

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

Report No.: PIDA33246

<b>Project Name</b>	Secondary Road Asset Management Project (P149953)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Georgia
<b>Sector(s)</b>	Public administration- Transportation (10%), Rural and Inter-Urban Roads and Highways (90%)
<b>Theme(s)</b>	Public expenditure, financial management and procurement (10%), Managing for development results (10%), Regulation and competition policy (10%), Trade facilitation and market access (35%), Rural services and infrastructure (35%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P149953
<b>Borrower(s)</b>	GEORGIA
<b>Implementing Agency</b>	Roads Department of the Ministry of Regional Development and Infrastructure (RDMRDI)
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	20-Jan-2016
<b>Date PID Approved/Disclosed</b>	20-Jan-2016
<b>Estimated Date of Appraisal Completion</b>	07-Dec-2015
<b>Estimated Date of Board Approval</b>	18-Mar-2016
<b>Appraisal Review Decision (from Decision Note)</b>	The review authorized the team to appraise and negotiate.
<b>Other Decision</b>	The Chair provided clearance to the Team to continue strengthening the design of the project during the month of November and proceed with appraisal of the Project in December, subject to the incorporation of the comments received and the recommendations made during the Meeting.

## I. Project Context

### Country Context

1. Economic growth moderated from 4.8 percent in 2014 to an estimated 2.5 percent in 2015. The growth slowdown was largely driven by a weaker external environment. The geo-political risk emanating from the Russia-Ukraine crisis, the slowdown in Georgia's main trading neighbors many of which are significantly dependent on Russia and also on hydrocarbons, and the protracted slowdown in the EU have had a big impact on Georgia--the main channel of transmission has been lower exports and remittances. Weaker performance in 2015 is in contrast to 2014 when growth had

picked up as a result of greater policy certainty and the opening up of the Russian market. 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. With strong revenue performance during the year and despite higher expenditures on health and flood reconstruction works, the fiscal deficit in 2015 is expected at 3 percent of GDP.

2. Georgia continues to have one of the highest poverty rates in the ECA region despite poverty rates considerably falling since the peak observed in 2010. The recent drop in poverty from 46.7 percent in 2010 to 32.3 percent in 2014, as measured by the US\$2.5/day poverty line, was led by increased earnings for the already employed and increases in social assistance, while employment creation has only played a limited role. Unlike in previous years when the consumption of the bottom 40 percent of low-income population did not grow, between 2010 and 2014, the bottom 40 percent enjoyed annual consumption growth of 8.3 percent, above the 6.4 percent observed for the whole country. Unemployment fell to 12.4 percent in 2014, though urban and youth unemployment remain persistently high at 22 and 31 percent, respectively. Rural areas still lag behind and register poverty rates (43 percent) more than twice as large as urban areas (21 percent). Inequality has remained high, with the Gini coefficient remaining close to 0.40.

### **Sectoral and institutional Context**

3. Roads are key to the wellbeing of most Georgians. On main roads the country has prioritized key East-West Highway Corridor investments and is achieving substantial improvements in connectivity to global markets. Regarding secondary roads, about half of the country's population relies on them as they live in villages and smaller towns and 75 percent of them derive their livelihoods from agriculture. The latter rely on secondary roads to: (i) access the markets and socio-economic centers, (ii) improve their living standards, and (iii) explore new job opportunities. A reliable transport network, through increased spending on roads, is needed to alleviate poverty disparities among the country's regions, provide a platform for the integration of the rural economy, as well as catalyze private investment and create jobs. Improved secondary roads reduce costs of accessing markets and services, increasing access for the poor and isolated regions, and generate direct employment opportunities linking jobs with people and boosting the incomes of the bottom 40 percent. Financing road improvements benefits especially farmers in Georgia's lagging regions with high agriculture potential.

4. Road assets are an important country asset and Secondary Roads a very significant part of it. Georgia's road sector represents a large national asset, including a network of about 21,824 km, out of which are 1,528 km of international roads (including 88 km of 4-lane motorways in the East-West corridor), 5,296 of secondary roads and around 15,000 of local roads. Responsibility for road infrastructure policy and planning in Georgia lies with the Ministry of Regional Development and Infrastructure (MRDI), while management of the international and secondary roads is the responsibility of the Roads Department (RD). Management of local roads is the responsibility of municipalities since 2007 when government decentralized certain administrative and budgetary functions. In the road sector, Government supports a policy-based, efficient, and long-term strategic investment as its main priority. Infrastructure improvement remains at the top of the government's agenda as reflected in the investment and sectoral plans. RD's asset management capacity has substantially improved in the past decade.

5. Important efforts are needed by GOG and RD to ensure sustainable asset management and preservation of the secondary road network. International roads are generally in good condition with 86 percent of roads (2014) with a low international roughness index (IRI) below 6 which denotes good or fair condition. The share of secondary roads in good and fair conditions has increased from 30 percent in 2004 to around 60 percent in 2015 as a result of major rehabilitation efforts in the past decade. About 1,100 km (or a third of the totally rehabilitated secondary roads) were financed by the World Bank during 2004-2015. However, there is still a secondary road rehabilitation and safety improvement backlog and the need to preserve the recently rehabilitated and improved assets. Moreover, with their increased frequency in Georgia, landslides, rockfall and flash floods have been causing serious damages to road infrastructure, as well causing damages to or loss of properties and human lives. While RD keeps monitoring road sections prone to landslides, rockfall and flash floods it has acknowledged an immediate need of carrying out a comprehensive vulnerability assessment of roads to climate change, as well as developing and executing climate resilient measures for the most vulnerable road sections. RD has been implementing a number of important policy reforms that address institutional capacity for road asset management, improved procurement, safeguards, and enhanced road safety.

6. Road Sector Finance. Road sector expenditures (construction, rehabilitation and maintenance) on international and secondary roads has been significantly increased from 0.7 to 2.30 percent of GDP during 2004-2015, focusing on capital expenditures of the East-West Highway Corridor. Routine maintenance, including winter maintenance, remains underfunded in relative and absolute terms with expenditures averaging about US\$17 million per year (between 2007-2014) for both international and secondary roads which represents less than US\$2,500 per km per year and is less than the international comparator range of US\$4,000 to US\$8,000 per km. Resolving the maintenance funding and ensuring that recent improvements in implementation of maintenance be sustained are a major challenge for the Government.

7. Secondary Road Program. RD is currently developing a Five-Year rolling Program for Improvement and Preservation of the Secondary Road Assets for 2016-2020. The objective of this Program is to promote sustainable Road Infrastructure Development providing efficient transportation, ensuring short and long-term benefits for all road users. This Five-Year 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 total capital and maintenance works are estimated at GEL500 million (US\$300 million). The key objective of this Program is to outline strategies for reducing the existing rehabilitation backlog and increasing the share of secondary roads in good and fair condition under the projected budget allocations for the given period. This Project will contribute to strengthening RD's capacity in preparing multi-year programs and annual plans for the secondary road network.

8. Road safety. Road safety audits of new designs and regular road safety inspections of existing road assets are mainstreamed in RD's implementation practices, leading to timely and relevant implementation of road safety engineering countermeasures. While those measures have improved safety of women and children on the roads, who are predominantly pedestrians, they have also contributed to the safety of male drivers, who have been a majority of road accidents victims. As a result, engineering measures, in combination with improved enforcement, emergency services response, and education campaigns, has contributed to around 16 percent reduction in the fatality rate against a 2.6 fold increase in traffic in the past decade. (iv) RD as a member of Georgia's Road safety Working Group, participated in drafting the new (Second) Road Safety Strategy and Action

Plan for 2016-2020, which was supported under the Fourth East-West Highway Project (EWHIP-4) and was presented at the workshop in October 2015 with the participation of all government stakeholders, NGOs and donors. In the next few months, RD is to pilot international road [safety] assessment program (iRAP) on the international and secondary roads in Guria region under the Bank-funded SLRP-III, with the purpose of incorporating its outputs, i.e., Safer Roads Investment Plan, into the design of the second pilot output- and performance-based road contract (OPRC) under this Project. (v) At present, RD is working with the financial support of the Asian Development Bank (ADB) on the harmonization of design, construction and maintenance standards.

9. To increase the cost-efficiency of its work program execution, RD has started moving into output based performance-based contracting with a focus on long-term assets preservation. RD has successfully piloted a design-build contract which was developed based on the OPRC approach under the Bank-funded Kakheti Regional Roads Improvement Project (KRRIP) and SLRP-II. These pilot design-build contracts have started building the capacity of the local industry in implementation and management of contracts with more risks transferred to contractors. The first pilot OPRC contract is to be implemented in Kakheti region under SLRP-II starting from 2016. Considering the positive feedback from the private and public sectors on the pilot design-build performance-based contracts under KRRIP and SLRP-II, RD is confident that this first pilot OPRC will also be successful. RD also acknowledges a number of advantages of the OPRC approach, namely transfer of more risks to the private sector, more accurate estimates of annual maintenance costs, and long-term savings as a result of regular and adequate routine maintenance up to the expected levels of service. Thus, RD intends to scale up this innovative contracting approach to another region under SRAMP.

## II. Proposed Development Objectives

The Project Development Objectives are (i) to improve road users' access to social services and markets on the project roads in a sustainable manner, and (ii) to enhance road asset management for the secondary roads network in Georgia.

## III. Project Description

### Component Name

Secondary Road Assets Improvement and Preservation

### Comments (optional)

20. The objective of this component is two-fold: (i) to support the improvement and preservation of secondary roads assets and (ii) improve access of Georgians to social services and economic activities in less connected and poor regions through innovative performance-based contracting methods: output- and performance-based road [rehabilitation and maintenance] contract (OPRC) and design-build (DB) contracts. This is a DLI-based component, and its financing is linked to the achievement of agreed disbursement linked indicators.

### Component Name

Enhanced Secondary Road Assets Planning and Management

### Comments (optional)

21. The objective of this component is to support institutional reforms aimed at integrating innovative management practices in RD's overall road assets management and enhancing RD's capacity in multi-year programming and annual planning, climate resilience planning and

management, road safety management for secondary road assets. This is a DLI-based component, and financing will be linked to the accomplishment of the agreed DLIs.

**Component Name**

Monitoring and Project Management Support

**Comments (optional)**

This component will finance project management support, DLI verification services, road user satisfaction and impact evaluation studies for OPRC and DB road sections, and overall citizen engagement under the project. Financing under this component will be based on standard Bank IPF disbursement procedures.

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

Total Project Cost:	48.00	Total Bank Financing:	40.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			8.00
International Bank for Reconstruction and Development			40.00
Total			48.00

**V. Implementation**

10. RD will be responsible for overall management and implementation of SRAMP. RD has a well-established track record in managing World Bank funded projects since 1996. RD's Deputy Chairmen are vested with project management functions, being supported by the Foreign Projects Unit (FPU) – responsible for procurement, monitoring and evaluation, by TRRC – responsible for financial management and by other units responsible for planning, road safety, and safeguards management. FPU will be in charge of daily management of project implementation and provision of procurement services, technical oversight of institutional activities with the support of the relevant technical units of RD, and monitoring and evaluation of project activities. RD's Road Administration Division and Maintenance and Rehabilitation Division will take the lead in the implementation of Component 2.

**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	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

**Comments (optional)**

RD has accumulated significant good experience in safeguards management through the

**VII. Contact point** implementation of past and ongoing Bank-funded projects and has in-house safeguards capacity.

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