

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA788

Project Name	Fourth East West Highway Improvement Project (P130413)
Region	EUROPE AND CENTRAL ASIA
Country	Georgia
Sector(s)	Rural and Inter-Urban Roads and Highways (95%), Public administration- Transportation (5%)
Lending Instrument	Specific Investment Loan
Project ID	P130413
Borrower(s)	Ministry of Finance
Implementing Agency	Roads Department of the Ministry of Regional Development and Infrastructure (RDMRDI)
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	18-Mar-2013
Date PID Approved/Disclosed	18-Mar-2013
Estimated Date of Appraisal Completion	18-Mar-2013
Estimated Date of Board Approval	09-May-2013
Decision	

I. Project Context

Country Context

Georgia's economy has recovered strongly since the double shocks of the financial crisis and conflict of 2008. The steep decline in economic growth from 12.4 percent in 2007 to 2 percent in 2008, led to a significant rise in unemployment and poverty. However, the country's economic growth rebounded strongly to 7 percent in 2011, which was mainly due to an increase in exports and tourism, and the continued high levels of public investment. The public investment of the Government of Georgia was mainly focused on infrastructure, with a particular emphasis on improving main road corridors and local connections. The rebound in the growth of the service sector was supported heavily by revenue from transit-related transport (particularly to and from Turkey, Armenia, Azerbaijan, and Central Asia).

The Government wants to create a favorable environment for regional socio-economic development and improve living standards. These objectives are planned to be achieved through balanced socio-economic development policy, increased competitiveness, and greater socio-economic equality among the regions. Initiated regional development strategies in the country, including the World Bank support to the Kakheti and Imereti regions, aimed at job creation by reducing imbalances among and within regions, improving public services, and attracting an increased volume of private sector investments, especially in tourism.

Transport sector development is essential for the achievement of sustainable economic growth, alleviation of poverty in Georgia, achievement of the government's regional development strategy objectives and promotion of tourism. Deterioration of transport infrastructure increases cost of doing business, deters foreign investment, hampers transit traffic growth, and leaves segments of the population out of mainstream economic activities. Georgia's geographical location positions the country at the center of East-West (Black Sea and Caspian Sea) and North-South (between Russia and Turkey) transit routes. Trade with neighboring countries is therefore an important driver of Georgia's economy. To support the above activities, the country needs reliable and well maintained roads.

A policy-based, efficient, and long-term strategic investment is the main priority of the new Government elected in October 2012. The new Government continues to be strongly committed to the infrastructure improvement. To lay out infrastructure investment plans, the Ministry of Regional Development and Infrastructure (MRDI) has developed an Action Plan for 2013. For 2013, the Ministry allocated about GEL900 million for infrastructure development, out of which about GEL500 million is allocated for improvement of roads. The new Government formulated two main criteria for the investment: (i) infrastructure investments should be prioritized by economic efficiency and should be part of the overall investment policy of the sector, and (ii) strategic and long-term investment commitments made by the previous Government will be respected and funding continued. Continuation of funding for E60 corridor improvement is one of the priorities of the Action Plan. The Government has also prioritized maintenance of the road infrastructure amongst the highest priorities. To achieve that objective, the MRDI is strongly supportive of institutional capacity building activities within the ministry and its agency the Roads Department (RD).

II. Sectoral and Institutional Context

Over the last eight years, Georgia has followed a very dynamic policy to develop its transport sector. This policy is centered on: (i) maximizing private sector involvement in management and investment for rail and ports, (ii) more strategic prioritization of Government sector investments including for instance concentration of investment on the East-West Highway transit corridor and improving rural access, and (iii) increasing expenditure on maintenance, particularly on secondary and local roads. Recent actions in the area of urban transport have been on improving the efficiency and sustainability of transport services mostly driven by municipalities, particularly those of Tbilisi and the main cities in the regions. Investment and management of ports are now undertaken by private operators operating under concession agreements, or as full owners of facilities. Transport services have been liberalized in the railway sector and the Georgian Railways operates as a semi autonomous entity. Its sound financial basis is the result of the profitable carriage of oil products transiting from Azerbaijan to the Black Sea. Government's efforts in investment have therefore focused on the road sector, with rail and port sectors financed largely by the private sector.

Despite recent achievements, the sector still faces a number of challenges. Georgia still lacks an overall transport sector strategy, modal investment strategies have not been clearly formulated, and synergies between modes have not been exploited due to a lack of guidance from intermodal and multimodal policy and planning documents. The legal framework needs further improvements to facilitate public private partnership or to bridge the gap with EU countries in the adoption of modern, sustainable and green standards for investment and operations. Transport services provided by railways and urban transport operators have been liberalized but these reforms have not been

accompanied with clear development of public service obligations, which is weakening the sustainability of urban and interurban passenger transport. Institutions in the sector are fragmented between two ministries (i.e., the Ministry of Regional Development and Infrastructure and the Ministry of Economy) and several regulatory or co-ordination bodies and commissions. Appropriate coordinating mechanisms are however not in place particularly in critical areas such as road safety and multimodal transport project management.

The transport industry could be better equipped to play its important role in the sector. A point in case is the construction industry where recent experience indicates that foreign firms win most large construction contracts -and sub-contact portions to local firms while lack of co-ordination and organization among local firms has so far prevented the emergence and professionalization of major domestic construction companies. The same applies to the transport service industries: almost no firm is able to operate sophisticated transport and logistics services. The sector's liberalization, especially in roads, has created a multitude of small operators but there have been no incentives for consolidation. Quite importantly, transport service providers are a major source of greenhouse gas emissions due to the obsolescence of domestic fleets of light and heavy vehicles. The academic environment in Georgia has not developed a substantial training base required for a new generation of engineers and sector specialists familiar with the latest knowledge. Generally speaking, the sector has no certification or accreditation bodies, which makes increasing the capacity of the local construction industry and transport service providers difficult due to a lack of quality and skills requirements.

The road network in Georgia is the main facilitator for transit trade, and is often a lifeline for economic activity. Rehabilitation and modernization of road infrastructure along the main east-west corridor, and improving access throughout the country have consistently been a top government priority over the last 7-8 years. The World Bank's study on "Improving the Sustainability of Road Management and Financing in Georgia", 2011, indicates that the Government's expenditures in new construction for international and secondary roads have significantly increased from 0.04 percent of GDP in 2004 to 1.2 percent in 2010 and this level of expenditures has been maintained in recent years. The East-West Highway carries over 60 percent of the total foreign trade and is seen as a central piece in the Government's strategy of transforming Georgia into a transport and logistics hub for trade between Central Asia and the Far East on one hand and Turkey and Europe on the other hand. Other international corridors link Armenia to the Black Sea and Russia and Turkey to Russia, and all of them coincide with the East West Highway for a substantial part.

External assistance has substantially focused on the development of the East West Highway corridor. The World Bank has been a strategic partner of the Government in this endeavor and has financed three road improvement projects along the East-West Highway to complement the Government's initial investment from Tbilisi to Natakhtari. The Government is also being assisted in improving sections of the East-West Highway west of the Rikoti Tunnel by other international agencies such as the Asian Development Bank (ADB), the European Investment Bank (EIB), and the Japanese International Cooperation Agency (JICA). About 120 kilometers of the E60 have already been upgraded with works on-going or planned on the remaining sections (see summary table below). The economic analysis of recent road projects in the corridor financed by the World Bank have yielded high economic rates of return (ERR), confirming the high priority the Government has accorded completing the upgrading of the corridor to international motorway standards.

Responsibility for road infrastructure policy and planning in Georgia lies with the Ministry of Regional Development and Infrastructure (MRDI), while responsibility for construction, maintenance, operation and management of the national (which include international) and secondary roads totaling 6,300 km in length lies with the Roads Department. About 15,000 km of local roads are managed by local municipalities. The capacity of the Roads Department has been stretched over the last years to deliver substantial investment programs along the East-West Highway and for secondary and local roads, but has managed to deliver them essentially at required time and quality. While most of the international roads (76 percent) in Georgia are in good or fair condition, most of the secondary roads (70 percent) and local roads (85 percent) are in a deteriorated state and lack maintenance funding. This is the result of the Roads Department having focused on improving the condition of international roads in recent years. Between 2004 -2010, road sector total (construction, rehabilitation and maintenance) expenditures on international and secondary roads tripled from 0.7 percent of GDP to 2.4 percent. However, about 75 percent of committed construction, periodic and rehabilitation maintenance has been financed by development partners including the World Bank's support under the three East West Highway Improvement Projects and the two Secondary and Local Roads Projects. Going forward, there is a need to ensure that the improved international roads are put under regular maintenance and increasing attention given to improving the secondary and local roads.

Road safety has shown significant improvement in Georgia over the last few years following a combination of a new policy (that resulted, inter alia, in a new National Traffic Safety Strategy and Action Plan), treatment of accident black spots and improved enforcement of traffic laws. The Roads Department has a Road Safety Unit in its Maintenance Division that carries out with the Traffic Police road safety audits and inspections in relation to planned road rehabilitation and construction activities. This Unit has implemented, and is still implementing, road safety engineering improvements which, together with stricter enforcement of traffic rules by the Traffic Police, have contributed to the observed reduction in road crashes and related fatalities. While the fatality rate increased from 14.8 persons per 100,000 populations in 2004 to 16.8 in 2009, it dropped to 11.7 in 2011. However, the situation still remains significantly worse compared to European Union (EU) countries where the fatality rate per 100,000 persons is reported to be as low as 4.8 in the Netherlands or 5.0 in Norway (World Health Organization) . While the measures implemented by the Traffic Police and the RD's Road Safety Unit have shown impressive results of decline in accident and fatality rates, sustaining the decline requires other stakeholders to understand and discharge their roles regarding road safety. The National Traffic Safety Strategy and Road Safety Action Plan (2010 -2013) states that the MRDI is the lead agency in road safety. However it has no unit responsible for road safety and it is unclear how road safety activities are coordinated between the RSPU and other agencies with road safety responsibilities.

The proposed EWHIP4 is aimed at continuing the assistance of the Bank to the Government in the upgrading of the E60 between Tbilisi and the Rikoti tunnel. The rationale for the World Bank's involvement is to build on the success of the ongoing East-West Highway Projects, with a goal to further improve trade and connectivity by completing the important transit link east of the Rikoti tunnel. The recently completed Second East-West Highway Improvement Project and ongoing First and Third East-West Highway Improvement Projects have supported the upgrading of the East-West Highway to a world-class four-lane motorway. They have also contributed to building the capacity of the RD in the areas of procurement and supervision of road works. Improvements are also noticeable in the RD's approach to contract management, engineering standards and the development of new approaches to road safety, and environmental and social safeguards

management. Opportunities however still exist for further improvements in the RD's business processes with an increasing focus on the management of the road network as opposed to its expansion. This is particularly so in relation to the E60.

The institutional capacity component of the EWHIP4 contains a series of activities aimed at helping the RD begin to shift its focus from development to management of the E60 corridor. According to the plan of the Government, upgrading of the E60 corridor to a 2-lane dual carriageway will be substantially completed by end of 2017. From then, the focus of the RD regarding the E60 should begin to shift from its development to its management. The proposed Project contains activities to facilitate this shift in such areas improving provision of traffic information and emergency services along the corridor, exploring the scope for levying specific user charges to recover some of the investment on the corridor, and, quite importantly, ensuring timely maintenance interventions.

III. Project Development Objectives

The PDOs are: (i) to contribute to the gradual reduction of road transport costs and to improve road safety along the section upgraded under the project; and (ii) to strengthen the capacity of the Roads Department (RD) and Ministry of Regional Development and Infrastructure (MRDI) to plan and manage the road network and improve road traffic safety.

IV. Project Description

Component Name

Improvement and Asset Management of the East-West Highway

Institutional strengthening

Preparation of supporting studies and future projects for the development of the

Project management support

V. Financing (*in USD Million*)

For Loans/Credits/Others	Amount
BORROWER/RECIPIENT	18.75
International Bank for Reconstruction and Development	38.00
International Development Association (IDA)	37.00
Financing Gap	0.00
Total	93.75

VI. Implementation

The proposed Project will be implemented mainly by the Roads Department (RD) of the MRDI, which has been implementing several World Bank funded projects since 2004. The RD has vested Project management functions with one of the Department's Deputy Chairmen, supported by the Foreign Project Unit (FPU) for Procurement and Monitoring and Evaluation. Financial Management is managed by the Transport Reform and Rehabilitation Center (TRRC), a specific body designated for financial management of foreign-funded projects under the MRDI. Specific units in the Roads Department are in charge of environmental monitoring, road safety and land acquisitions and resettlements. As the on-going East West Highway Projects demonstrate, these implementation arrangements have been satisfactory in terms of financial management, procurement with capacity relating to environmental and social safeguards also considered satisfactory taking into account the proposed creation of a dedicated safeguards unit for which formal government approval has been

requested.

MRDI will implement a sub-component of the institutional strengthening component. This is sub-component 2A which comprises activities relating to the review and updating of road sector strategy, improving the road safety management capacity in the MRDI and the regulatory environment for the local construction industry and measures to improve manpower planning and development in the MRDI. The road sector strategy and the road safety activities will however be implemented in close cooperation with the RD. The procurement of services related to this sub-component will however rest with the FPU of the RD.

In general, project and contract management capacity within RD is inadequate relative to the size of the investment program it is implementing. To fill the gap, the RD has appointed local consultants as project/ contract managers to manage some of its projects augmented by local technical assistance. High staff turnover has sometimes been experienced with local technical assistance due to a conjunction of small pool of available personnel in the local market and difficulty to incorporate them in the very hierarchical organization of the RD.

Sufficient procurement capacity exists particularly for large contracts to which the RD brings the needed focus and can proceed with the necessary processes without too many problems. Systematic quality treatment of small assignments is on the other hand more difficult to achieve. One of the challenges in addressing these issues is in adopting solutions that strengthens project management skills in the RD without diluting its current strengths (for example, fast decision making processes).

The TRRC will assist the RD in implementation of the Project with responsibilities for financial management. The financial management arrangements include the Project's system of budgeting, accounting, internal controls, funds flow, financial reporting, and auditing. TRRC has experience in managing Bank projects having implemented several Bank-financed transport or transport related projects. TRRC will work with both the Ministry of Finance and the Treasury Service in the administration of the Project Designated Account (DA), and with MRDI and RD for implementation of this Project. RD and TRRC will sign by negotiations an implementation agreement spelling out their respective responsibilities under the Project. The Bank will monitor any changes to the structure in the implementing agency that will require agreement with the Bank.

VII. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

VIII. Contact point

World Bank

Contact: George A. Banjo
Title: Sr Transport. Spec.
Tel: 473-6070
Email: gbanjo@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Finance
Contact:
Title:
Tel: (995-32) 446-447
Email: k.kintsurashvili@mof.ge

Implementing Agencies

Name: Roads Department of the Ministry of Regional Development and Infrastructure
(RDMRDI)
Contact:
Title:
Tel: (995-32) 237-5068
Email: info@georoad.ge

IX. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>