considered aligned with the mitigation goals of the Paris Agreement.

Alignment with the adaptation goals of Paris Agreement

A comprehensive climate risk assessment identified extreme heat events as the major hazard of relevance for the road. Flooding risks were also assessed in detail. Suitable resilience measures will be included in the Project (see GET section below). Such specific measures include the use of a pavement mixtures resistant to high temperatures and adapting the drainage and culvert design to reduce the likelihood of surface water flooding and damage on the road.

As such, the Project is considered aligned with the adaptation goals of the Paris Agreement.

GET attribution

A GET share of 25 per cent for adaptation is attributed to this Project following the methodology set out in the GET Handbook. The three step approach in line with j-MDB methodology for attribution of climate adaptation finance is presented below.

Step 1 – Climate vulnerability context

In the context of this investment the EBRD engaged an independent assessment of the M2 Chisinau ring road section 2, mapping in detail the exposure of road to climate vulnerabilities. This climate risk assessment identified extreme temperature as the major vulnerabilities for the road, as well as potential risks extreme precipitation. Spells with consecutive days of extreme heat are projected to increase, and even if average precipitation should decrease in the Project area, small increases in one-day precipitation volumes will be observed. The zone of the Project is flat and crosses urban areas so landslide and wildfire risks are non-material.

Step 2 – Statement of intent

The EBRD engaged with the Client to improve the resilience of the Project to the identified climate hazards, in particular extreme temperatures and potentially extreme precipitation. The Project includes appropriate measures in both the design and operation phases that have already been integrated in the design requirements and there is an agreement of the Ministry of Infrastructure and Regional Development to address the relevant physical climate risks.

Step 3 – Link between climate vulnerability and project activities

A number of climate resilience measures are integrated into the design and operation of the Project. These measures are designed to reduce the exposure of the system to a hazard; reduce

the consequence of a hazard event; or improve the recovery from a hazard impact. Specific measures within the Project that address the identified vulnerabilities include, among others:

- Improved drainage design to reduce the likelihood of surface water flooding and damage on the road.
- Use of road design components (asphalt type) which are more resilient to extreme heat events

GET Adaptation Finance Attribution

The GET adaptation finance assessment is based on reductions in both weather-related damage to the road infrastructure and weather-related disruption to traffic on the road network that result from financing and implementing a climate-resilient road design. Specifically, the impact of pavement measures is estimated to reduce vulnerability to damage and disruption from extreme heat events. Following the GET adaptation methodology adopted in August 2023 the Project:

- Delivers physical Climate Resilience Outcome (CRO) in response to identified risks that can be clearly described (+10 per cent GET)
- CRO higher than 10 per cent resulting from weather-related damages savings. (+10 per cent GET)

The GET adaptation attribution of the Project is therefore 25 per cent.

ANNEX 4: DIGITALISATION

The Client, with support from the World Bank, has identified thirteen distinct investments in specialised equipment and software. These investments are aimed at improving the RAMS, which play an important role in facilitating the rehabilitation and maintenance of roads. Among these investments, the Digital Hub has identified nine as digital investments in cutting-edge technologies tailored for road construction and maintenance. These technologies enable extensive utilisation of data and promote evidence-based decision-making to support the Integrated transition quality. It is noteworthy that at least six of these investments, described below, represent the state of the art technology.

- **Software for roads and bridge design, including 3D Modelling and Building Information Modelling (BIM) functionalities.**
- **Road Surface Inspection Systems** are installed on specialised vehicles equipped with various sensors and cameras that collect data as they drive along roads, highways, or streets. In this context, used to measure the road structure and pavement thickness, it should be essential to enhance road safety and improve the overall quality of the construction. It shall also support road asset management and play a crucial role in maintaining and managing road infrastructure efficiently and cost-effectively by identifying and addressing road surface issues, such as cracks, potholes, rutting, surface wear, and other forms of damage or deterioration, in a timely manner. Road Scanner vehicles are more efficient than traditional manual inspections, as they cover large stretches of road quickly and systematically and allow the implementation of preventive and targeted maintenance, safety improvement and reduced vehicle damages. Effective road maintenance reduces the need for more extensive reconstruction work, which can have environmental benefits, including lower energy consumption and reduced material waste. Associated with AI solutions, it shall enable predictive maintenance of assets.
- **Laser Crack Measurement Systems (LCMS)** are advanced tools to measure the width, length, and depth of cracks precisely and with exceptional precision, providing critical data for evaluating road conditions and planning maintenance and rehabilitation efforts. LCMS technology automates the crack measurement process, significantly improving efficiency compared to manual inspection methods. It can survey extensive stretches of the road quickly and accurately, leading to cost savings and more efficient maintenance operations for safety quality control purposes during road construction and rehabilitation projects. It ensures that cracks are repaired to the appropriate standards. LCMS technology is a valuable asset in the field of road infrastructure management. It aligns with the principles of digital transformation by automating data collection and analysis, enabling data-driven decision-making, and optimising maintenance practices.
- **Asset Management: The road asset management system includes innovative algorithms to optimise maintenance policies and bridge management systems.** Such platforms incorporate data from various sources, including inspection reports, sensor data, and design information, into a centralised digital platform. They are critical components of digital transformation within the field of infrastructure management, including road construction and maintenance. These systems leverage digital technologies and data-driven approaches to optimise the management of assets, improve decision-making, and enhance overall efficiency.
- **Geographic information system (GIS)** - ArcGIS Road Infrastructure is a platform and associated datasets and tools designed to manage, analyse, and visualise information

related to road networks and associated infrastructures, including geospatial data layers representing road networks, roads, highways, bridges, tunnels, intersections, and signage. This enables the integration of various data sources, including Global Positioning System (GPS) data, survey data, remote sensing data, and third-party data sets, to create a comprehensive view of road infrastructure and allows transportation agencies to track asset conditions, maintenance history, and lifecycle. It also helps to optimise road network operations, emergency response, safety, and sustainability of road networks through effective data management. Finally, it contributes to road integration as it facilitates data sharing within transportation agencies and with external stakeholders, fostering collaboration and data-driven decision-making.

- Expansion of an existing **AI-based traffic monitoring system**, based on deep neural networks, used for the detection and classification of objects (such as transport units) and evaluation of their trajectories in real-time using the Real Time Streaming Protocol (RTSP) camera stream and software that allows remote control and configuration. It allows the prioritisation of capital work interventions on a timely basis, depending on the intensity and structure of road traffic.

ANNEX 5: PROJECT IMPLEMENTATION

Procurement classification:

Public sub-sovereign

[REDACTED]

The Client has over 15 years of extensive continuous successful experience in managing projects financed by the EBRD under PP&R. It is expected that the same PIU that is managing the ongoing EBRD projects will be tasked with the implementation of the current Project. The PIU has the technical skills and experience to manage the project in accordance with the EBRD PPR.

Contracts risk assessment

Moderate low

The contracts foreseen to be procured under the Project are not technically complex. However, due to the small size of the local market, the success of the implementation of the Project rests in the ability of the Client to promote and attract international companies that have the financial capabilities and the need capacity to identify and engage qualified subcontractor and work force. This is considered a moderate risk in the implementation of the Project, which will have to be addressed by the PIU with the support from the PIU Support Consultant who, prior to issuing the tenders, will do appropriate market research and promotion of the Project and its tenders.

Project implementation arrangements:

The Client intends to use the current centralised PIU that is also managing all other IFI and donor-funded projects (EBRD, EIB and WB). The PIU has extensive experience in implementation of similar project and qualified staff. Moreover, the PIU will be supported by the PIU Support Consultant tasked to assist the PIU with the procurement activities, contracts monitoring and administration as well as reporting on covenants. This complements the support the PIU will get from the dedicated independent Supervision engineers, who will provide day-to-day administration of works contracts funded under the Project. The PIU Support Consultant will assist the PIU to review or, when required, prepare the technical requirements, conduct market research and assist with the procurement activities, including preparation of tender documents and evaluation of proposal, and support the Client in administration of all contracts financed under the Project.

The PIU Support Consultant will continue to be procured under the EIB loans and will cover both EIB and EBRD projects.

The Bank will appoint the Lender's Monitor to assist with monitoring of the Project implementation.

Procurement arrangements:

The Project is classified as a public sector operation for procurement purposes. Goods, works and services (including consultancy services) financed from the Bank's loan, as described in the below Procurement Plan, will be procured using open tendering procedure in accordance with Section 3 of the PP&R for the Public Sector and will use the Bank's Standard Tender Documents.

Currently the Project envisages the procurement of two (2) works tenders, two (2) supervision consultancy services (one for each works contract) and a goods tender for the procurement of specialised equipment and software for the Road Asset Management System.

The procurement strategy described in the attached Procurement Plan is indicative and it assumes that all works, goods and services will be procured through open single stage tendering method. All works will be tendered based on the designs prepared by the Client using the FIDIC Red Book General Conditions of Contracts. The Consultancy Services and Goods contracts will be based on EBRD standard forms of contracts.

The PIU Support Consultant will be requested to assess the procurement strategy that is currently presented, and based on market research and identified associated procurement risks, either to confirm it or to propose a revised one. Any modification of the procurement strategy will be subject to the Bank's prior approval.

On the tender for goods, although the Bank's technical due diligence has identified high level specifications for the goods/ equipment to be procured under the Project, the final specifications and procurement strategy (in particular number and content of each lot) for these goods/equipment will be decided at the later stage, with the support of the PIU Support Consultant.

Additionally, to assist the Bank to better monitor the implementation of the Project, the Lender's Monitor will be appointed and tasked to conduct monthly visits to the Project sites and report on the progress of works. The Lender's Monitor will also advise the Bank with respect to any issue related to the Project implementation.

All contracts will be subject to prior review by the Bank. [REDACTED].