

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

Report No.: PIDA20585

<b>Project Name</b>	Regional Roads and Development Project (P146334)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Uzbekistan
<b>Sector(s)</b>	Rural and Inter-Urban Roads and Highways (70%), General transportation sector (10%), Other domestic and international trade (20%)
<b>Theme(s)</b>	Infrastructure services for private sector development (40%), Trade facilitation and market access (60%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P146334
<b>Borrower(s)</b>	Republic of Uzbekistan
<b>Implementing Agency</b>	Republican Road Fund
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	16-Apr-2015
<b>Date PID Approved/Disclosed</b>	16-Apr-2015
<b>Estimated Date of Appraisal Completion</b>	10-Apr-2015
<b>Estimated Date of Board Approval</b>	18-Jun-2015
<b>Appraisal Review Decision (from Decision Note)</b>	The Country Director has authorized the Team to appraise on March 22nd, 2015

**I. Project Context**

**Country Context**

Uzbekistan is a lower-middle income, resource rich country, strategically located in the heart of Central Asia. Uzbekistan is the most populated country in Central Asia with a population of about 30 million (2013), which accounts for about sixty percent of Central Asia's total. As the only country that borders five other Central Asian states including Afghanistan, Uzbekistan's economic and social development is important not only for its own rapidly growing population, but also for the management of the region's trade as well as for its political stability and security.

Uzbekistan's economy continued to grow steadily, at an annual rate of eight percent in 2013. All sectors of the economy contributed to economic growth with services growing by more than nine percent a year (now close to half of GDP). The government's industrial modernization and localization program supported industrial sector growth of 6.2 percent in 2013.

Uzbekistan has seen notable increases in public investment and to a lesser extent, private

consumption. The government has continued implementation of a US\$ 47 billion public investment program for 2011-2015, of which over 70 percent is focused on oil, gas and electricity. Total investment increased by 2.8 percentage points in 2013 to reach 25.6 percent of GDP. Public investment accounted for 4.4 percent of GDP and private investment, including investment from state owned enterprises (SOEs), made up the remaining 21.2 percent. At the same time, rising real wages and steady remittance inflows, which reached 6.5 percent of GDP in 2013, helped drive private consumption. Domestic consumption has helped offset weaker external demand for Uzbek goods and services.

Uzbekistan is making steady progress towards the first Millennium Development Goal (MDG) of halving poverty by 2015. Nationally defined poverty rates declined from 27.5 percent in 2001 to an estimated 14.5 percent in 2013. Steady economic growth, sustained annual increases in salaries and remittances, and government social protection programs all contributed to this decline. While the country remains on course to achieve the goal of halving poverty, related challenges such as inequality, rural-urban and regional disparities, mainly in Karakalpakstan region in the West and the Ferghana Valley areas in the East, continue to be an issue.

Poverty is still significant and spatially concentrated in Uzbekistan. Over five million people do not have enough resources to meet basic consumption and energy needs. Two thirds of the poor are in rural areas, and poverty levels differ sharply between regions. This suggests that sector policies that can lead to higher incomes in rural areas will have a larger impact on poverty reduction and shared prosperity. By improving connectivity and accessibility, an improved road network can viably improve regional convergence and enable rural populations to fully benefit from Uzbekistan's economic growth.

The project will address the transport connectivity issues starting in Tashkent region and in the Ferghana Valley, one of the main reasons for the Valley's lag in economic growth. The Ferghana Valley constitutes the eastern most region of Uzbekistan, where almost one third of the country's population lives. Despite a vast industrial and agricultural potential, the region has very high poverty levels and poverty density. While physical and economic isolation from Tashkent region and the rest of Uzbekistan is expected to be substantially reduced due to new Pap-Angren railway connection, the lack of intra-regional and local connectivity is a significant obstacle to development of the Ferghana Valley.

### **Sectoral and institutional Context**

The total length of the roads network of Uzbekistan reaches 185,000 km, out of which 42,530 km are considered as core roads. The roads within the core network are classified as international (3,626 km), national (16,909 km) and regional (24,606 km) and are constructed and rehabilitated by the Republican Road Fund (RRF) and maintained by Uzavtoyul Enterprises. About 98 percent of the core roads network is paved. The density of paved roads is comparable with other countries in Central Asia. The density is higher in the eastern regions (4,000-6,000 km per 10,000 km<sup>2</sup> for Tashkent, Namangan, Andijan and Ferghana regions). Towards the south, the density decreases to moderate values of 1,000-3,000 km per 10,000 km<sup>2</sup> and hits the lowest level in the western regions (Karakalpakstan and Novoi) with less than 1,000 km per 10,000 km<sup>2</sup>.

Uzbekistan has a road sector policy framework which aims at improving governance and accountability, sustainability, seamless transport logistics, greater private sector participation. Since

2003, the government has pursued several policy and sector reforms, including (i) separating road transport operations from road construction, (ii) creating RRF as a quasi-independent body, (iii) promoting competitive bidding for all road construction works, and (iv) establishing an external quality control mechanism. The government has also restructured Uzavtoyul (the sole nationwide road agency), and is now a state joint stock company with performance and accountability targets. Uzavtoyul is currently carrying a dual function of a road service provider and executor of civil works (Contractor). The next phase is to separate several road construction units from the Uzavtoyul. There is also an emerging private road contractors industry which competes with Uzavtoyul for road projects. Under the Asian Development Bank (ADB) loan for the Central Asia Regional Economic Cooperation (CAREC) Road Project, a state-owned road equipment pool company is established, which leases equipment to all contractors.

Funding for the road sector has increased by a half during 2007-2012 in constant terms, reaching US\$ 567 million in 2012. However, the share of RRF expenditures in terms of GDP has remained steady at about 1.0 percent on average during 2007-2012 which is low by international standard. Despite the fact that investments in the roads network have increased significantly, most of the funds (63 percent) were used for the reconstruction, rehabilitation or upgrading of the international and national core roads network.

The most neglected part of the road network is the regional roads, which comprises 58 percent of the total network, but only receives 6 percent of maintenance expenditure. Total revenue of the RRF appear to be sufficient to maintain all roads that are in sustainable condition (good or fair condition), but the focus in capital expenditures has adversely affected funding for periodic and routine maintenance. During 2007-2012, average maintenance spending per kilometer per year for international, national and regional roads was approximately US\$ 2,823 per km per year, of which 60 percent (US\$ 1,703 per km per year) was for periodic maintenance. The periodic maintenance expenditures cover road works on only 2 percent of the network each year, while an adequate periodic maintenance program should cover between 7 and 10 percent of the network each year.

Despite recent achievements, the road sector still faces a number of challenges. The main challenges include: (i) the regional road network has received little maintenance works and there is a growing road rehabilitation backlog; (ii) the RRF has insufficient technical and management capacity to ensure value for money to a growing road investment program; (iii) there is no a consolidated road database for Uzavtoyul to prepare regional road maintenance programs; (iv) traffic surveys and road asset inventory condition are still conducted by visual inspections and technical and economic methods; (v) road safety remains a concern on a number of black spots which require a set of targeted road safety interventions on a priority regional road sections.

## **II. Proposed Development Objectives**

The proposed Project Development Objectives (PDOs) are to reduce road user costs on the project roads and develop a sustainable investment program for regional road asset management.

## **III. Project Description**

### **Component Name**

Rehabilitation of Regional Roads

### **Comments (optional)**

This component will improve about 300 km of priority regional roads in Tashkent, Ferghana,

Andijan and Namangan. Specifically, the component will finance the rehabilitation works of existing regional roads, including structure renewal as well as the rehabilitation of ancillary road connections (i.e. crossroads, access roads, drainage systems).

**Component Name**

Road Sector Institutional Strengthening

**Comments (optional)**

This component will finance: a) road asset management capacity review; b) support to develop regional roads rehabilitation programs; c) support to road construction industry (road construction contractors, road design institutes, scientific research institute on automobile roads); d) capacity strengthening of Republican Road Fund (RRF); and e) road sector governance and capacity review

**Component Name**

Project Management

**Comments (optional)**

This component will finance relevant activities to support project management and implementation, including: (i) Core Team Consultants (CTC) to provide support to PIU in project contract management, procurement, and environmental and social safeguards; (ii) supervision consultants to support the supervision of all civil works of the entire roads financed under this project; and (iii) operating and incremental costs of PIU, including financial audits.

**IV. Financing (in USD Million)**

Total Project Cost:	240.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
BORROWER/RECIPIENT			40.00
International Bank for Reconstruction and Development			0.00
International Development Association (IDA)			200.00
Total			240.00

**V. Implementation**

RRF will have responsibility for implementation of the project components. The RRF was established under the Ministry of Finance and is led by a Director with a rank of Deputy Minister who reports to the Deputy Prime Minister. In Uzbekistan, donors financed projects in the road sector are managed by RRF as an Executing Agency. The RRF comprises a team of about 70 professional and support staff who work mainly on road projects financed by the national budget. RRF has gained experience working with the Asian Development Bank (ADB) and the Islamic Development Bank (IDB) on road development projects. Each of these projects is managed by a dedicated project implementation units which reports to the Director of the RRF. Therefore RRF will host the Project Implementation Unit (PIU) on the project. PIU at RRF will be directly responsible for day-to-day management of the project and its operating and incremental costs will be covered by the project loan proceeds. Financial management (FM) capacity built under implemented projects financed by ADB and IDB (FM manual and respective procedures) will be utilized for the proposed project but tailored to meet World Bank financed project requirements.

In general, project and contract management capacity exists within the RRF but need to be further

developed. There is a shortage of road sector technical staff and a high staff turnover with local technical assistance due to a conjunction of the small pool of available personnel in the local market and difficulty to incorporate them in a defined organization structure of the RRF. To fill this gap, a dedicated PIU will be established and staffed by technical, fiduciary, environment/social and administrative staff which will be led by a PIU Head. The PIU will be supported by the Core Team Consultants (CTC) and Supervision Consultants (SC). Uzavtoyul will take the lead in the preparation of the road rehabilitation and maintenance programs. The procurement of this sub-component will be the responsibility of the PIU/RRF.

The CTC will assist the RRF/PIU with all aspects of project management, including procurement, contract management safeguards, monitoring and evaluation and reporting, and ensure that these functions are undertaken in a timely fashion. The CTC will assist RRF/PIU with the overall project management and preparation of the relevant project consultancy works and studies. The CTC will liaise closely with SC and other consultants employed under the project. The design consultants will be appointed financed by the RRF/PIU through Borrower's financing to design the project civil works in the Ferghana valley. The consultants are expected to complete the feasibility studies prior to the project effectiveness.

## VI. Safeguard Policies (including public consultation)

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

**Comments (optional)**

## VII. Contact point

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