

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

Report No.: AB4328

Project Name	THIRD EAST-WEST HIGHWAY IMPROVEMENT
Region	EUROPE AND CENTRAL ASIA
Sector	Roads and highways (94%); Central government administration (4%); General transportation sector (2%)
Project ID	P112523
Borrower(s)	GEORGIA
	Georgia
Implementing Agency	
	Roads Department of the Ministry of Regional Development and Infrastructure (RDMRDI) 12 Kazbegi Ave., 0108 Tel: (+995 32) 38 16 33 Fax: (+995 32) 31 30 52
Environment Category	<input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	April 13, 2008
Estimated Date of Appraisal Authorization	June 12, 2009
Estimated Date of Board Approval	August 13, 2009

1. Key development issues and rationale for Bank involvement

Georgia's prudent macroeconomic policies and structural reform programs have resulted in strong economic growth In the last four years the macroeconomic management in Georgia has been solid. Thus Georgia is better prepared to withstand the internal and external shocks. GDP growth averaged 10.5% during 2005-2007 led by selected sectors, including trade services, construction, financial intermediation, and manufacturing industry. Income growth from agriculture has been volatile due to weather conditions and trade sanctions. Strong economic growth and appreciation of national currency vis-à-vis SDR and US dollar has resulted in substantial increase of dollar denominated per capita income. The Gross National Income (GNI) per capita increased from US\$680 in 2001 to US\$1,990 in 2007. Georgia is IBRD eligible since the beginning of FY 09.

Economic impact of recent events. The dual impact of the global financial crisis and the August 2008 conflict has resulted in shocks to the key pillars of economic development of Georgia. Growth declined from 12.4 in 2007 to 2 percent in 2008, unemployment is rising, and the needs of the poor have expanded. The Georgian authorities have responded swiftly to the shocks with a sound economic recovery program which includes scaling up public expenditures, reallocating expenditures toward social and infrastructure investments, providing liquidity and regulatory support to the banking sector, and working with the international community to secure donor assistance.

The IMF approved in September a Stand-By Arrangement of US\$750 million for international reserves. The international community responded with the strong support to Georgia in confronting the post-August shocks: 38 countries and 15 international organizations pledged to provide approximately US\$4.5 billion to Georgia. The amount pledged is based on a Joint Needs Assessment coordinated by the World Bank, U.N. agencies and other IFIs. Donor contributions would cover the social needs related to internally displaced people, rehabilitation of damaged infrastructure, offset budgetary shortfall due to fall in foreign investment and slowdown in economic activity, financial support to the banking sector and priority needs for core investments, particularly in transport, energy and municipal infrastructure. Despite these supports, the country's economic growth rate will be significantly reduced compared to previous years but should remain positive. In the long term, Georgia's economic growth will depend on the global financial recovery and being able to maintain investor's confidence in the country.

Government's priority is improving road infrastructure. Georgia is located to the south of the Caucasus mountain range with Russia to the north, Armenia and Turkey to the south and Azerbaijan to the east. Trade with its neighbors, both transit and bilateral, is an important feature of Georgia's economy. Trade is the second largest sector of the economy, accounting for 13% of GDP and 11% of employment. The physical location of Georgia ensures that it is a key transport link on the most direct route between the Black Sea and the Caspian Sea and the Central Asian countries. It is also situated on the historic "Silk Road", which is now the Transport Corridor Europe-Caucasus-Asia (TRACECA) route. Unfortunately, Georgia significantly lags comparator countries in the EU-10 new member states and in the Baltics with regard to both the quantity and quality of infrastructure. Continuing to develop the necessary infrastructure is also critical to improving external competitiveness.

Georgia's road network comprises 1,497 km of international roads, 5,446 km of secondary roads, and 13,386 km of local roads. There are five major highways, totaling 859 km. Recognizing the strategic importance of a transit route connecting the Central Asia and the Caspian Sea to Europe, the Government has accorded the first priority to rehabilitate and upgrade the East-West Highway to an international standard to accommodate transit traffic from/to the Central Asian countries and Azerbaijan. Through the Government's own funds and through support from IDA, the Government has been sequentially upgrading the East-West Highway from the outskirts of Tbilisi (Natakhtari) towards the Black-Sea Port of Poti. After the August conflict, the Government has re-confirmed that the completion of the East-West Highway remains the first priority of the Government. This is supported in the Joint Needs Assessment¹. If Georgia is to continue along the trajectory of growth to converge toward the income levels of the new EU member states, it must continue to develop and upgrade its infrastructure.

Consistency with CPS and supportive of Government's economic program. One of the overarching objectives of Georgia's Country Partnership Strategy for 2006-2009 (report 33295-GE) is to enable income and employment generating growth. The CPS focuses new lending on economic and social policy reforms, infrastructure and education, as key pillars of Georgia's sustainable development strategy. Road improvements are one of the most successful means to encourage economic growth. In January 2008, Georgia's Parliament approved the five year

¹ The Joint Needs Assessment prepared for the Donors' Conference was led by the UN and the World Bank with participation from ADB, EBRD, EC, EIB and IFC.

economic program for 2008-2012, “Georgia without Poverty” The program aims to reduce poverty from the current level of over 40% to 25% of the total population during the planning period. To facilitate economic growth and thereby reduce poverty, the economic program emphasizes targeted infrastructure development particularly in transport infrastructure and logistics. The Government plans to complete the rehabilitation of an additional 30% of the country’s road infrastructure during this time period.

Rationale for Bank involvement. The Country Assistance Strategy Completion Report (CASCR) for FY98-05 acknowledged the useful contribution of the Bank to Georgia’s transport sector. At present, the Bank remains the leading development partner engaged in the sector in Georgia. Transport has been a Bank priority in Georgia since 1995. Currently, there are three transport projects under implementation: (i) Secondary and Local Roads Project (SLRP) (FY04-11) is a US\$20 million IDA credit with US\$70 million in IBRD Additional Finance addressing transport bottlenecks to rural development; (ii) First East West Highway Improvement Project (EWHIP) (FY07-11), a US\$20 million IDA credit to the upgrade from 2 lanes to 4 lanes a 14 km section of the East West Highway; and; (iii) Second East West Highway Improvement Project (SEWHIP) (FY08-12) (US\$20 m with US\$35 m additional financing) which upgrades 24 km of the East West Highway from Igoeti to Sveneti The proposed project is the next sequential 43 km upgrade of the East West Highway from Sveneti to after the Rikoti tunnel. The proposed project would include the rehabilitation of the Rikoti Tunnel.

All projects have had important institutional strengthening activities which have helped transform and modernize key elements of the Georgia transport sector, particularly the Roads Department (RD). The projects have also contributed to a variety of policy initiatives including the adoption of revised road standards and a national road safety strategy. The proposed project will further the sector reform and institutional building efforts.

2. Proposed objective(s)

The project development objectives are:

- (i) To contribute to the gradual reduction of road transport costs and improve access, ease of transit, and safety along the central part of Georgia's East-West corridor, through upgrading a segment of the East-West Highway from Tbilisi to Rikoti, including the Rikoti tunnel; and
- (ii) To strengthen the capacity of the government, RD and related entities to plan and manage better the road network and to implement a traffic safety pilot project

For road users, the project would lead to better road quality and level of serviceability, avoiding or deferring costly congestions expected on the basis of mid-term traffic projections, better road safety through new alignments and city bypasses, avoiding hazardous crossing of urban areas by heavy transit traffic, and time savings derived from shorter travel times. The Project will rehabilitate the Rikoti Tunnel and modernize the safety facilities. The capacity building and institution building component of the proposed project would deepen the activities that commenced in the First and Second EWHIP particularly in traffic safety. A segment of the East-

West Highway will be selected to implement a holistic approach to traffic safety (not only black spot removal) but integrating ambulance services, police, first aid training and other safety measures.

Sustainability is expected to come from high return on investments due to a substantial growth of the traffic (especially heavy traffic), the decrease in fatal injuries due to better safety standards and further modernization of RD and improvement in its capacity to handle its expanded responsibilities. The project, together with activities in neighboring countries, would also enhance economic integration within the region and foster economic growth thus reducing poverty.

Monitoring indicators. The tentative main indicators of performance would include: (i) decrease in travel time from Sveneti to Rikoti; (ii) the decrease in vehicle operating cost from Sveneti to Rikoti (iii) decrease in the number of fatalities and accidents along the pilot segment (iv) first responder's arrival time to scene of accident; and (v) implementation of key elements of Georgia's national road safety strategy.

3. Preliminary description

The lending instrument proposed for this project would be a Specific Investment Loan (SIL).

Project components. The proposed project would include:

- Building an approximately 64 km four lane road from Sveneti to Rikoti in a new alignment, including the rehabilitation and technical upgrade of the two lane road tunnel (Rikoti Tunnel); as well as design and supervision.
- Provision of technical assistance and goods to deepen the institutional capacity building initiated in previous road projects specifically in road maintenance, traffic safety and electronic document management within RD.
- Technical assistance to support project implementation.

Project cost and financing. The first sub-projects have been identified: (i) rehabilitation of the the Rikoti tunnel (US\$16 m); and, (ii) the 15 km section from Sveneti to Ruisi (US\$155 m). The cost of these sub-projects, supervision, implementation and institutional strengthening, is US\$179 m. An investigation is underway for the optimum alignment for 28 km Ruisi-Rikoti Tunnel sub-project and this will be completed by late 2009. The total estimated cost is US\$350m, with the GOG requesting a loan of US\$250 m.

Safeguard policies management. The project is rated as category A. A Regional Environmental Assessment and Environmental Management Framework that describes the existing environment, discusses and compares project alternatives, and identifies risks and issues to be addressed during project implementation has been prepared. This Framework covers the entire scope of the TEWHIP. Site specific environmental management plans will be developed for each sub-project.

The project requires acquisition of private land on new road alignment. A Resettlement Policy Framework acceptable to the Bank has been prepared that sets out policies and procedures to be taken to determine project social impacts and mitigate them. The RAP for the first two sub-projects has been prepared and is considered acceptable to the Bank. The RAP for the Ruisi-Rikoti section will be prepared consistent with the RPF once the alignment is finalized.

4. Safeguard policies that might apply

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources (OP/BP 4.11)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

5. Tentative financing

Source:		(\$m.)
Borrower		100
International Bank for Reconstruction and Development		250
	Total	350

6. Contact point

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas