

SECTOR ASSESSMENT (SUMMARY): TRANSPORT¹

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Georgia's transport system comprises four modes—road, rail, sea, and air. In addition, Georgia hosts two international pipelines: Baku–Supsa and Baku–Tbilisi–Ceyhan. All provinces, cities, towns, and neighboring countries are connected either directly or indirectly by at least one of these modes. To improve these connections and to utilize the benefits of providing an efficient system for international travel and trade between Central Asia and Europe, successive governments in Georgia since 2005 have revised rules and regulations on the supply of transport infrastructure and services. Georgia has restructured institutions and delegated the authority for modernizing the transport system to line agencies. This has helped draw private capital into aviation, maritime services, road transport, and pipelines. The railway is a state-owned enterprise, leaving the road network as the only physical asset owned and operated in a traditional, public-sector manner.

2. During 2005–2011, freight handling at ports grew by 10% per year and passenger traffic at airports grew 15% per year. Over the same period, cross-border truck movements increased by 15% per year. Both domestic and international passenger transport is almost entirely road based. The road network of about 22,000 kilometers (km)—comprising 859 km of international, 5,976 km of secondary, and 15,000 km of local roads—is the most significant component of the transport system. The 412 km (approximately) East–West Highway is the main road link, providing the fastest surface access between the east and the west. It plays a strategic role and is a part of three international road networks—the Central Asia Regional Economic Cooperation, European, and Asian networks—extending from the Red Bridge at the Azerbaijan border to Sarpi at the Turkish border. Nearly 60% of international trade crossing Georgia moves on the East–West Highway. During 2009–2013, average daily traffic on some parts of the East–West Highway increased by more than 50% to about 12,000 vehicles with an average traffic of around 8,000 vehicles per day.

3. The Ministry of Economy and Sustainable Development is responsible for coordinating and regulating all modes of transport, and formulating a national transport policy. Responsibility for road infrastructure policy and planning in Georgia lies with the Ministry of Regional Development and Infrastructure, while management of the international and secondary roads is the responsibility of the Roads Department. Local roads fall under the jurisdiction of the municipalities. The Transport Policy Department oversees road and maritime transport, railways, and civil aviation at the Ministry of Economy and Sustainable Development. The Land Transport Agency, the Maritime Transport Agency, and the Civil Aviation Agency are the technical regulators. Georgian Railways is a state-owned enterprise under the Partnership Fund of Georgia. All seaports and two major airports (Tbilisi and Batumi) are either owner or operated by private companies. A state-owned enterprise, United Airports of Georgia, operates the international airport in Kutaisi and all smaller airports.

4. **International road connectivity.** Georgia aspires to becoming a regional transport–transit hub. This is in line with the objective of increasing the competitiveness of the Caucasus transit corridor, which is a key transit route between Western Europe and Central Asia for transportation of oil, gas, and dry cargo. This transit corridor is a part of the international and

¹ ADB. 2014. *Country Partnership Strategy: Georgia, 2014–2018*. Manila.

regional Transport Corridor Europe-Caucasus-Asia (TRACECA) corridor, which is an alternative to the north corridor running through the Russian Federation and Belarus and the southern corridor running through Turkey and Iran. The government has in recent years accorded high priority to completing the upgrading of the East–West Highway (412 km) to international motorway standards. The government has opted to finance this important project using its own budget and significant support of international financing institutions, including the Asian Development Bank (ADB), the European Investment Bank, the World Bank, and the Japan International Cooperation Agency. While most of the East–West Highway has been funded, a large potential funding gap, estimated at more than \$800 million, remains.

5. **Domestic road connectivity.** While most of the international roads (76%) in Georgia are in good or fair condition, some 38% of the secondary roads and 54% of the local roads are in a deteriorated state. Many of the secondary and local roads link major agricultural hubs and tourist attractions. Several secondary roads from the East–West Highway to the seaports and railway terminals, which carry high volumes of heavy vehicles, sometimes including dangerous goods, are functionally obsolete and structurally inadequate. Given the significant regional disparities in Georgia, improving the collector and feeder links of the road network is essential to prevent further isolation of rural communities, strengthen domestic trade, and expand opportunities for more inclusive economic growth.

2. Government's Sector Strategy

6. **Strategic directions.** The government aims to leverage Georgia's transit and trade potential to boost private sector competitiveness and inclusive economic growth.² The Socio-economic Development Strategy of Georgia (footnote 2) emphasizes environmental sustainability and integrating Georgia within regional and international transport systems. The broad strategic directions are (i) to improve the transport system to link all parts of the country, and (ii) to connect its ports and airports to neighboring countries and beyond. Key to this strategy is streamlining transport infrastructure and developing logistical centers. Road network development is a top priority. The upgrading of international roads, in particular the East–West Highway, to European standards has received the largest share of public funds in the sector since 2008. There is also increasing emphasis on north–south international roads, and secondary and local roads that connect regional centers and markets.

3. ADB Sector Experience and Assistance Program

7. **ADB's transport sector support.** ADB has supported the government's international road development program by providing a \$500 million multitranche financing facility (MFF)³ to improve subregional roads, and build the Road Department's capacity to manage road assets and improve safety. A 12 km segment of the Kobuleti bypass (34 km in total), funded from the MFF, opened in 2013, and the rest should be operational by 2017. The MFF has experienced implementation delays due to protracted LARP implementation as a result of unregistered land and a major underestimation of the cost during the feasibility study, since the feasibility study and the subsequent loan processing was based on the preliminary engineering, not detailed design.

8. **ADB sector strategy.** ADB will continue to support the government in its efforts to develop an efficient and sustainable transport system. ADB will finance improvements to

² Government of Georgia. 2014. *Socio-economic Development Strategy of Georgia (2020)*. Tbilisi.

³ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to Georgia for the Road Corridor Investment Program*. Manila.

international and national road links to enhance Georgia's competitiveness and improve internal connectivity. ADB-financed technical assistance will complete support for improving the physical transport network by strengthening sector policy and institutional capacities. ADB will support remaining improvement works on the East–West Highway. These works are technically challenging because of the mountainous terrain and limited space because of mountains, a river, and densely populated areas. Remaining sections are likely to cost substantially more than the earlier works. Given this background and the importance of the East–West Highway to the country and the region, development partners are combining their efforts to mobilize adequate financing and technical support to complete critical segments. To improve better internal connectivity and contribute to inclusive growth, ADB will also assist in linking international roads to local regional centers through secondary road improvements. This will increase the opportunities for domestic and international trade, and maximize the impact on women's livelihoods and access to services. Priority will be accorded to areas where better connectivity is critical to unlock the growth potential of lagging areas.

9. **Transport policy.** ADB has provided technical assistance to support the government in preparation of transportation policy.⁴ The policy will support the overall goal to strengthen the government's role in areas related to economic and social development. More specifically, the objective of the policy is to help the government to ensure that (i) the coverage and capacity of transport infrastructure is sufficient to meet the demand for domestic, international, and transit movements of goods and people; (ii) the quality and efficiency of transport services is constantly being improved in order to increase the competitiveness of the country's international trade, reduce the delivered costs, and increase the availability of both domestic and imported goods; (iii) value addition from services and infrastructure provided for transit cargo is maximized; and (iv) the safety and security of transport services and infrastructure is maintained at an acceptable level and the environmental impacts are minimized.

10. **Sustainability of road networks.** Since 2004, the government's public expenditure for road construction and rehabilitation has increased by about 13% per year to meet its goal of completing the East–West Highway. However, the government's budget allocations for road maintenance have lagged, with about a 6% increase per year. Routine maintenance expenditure for international and secondary roads of about \$2,500 per km per year falls behind the international comparator benchmark of \$4,000–\$8,000 per km.⁵ Development partners have jointly taken a policy dialogue to improve road maintenance and enhance the sustainability of road networks. Such efforts have been focused on three main areas: (i) increasing the fiscal budget allocation for road maintenance; (ii) reconstructing and rehabilitating international and secondary roads in poor condition and thereby reducing the overall demand for road maintenance funding; and (iii) spending the fiscal budget allocated for road maintenance more efficiently.

11. While international roads have been rapidly improved, secondary and local roads have been left relatively unattended. As a consequence, while the proportion of international roads that are in good condition had increased to 77% by 2013, many secondary and local roads remained in poor condition (38%) or very poor condition (54%) in 2013. These roads require a large amount of road maintenance funding. For this category of roads, using the road maintenance budget for routine and periodic maintenance makes little economic sense; those roads need to be reconstructed or rehabilitated, in which case the road maintenance funding allocated for them could be better used for other roads in good or fair condition. The World Bank,

⁴ ADB. 2016. *Support for Transportation Policy*. Consultant's report. Manila (TA 8682-GEO).

⁵ World Bank. 2016. *Secondary Road Asset Management Project*. Washington, DC.

after concentrating on the improvement of the East-West Highway during 2006–2009, started to pay more attention to rehabilitation of degraded secondary roads in 2012 and has since allocated sizable resources for secondary roads. This project will reduce the overall requirement for road maintenance funding of degraded secondary roads and contribute to more economic use of scarce road maintenance funds.⁶

12. In addition, development partners have guided the government to use the resources allocated for road maintenance as efficiently as possible. One of the recommended approaches, the Performance Based Maintenance (PBM) contract, was pilot tested by a World Bank project in 2012 and was well accepted by the Roads Department as a solution for long-term savings from regular and adequate routine maintenance up to the expected levels of service.⁷ Encouraged by the success of pilot tests and positive feedback from local contractors, the Roads Department intends to scale up the PBM approach so the local construction industry will be more familiar with the new concept, and the proposed project will assist the Roads Department to expand the PBM approach in its road maintenance. The World Bank is also continuing its support to the Roads Department by integrating a road asset management system,⁸ road safety and climate-resilience planning practices in a multiyear programming, and annual planning process.

13. **Road safety.** In 2010, the government prepared the National Traffic Safety Strategy and Action Plan 2009–2013, through the implementation of which road safety audits of new designs and regular road safety inspections of existing road assets are mainstreamed in the Roads Department's implementation practices, and enforcement of traffic laws has been improved. Together with patrol police, the road safety unit in the Roads Department has carried out road safety audits and inspections of planned road rehabilitation and construction activities. Aided by a road safety campaign run by nongovernment organizations and stricter enforcement of some traffic rules (front seatbelt use) by the patrol police, this has contributed to a reduction in the road accident fatality rate.⁹ The government is preparing the Second Road Safety Strategy and Action Plan 2015–2020, financed by the World Bank, which will define road safety as a permanent national priority aiming to set and implement a modern and efficient model for improving road safety in Georgia. ADB provides technical assistance for harmonizing Georgian road technical regulations according to the European Union standards, which, along with other development partners' efforts, will promote road safety.

⁶ The Roads Department is developing a 5-year rolling program for improvement and preservation of secondary road assets for 2016–2020. This program will target the rehabilitation and periodic maintenance of about 970 km of secondary roads and routine maintenance of the entire secondary road network. The key objective of this program is to reduce the existing maintenance backlog and increase the share of secondary roads in good and fair condition.

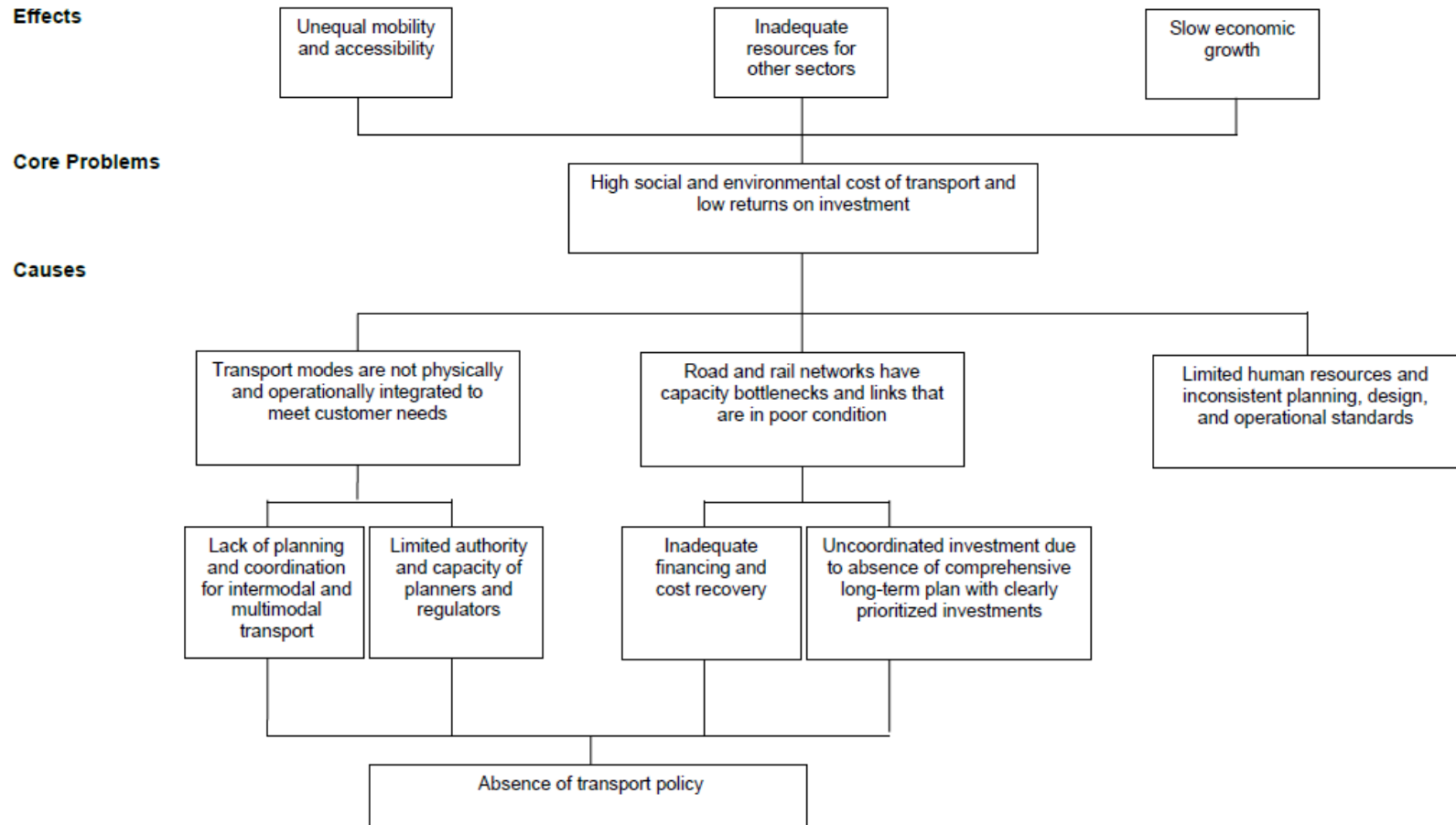
⁷ Performance Based Maintenance (PBM) contracting for the management and maintenance of road networks is a new concept designed to increase the efficiency and effectiveness of road maintenance operations. This type of multiyear contract significantly expands the role of the private sector, from the simple execution of works to the management and conservation of road assets. The World Bank assessed that the pilot PBM contracts have started building the capacity of the local industry to implement and manage contracts, with more risks transferred to contractors.

⁸ The road asset management system is a tool for the analysis, planning, management, budgeting, and appraisal of road maintenance meeting the targets set, such as the average condition of the road network.

⁹ The fatality rate of 16 people per 100,000 in 2006 dropped to 11 people per 100,000 in 2013.

Problem Tree for Transport

Problem Tree for Transport Sector in Georgia



Source: ADB. 2014. *Country Partnership Strategy: Georgia, 2014–2018*. Manila.