

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

Report No.: PIDA27529

<b>Project Name</b>	East-West Highway Corridor Improvement (P149952)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Georgia
<b>Sector(s)</b>	Public administration- Transportation (4%), Rural and Inter-Urban Roads and Highways (96%)
<b>Theme(s)</b>	Other public sector governance (3%), Regional integration (48%), Trade facilitation and market access (49%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P149952
<b>Borrower(s)</b>	Georgia
<b>Implementing Agency</b>	Roads Department of the Ministry of Regional Development and Infrastructure (RDMRDI)
<b>Environmental Category</b>	A-Full Assessment
<b>Date PID Prepared/Updated</b>	10-Jun-2015
<b>Date PID Approved/Disclosed</b>	12-Jun-2015
<b>Estimated Date of Appraisal Completion</b>	19-Jun-2015
<b>Estimated Date of Board Approval</b>	17-Sep-2015
<b>Appraisal Review Decision (from Decision Note)</b>	The review did authorize the team to appraise and negotiate.
<b>Other Decision</b>	The Chair authorized the Team to proceed with the project appraisal and update the PAD based on reviewers comments.

**I. Project Context**

**Country Context**

1. After modest economic growth in 2013, output expanded by 5 percent year-on-year in the first eleven months of 2014. The signing of the Association Agreement (AA) with the European Union (EU) and greater policy certainty resulted in an uptick in business and consumer confidence and the pace of output expansion picked up. The first three quarters of 2014 saw robust growth supported by stable domestic conditions and buoyant external demand. The large Russian market which opened up for Georgian products in July 2013 helped increase exports including wine. However, tensions in the region have adversely impacted growth in the fourth quarter, primarily through lower external demand and spillover effects. For 2014 as a whole, growth is likely to be below 5 percent. Economic growth over the past decade, more generally, was fueled by large foreign capital inflows and significant policy reforms during the pre-crisis years, and by high public capital spending during the post-crisis recovery period. Overall, growth during 2004-13 was largely

powered by services, construction and non-tradables.

2. Despite this economic recovery, poverty remained between 17 and 21 percent (using a line set for national poverty analysis). The recent drop in poverty to 14.8 percent in 2012 was led by social assistance, as well as a decline in food prices favoring the poor. Strong social transfers and falling food prices have also led to a noteworthy reduction in the extreme poverty rate to 3.7 percent. Unlike previous years when the consumption of the bottom 40 did not grow, between 2010 and 2012, the bottom 40 enjoyed a consumption growth of 5.4 percent per year. Despite the recent gains in poverty reduction, unemployment remains high at 15 percent in 2012 (urban unemployment rate is particularly high at 26 percent). Inequality has also remained high with the Gini coefficient remaining close to 0.41. Cross-country comparisons show that Georgia has one of the highest poverty rates in the ECA region. Going forward, growth is expected to be driven more by domestic savings and tradables. Increased spending on roads, water and rural development are needed to catalyze private investment and create jobs.

### **Sectoral and institutional Context**

3. Responsibility for road infrastructure policy and planning in Georgia lies with the Ministry of Regional Development and Infrastructure (MRDI), while management of the international/national/secondary and local roads is the responsibility of the Roads Department (RD) and the Municipalities respectively. Regional and local roads remain in poor condition. Road density in Georgia is lower than in several EU-15 member countries, but compares favorably to densities in Southern Caucasus and Central Asia countries. The main road network includes 22,010 km, which consists of 1,564 km of national/international roads (including the East-West corridor). The secondary and local road networks include 5,446 km and 15,000 km respectively. 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.

4. The government continues to be strongly committed to infrastructure improvement. MRDI has developed an Action Plan in 2014 which allocated roughly GEL875 million for infrastructure development, including GEL500 million for road improvements. Investment and management of ports are now undertaken by private operators 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. Georgian Railways' sound financial basis is the result of the profitable transport of oil products transiting from Azerbaijan to the Black Sea. Government investments have therefore focused on the road sector, with rail and port sectors financed largely by the private sector. The continuation of funding for the East-West Highway corridor improvement is one of the priorities of the Action Plan. This is well aligned with the recently the signed Association Agreement with the European Union that will open significantly Georgia to the global market.

5. Georgia aspires to becoming a regional transport-transit hub, it offers significant opportunities through its renovated and expanded transportation infrastructure. This is well aligned with the objective to increase the competitiveness of the Caucasus Transit Corridor (CTC) which is a key transit route between Western Europe and Central Asia for transportation of oil and gas as well as dry cargo. CTC is part of the international and regional corridor TRACECA. The TRACECA corridor is the shortest route between Europe and the Caucasus and Central Asian countries through the Black sea ports. TRACECA is an alternative to the north corridor running through the Russian

Federation and Belarus and the southern corridor running through Turkey and Iran, the latter has become less competitive due to international sanctions imposed on Iran. This puts a particular onus on improving logistics and transport services within Georgia but also cross-borders along the CTC. Improving the CTC competitiveness will enable Georgia to fulfill its aspiration to becoming a regional transport and logistics hub and reach the LPI's of the neighboring Turkey's (regional leader) and of Poland's.

6. 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. The East West Highway is part of the European route E-60, which 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 and traffic annual growth rate of around 7.0 percent. The East West Highway accounts for 23 percent of the vehicle utilization in Georgian roads, which represents 47 percent of vehicle utilization of Georgian international roads. The 2014 Enabling Trade Index (ETI) ranks Georgia 56th out 138 countries for the availability and quality of transport infrastructure. The improvement of the East West Highway Corridor will improve connectivity between the Caspian and Black Sea, lower cost of transport and logistics and improve Georgia's ranking and connection to global markets.

7. The government is committed to completing the East West Highway Corridor project by 2020. The Government has in recent years accorded high priority to completing the upgrading of the East West Highway (392 km) to international motorway standards (2x2 lanes). The Government has deliberately opted to financing this important project using its own budget and a significant support of the International Financing Institutions (IFIs). The World Bank has financed four road improvement projects along the East-West Highway to complement the Government's initial investment from Tbilisi, and assistance is also being provided by other IFIs. Approximately 130 kilometers of the East-West highway corridor have already been upgraded of which 70 km were funded by the World Bank through the first two highway improvement projects (Highway Improvement Project 1 and 2). Works are on-going to complete an additional 177 km by 2015 with the support of the World Bank (32 km), the Asian Development Bank (33 km), the European Investment Bank (55 km), and the Japanese International Cooperation Agency (58 km).

8. The remaining road sections (85 km) of the East-West Highway corridor between Zemo-Osiauri and Argveta are located along a very difficult terrain and land slide prone areas which will require high level of expertise and innovation. A feasibility study of the remaining road sections including the detailed engineering design of the Zemo Osiauri and Chumateleti section (14.2 km), which forms the civil works component of the proposed project, will be completed by February 2015. The feasibility study covers three distinct but simultaneous activities (i) Alternative alignment analysis and feasibility study of Zemo Osiauri and Argveta; establishing the feasibility of the project and selecting from various alternatives the preferred alignment; (ii) Detailed engineering Design of Zemo Osiauri and Chumateleti, which is the main civil works component of the proposed project and (iii) Value for Money Analysis and development of an optimal financing strategy for each of the sections between Zemo Osiauri and Argveta. The findings of the feasibility study will be presented and discussed at a donors' conference by Summer 2015.

9. Road safety has shown significant improvement in Georgia over the last few years with the fatality rate dropping from 16 people per 100,000 in 2006 to 11 in 2013 despite high traffic growth. This was achieved following a combination of a new policy (that resulted, inter alia, in the first National Traffic Safety Strategy and Action Plan), treatment of accident black spots, and improved enforcement of traffic laws. RD has a Road Safety Unit in its Maintenance Division that carries out, with the Patrol Police, road safety audits and inspections of planned road rehabilitation and construction activities. This Unit has continued to implement road safety engineering improvements which, together with road safety campaigns by NGOs and stricter enforcement of some traffic rules (front seatbelt use) by the Patrol Police, have contributed to the observed reduction in road crashes and related fatalities. A Road Safety Working Group was recently established (December 2014) to develop a new Road Safety Strategy and an Action Plan.

10. Along with major country reforms to improve the business climate and governance, Georgia has successfully implemented a series of fundamental reforms and interventions in the transportation and logistics sector over the last 10 years. The country has radically improved its value proposition as a transit country, modernizing its transport infrastructure, improving border clearance procedures, and liberalizing the provision of services in many key sectors that ensure better international connectivity with global markets. Despite these achievements, many challenges remain.

11. Despite recent achievements, the road sector still faces a number of challenges. (i) over the past decade, the level of investment in national roads and expressways has not kept pace with increasing demand and growth; (ii) a high number of road fatalities requires the need to develop a coordinated road safety strategy and a plan of actions (i.e. a sub-component of the on-going Fourth East West Highway Improvement Project (EWHIP-4)); (iii) road condition has improved for international roads, but the rest of the network faces significant challenges, as a large part of the secondary and local road network is in poor condition. This is primarily due to the insufficient funding of routine and periodic maintenance and to the existence of a significant road rehabilitation backlog. Public expenditure for capital investment in the road sector increased by 4 percent per year over the 2007-2014 period but budget allocations to road maintenance works remained erratic and have increased only by 2 percent per year during the same period. Georgia has only recently started considering the use of modern road design standards and efficient contracting methods (i.e. Performance Based Contracts) which are piloted under the on-going Secondary and Local Roads Projects funded by the World Bank. This is a long process but one that will bring efficiencies to the road sector.

12. There is a need to consolidate good road asset management practices and move towards modern expressway network development and management. Highway Improvement Projects have contributed to improving primary roads condition and building technical and management capacity of RD using road asset management approach. Georgia now needs to consolidate the experience gained in the last ten years and to leverage and efficiently utilize funding to preserve its road asset. MRDI's long term objective is to complete its expressway network by developing the North-South highway corridor, develop adequate institutional and management capacity to manage an expressway network to ensure consistency with modern European standards and practices.

13. There is a need to capitalize on the road safety gains and enhance RD's capacity to provide real time information to improve mobility and traffic safety. RD has started using modern technologies

to provide timely information to road users and to the general public about traffic safety and mobility on roads. RD has an Intelligent Transport System (ITS) Division consisting of 5 staff. The Division's primary responsibility is to timely inform the public about the situation on roads, including weather condition, traffic information or roads condition. ITS Division also operates a hotline to respond to public enquiries. Considering a high increase of traffic intensity along the international roads, there is a need to increase the technical and management capacity of the ITS Division to increase its responsiveness in emergency situations (i.e. response to road accidents, traffic congestion, inclement weather conditions, flooding, landslides). This will not only help arrange timely emergency services but also reduce incident duration time and prevent secondary incidents. In addition, it will also enable Police and Roads Department to analyze the causes of road accidents and other incidents and develop appropriate enforcement or engineering measures to further strengthen these agencies' efforts in improving safety and supporting the declining trend in fatalities on this corridor. Additional emphasis will be placed on the facilitation of interagency teamwork, coordination and communication (between RD's ITS Division, Police, Emergency Services, Ambulance Services).

14. Significant achievements are made, however many challenges remain to position Georgia as a transit hub. When breaking down the Georgia's infrastructure index in the 2014 Enabling Trade Index (ETI), the availability and quality of transport infrastructure is ranked much higher (56th out of 138 countries) than transport services (99th), with a particularly low ranking for ease and affordability of shipments and logistics. The Government is committed to developing the transport infrastructure (i.e. Complete the East-West Highway by 2020). This puts a particular onus on improving logistics and transport services within Georgia but also cross-borders along the CTC. Improving the CTC competitiveness will enable Georgia to fulfill its aspiration to becoming a regional transport and logistics hub and reach the LPI's of the neighboring Turkey's (regional leader) and of Poland's.

15. There is a need to develop a logistics strategy to optimize the benefits of the large investment in transport infrastructure. The strategy will provide an enabling environment to enhance private sector participation, eliminate non-tariff barriers and provide a conducive regulatory framework to support trade and attract transit traffic. The strategy will cover three main areas (i) Infrastructure and logistics services; (ii) Supply chain management and (iii) Corridor development and cross-border management.

## II. Proposed Development Objectives

The proposed PDOs are to: (i) reduce road user costs along the section upgraded under the project; and (ii) strengthen the capacity of the Roads Department (RD) and the Ministry of Economy and Sustainable Development (MESD) to manage the road network and provide an enabling environment to improve logistics services.

## III. Project Description

### Component Name

Component 1: Improvement and asset management of the East-West Highway Corridor (Estimated Cost: US\$158.50 million)

### Comments (optional)

(a) Sub-component 1.1. Civil works (Estimated Cost US\$153.50 million). The objective of this sub-component is to finance the upgrading of existing 2-lane East-West Highway from Zemo Osiauri-Km 5.8 to Chumateleti to a 4-lane dual carriageway road. The section to be upgraded is

approximately 8.0 km long and runs through hilly and mountainous terrain, thus requiring many structural works including 3 tunnels and 7 bridges. The upgrading of the road requires traffic capacity expansion, a dual carriageway including man-made structures in difficult topographic and geological conditions. The carriageway will be of concrete pavement. Civil works will be carried out under one lot.

(b) Sub-component 1.2. Construction supervision and quality assurance services (Estimated Cost: US\$5.5 million).

**Component Name**

Component 2: Institutional strengthening (Estimated Cost US\$2.0 million)

**Comments (optional)**

(a) Sub-component 2.1. ITS Capacity Strengthening (Estimated Cost: US\$1.0 million). The objective of this sub-component is to strengthen the capacity of the ITS Division to identify and manage ITS systems applications to enhance the Division's capacity to monitor traffic and road conditions along the corridor and those sections of regional roads with higher traffic intensity and provide real-time information to road users and public through RD's website and other communication channels. This sub-component will build on the first ITS Strategy that is under preparation under the Fourth EWHIP financing.

(b) Sub-component 2.2. Technical support to MESD to develop and implement a logistics strategy (Estimated Cost: US\$1.0 million).

**Component Name**

Component 3: Preparation of designs and supporting studies for future projects for the development of the East-West Highway (Estimated Cost US\$3.50 million)

**Comments (optional)**

The objective of this component is to finance the review of the feasibility study, the preparation of the detailed engineering design and relevant safeguard documents of the section between Km 8 and Km 24 east of the Rikoti Tunnel. This section is one of the priority sections identified by the feasibility study Zemo-Osiauri to Argveta will be part of the East West highway corridor and, thus, requires similar design standards and solutions to the sections already developed in the past projects.

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

Total Project Cost:	164.00	Total Bank Financing:	140.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			24.00
International Bank for Reconstruction and Development			140.00
Total			164.00

**V. Implementation**

Institutional and Implementation Arrangements

16. The proposed Project will be implemented mainly by RD of MRDI, which has been implementing several World Bank funded projects since 1996. 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 provided by the Transport Research and Rehabilitation and Center (TRRC), a specific body designated for financial management of foreign-funded road projects under the MRDI. Specific units in RD are in charge of environmental management and monitoring, road safety, and land acquisition and resettlement. As the on-going East West Highway Projects and Secondary and Local Roads projects demonstrate, these implementation arrangements have been generally satisfactory. Application of environmental safeguards remains dependent to much extent on consultant services being procured to supplement in-house capacity of RD.

17. RD's ITS Division will be responsible for the implementation of the ITS Capacity Strengthening sub-component. However, during the development of the TORs for ITS Division and identification of its needs in ICT systems, this Division will work in close collaboration with Police, Emergency Services, Ambulance Services (under the Ministry of Health), RD's Road Safety Unit and Maintenance and Supervision Division to better align the role of RD's ITS Division in the interagency communication and coordination during traffic monitoring and incidence response on the East-West Highway Corridor. RD's Road Safety Unit will take the lead in the implementation of the road safety sub-component. It will collaborate closely with Police to analyze the collected data through ICT systems (in addition to road accidents reports and statistics) and develop more appropriate road safety interventions on other sections of the corridor.

18. MESD will implement part of the project institutional strengthening component. This component consists of technical assistance and advisory services to help the Transport Policy Department to develop a logistics strategy and support to implement key policy measures to provide an enabling environment to improve logistics services in Georgia. These activities will be implemented in close cooperation with RD and MRDI.

19. Sufficient procurement capacity exists within RD particularly for large contracts. The procurement of services related to this component will rest with the FPU of the RD. To ensure adequate project and contract management capacity within RD relative to the size of the investment program it is implementing, RD has recruited 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 the small pool of available personnel in the local market and difficulty to incorporate them in the RD organizational structure.

20. TRRC will assist RD in implementation of the proposed 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. MRDI, RD and TRRC will sign, within one month of effectiveness, 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.

## **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****World Bank**

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**Implementing Agencies**

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**VIII. For more information contact:**

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