

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC618

Project Name	East West Highway Improvement Project 4 (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	08-Oct-2012
Estimated Date of Appraisal Completion	15-Mar-2013
Estimated Date of Board Approval	09-May-2013
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Georgia's economy has recovered strongly since the double shocks of the 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 (GoG) was mainly focused on transport, 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 Armenia, Azerbaijan, and Central Asia).

In order to counter global risks and create jobs, GoG developed a 10-point economic action plan in December 2011. The strategy underlying the plan is to promote and sustain growth with a strong focus on competitiveness. One of the main objectives is to support a vibrant and competitive private sector and then facilitate its evolution as the engine of economic growth and employment over the medium term. The plan includes investment in transport infrastructure and logistics capacity. The success of the investment rests on improved connectivity and accessibility to local and international

markets. Among the top ten priorities is the modernization of Georgia's transportation system, especially road transport.

GoG also approved the "Georgia Regional Development Strategy" in June 2010. The objectives of the Government's State Strategy for Regional Development for 2010-2017 are to create a favorable environment for regional socio-economic development and improve living standards. These objectives are 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 Region, intend to stimulate job creation by reducing imbalances among and within regions, improving public services, and attracting an increased volume of private sector investments, especially in tourism. According to the Georgia National Investment Agency, the number of tourists to Georgia increased from 560,000 in 2005 to 2.7 million in 2011, with a projection to reach about 6.2 million by 2014.

Transport sector development is essential for the achievement of sustainable economic growth, for the alleviation of poverty in Georgia and to achieve the regional development strategy's objectives. 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 and Caspian Sea) and North-South (between Russia and Turkey) transit routes. Trade with neighboring countries is an important driver of Georgia's economy. To support the above activities the country needs world-class roads.

Sectoral and Institutional Context

Georgia has followed over the last eight years a very dynamic policy to develop its transport sector, based on (i) maximizing private sector involvement in management and investment, (ii) concentration of investment on the East-West Highway transit corridor and improving rural access. Actions in the area of urban transport have mostly been driven by municipalities and are limited to Tbilisi and the main regional centers. The main achievements of the transport policy in the port sector are that (i) investment and management of ports are now undertaken by private operators operating under concession agreements, or as full owners of facilities; and (ii) transport services have been liberalized and the railway operator (Georgian Railways) is operating as a fully autonomous entity. The railways also benefits from a sound financial basis thanks to the profitable carriage of oil products transiting from Azerbaijan to the Black Sea. The heavy involvement of the private sector in the port and rail sectors has allowed GoG to focus its investment on the road sector.

The road network in Georgia is seen as 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. 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 the one hand and Turkey and Europe on the other hand. It has been

receiving substantial contributions: the World Bank has financed three road improvement projects along the East-West Highway to complement the Government's initial investment from Tbilisi, and assistance being provided by other IFIs (Asian Development Bank - ADB, European Investment Bank - EIB, Japanese International Cooperation Agency – JICA), in improving the sections of the East West Highway west of the Rikoti Tunnel.

Furthermore, the economic analysis of recent road projects in the corridor financed by the World Bank in Georgia shows that the economic rates of return (ERR) have been high. While close to 100 km of motorway standard roads have been constructed over the last years, there is still further investment needed to optimize the corridor potential. The same World Bank study has estimated that modernization of the priority East-West Highway, along with the rehabilitation of feeder roads, will cost over USD1 billion.

The European route E60 is the second longest E-road running from Brest, France (on the Atlantic coast), to Irkeshtam, Kyrgyzstan (on the border with People's Republic of China). In Georgia, it runs from the Red Bridge at the Azerbaijan Border to the Poti Port at the Black Sea coast for around 392 kilometers (2 percent of the Georgian road network length, and slightly less than a quarter of the international road network) with an average traffic of around 7,800 vehicles per day. The E60 highway in Georgia accounts for 23 percent of the vehicle utilization in Georgian roads, at around 1,118 million vehicle-km per year, which represents 47 percent of vehicle utilization of Georgian International roads that total 1,644 kilometers. Systematic traffic counts, on 12 points along the E60 highway, from 2008 to 2011 show that the vehicle utilization has grown at 5.5 percent per year during this period. The average traffic composition is 69 percent cars, 19 percent pickups and minibuses, 6 percent buses and medium trucks, and 6 percent heavy and articulated trucks.

Responsibility for the road infrastructure policy and planning resides 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 of total 6,300 km 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 on time. 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 a general focus on improving the condition of international roads in recent years, and of the lack of resources in municipalities for local roads maintenance. During 2004-2010, road maintenance and rehabilitation expenditures on international and secondary roads have tripled from 0.7 percent of GDP to 2.4 percent. However, about 75 percent of committed periodic and rehabilitation maintenance have been financed by international financial institutions (IFIs), including the World Bank's support under the three East West Highway Improvement Projects and the two Secondary and Local Roads Projects. There is now a need to ensure that the improved international roads are put under 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. While the fatality rate increased from 14.8 persons per 100,000 population in 2004 to 16.8 in 2009, it dropped to 11.7 in 2011. However, the situation still remains significantly worse compared to EU countries

where the fatality rate per 100,000 persons is reported to be as low as 4.8 in Netherlands or 5.0 in Norway (WHO, “European Status Report on Road Safety”, 2009).

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 the 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 Roads Department (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, road asset management, environmental and social safeguards management, and others.

Relationship to CAS

The proposed project is in line with investment priorities identified in the current 2010-2013 Country Partnership Strategy (CPS). The CPS identifies two strategic pillars: (a) meeting post-conflict and vulnerability needs; and (b) strengthening competitiveness for post-crisis growth. The Government sees an enhanced transport corridor as a priority in attracting investment and building on Georgia’s strategic location between Europe and Asia in order to support the second objective of the CPS. The proposed project will also complement planned improvements under the ongoing Third East West Highway Project (TEWHIP) by increasing the length of the East West Highway improved to world class standard. In the current CPS, the Bank is also committed to provide capacity building for road sector institutions and identifies reduction in travel time and costs along key transit routes and improved road safety as its two outcomes in achieving the competitiveness objective. Towards these objectives, the proposed project will complement the institutional and road safety activities initiated under the predecessor projects to strengthen the RD’s and MRDI’s capacity in managing more effectively and efficiently the country’s road network and supporting the National Traffic Safety Strategy’s goal in reducing road fatalities. It is expected that the new CPS for 2014-2017, which is currently being prepared, will identify road sector development as a key instrument supporting one of its strategic pillars.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed Project supports the achievement of the overall objective of improving the East West Highway Corridor. It is therefore proposed to maintain similar PDOs as the ones used in the current East West Highway projects supporting the improvements to the E60 highway. The proposed PDOs are therefore: (i) to contribute to the gradual reduction of road transport costs and to improve access, ease of transit and road safety along the central part of Georgia's East-West Road Corridor west of Agara; and (ii) to strengthen the capacity of the Roads Department (RD) and relevant government entities to plan and manage the road network and improve road traffic safety.

Key Results (From PCN)

Current indicators used in the TEWHIP Results Framework, which relate to the condition of the primary network and road safety conditions along the East-West highway, are still found relevant for the proposed Project. They are proposed for the new project as follows:

- (i) Travel time from Agara to Khashuri ;
- (ii) Vehicle operating costs from Agara to Khashuri (cars in US\$/km);
- (iii) Vehicle operating costs from Agara to Khashuri (trucks in US\$/km);

- (iv) Percentage reduction in road fatalities on E60 East-West Highway from Senaki (end point of E60 before crossing E70 in Western Georgia) to Tbilisi; while the general safety situation of the system would be covered by a standard indicator;
- (v) Percentage of primary roads in good condition.

III. Preliminary Description

Concept Description

The proposed Fourth East-West Highway Project (EWHIP-4) is designed to finance the upgrading of the East-West Highway from the end of the Agara bypass to Khashuri. It will complement planned improvements under the ongoing Third East West Highway Project (TEWHIP) by contributing towards the completion of the East West Highway; simultaneously, it will improve access to the towns of Borjomi and Khashuri. The government has plans to eventually complete the East-West Highway series of Projects through an additional road improvement project which would link Khashuri to the Rikoti Tunnel. The proposed EWHIP-4 has four components as follows:

Component A: Improvement and Asset Management of the East-West Highway (Estimated Cost: USD 71 million).

- (a) Upgrading of existing 2-lane E60 East-West Highway from Agara bypass to the village of Gomi, including a bypass of this village, to a 4-lane dual carriageway road. The length of the section is approximately 14 km. The construction period is estimated at about 24 months;
- (b) Maintenance of the E60 4-lane dual carriageway between Natakhtari and Ruisi. This section is approximately 80 km long plus access ramps. The type of maintenance contract will be decided during project preparation;
- (c) Civil works to improve (i) road safety on roads adjacent to or accessing the East-West Highway between Agara and Khashuri, particularly through urban areas; and (ii) access and secondary roads linked to the East-West Highway along this section; and
- (d) Construction supervision and quality assurance services.

Component B: Institutional strengthening (Estimated Cost: USD 2.5 million)

This component will build on past and on-going institutional strengthening activities. It is expected to include technical assistance and capacity strengthening activities to further support the RD in improving its operational effectiveness.

This component will also propose targeted areas of intervention to reinforce RD's road management capacity including strengthening its road asset management capabilities. The size of the highway constructed at international motorway standards exceeds one hundred km, and is bound to increase, while the condition of national roads has improved significantly through increased application of more modern road management practices by RD over the last 5-6 years. The project proposes funding of a maintenance contract for portions of the existing motorway sections and will determine during project preparation the most appropriate type of a multi-year contract. From an institutional standpoint, the project proposes to deepen the existing activities under the previous projects on road management

Each previous project included support to road safety activities. The proposed project will include road safety interventions in relation to the sections to be constructed (for example road safety interventions for the parts of the E60 that will be replaced by the new highway). In addition, it will support the updating of the overall policy and investigate how to further institutionalize sound road safety practices.

Component C: Preparation of supporting studies and future projects for the development of the East-West Highway (Estimated Cost: USD 4.2 million)

This component will finance various studies such as those aimed at defining the scope of the planned maintenance interventions along some upgraded sections of the E60, road safety improvements along the existing road between Agara and Rikoti, and feasibility and preliminary engineering design of a possible new tunnel in Rikoti including investigation of options for its financing and operation.

Component D: Project management support (Estimated Cost: USD 1.5 million)

This component will finance institutional support to the RD for contract management for civil works and consulting contracts as well as for financial audits and project monitoring and evaluations activities.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

V. Tentative financing

Financing Source	Amount
BORROWER/RECIPIENT	15.40
International Bank for Reconstruction and Develo	30.00
International Development Association (IDA)	40.00
Financing Gap	0.00
Total	85.40

VI. Contact point

World Bank

Contact: Jean-Francois Marteau
Title: Sr Transport. Spec.
Tel: 5786+633 / 3
Email: jmarteau@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:

VII. 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>