

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC3794

Project Name	Transit Corridor Improvement Project (P149697)
Region	EUROPE AND CENTRAL ASIA
Country	Belarus
Sector(s)	Rural and Inter-Urban Roads and Highways (100%)
Theme(s)	Infrastructure services for private sector development (30%), Other public sector governance (40%), Regional integration (30%)
Lending Instrument	Investment Project Financing
Project ID	P149697
Borrower(s)	Government of the Republic of Belarus
Implementing Agency	Ministry of Transport
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	27-Jun-2014
Date PID Approved/ Disclosed	27-Jun-2014
Estimated Date of Appraisal Completion	30-Sep-2014
Estimated Date of Board Approval	18-Dec-2014
Concept Review Decision	Track I - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The Republic of Belarus, a country with a population of about 9.743 million, is highly urbanized – eighty percent of the population lives in 191 cities and urban settlements and only 20 percent live in 20,460 rural settlements. Most economic activity is managed and controlled by the State; the private sector accounts for just 30 percent of GDP.

Until 2008, Belarus was a strong growth performer in a fast growing region. During 2001–08, Belarus’s GDP grew on average by 8.3 percent annually but growth slowed substantially following the global economic crisis of 2008–09, and since then, the country has gone through a period of recurring macroeconomic instability and soaring inflation. Tight monetary and fiscal policy in late 2011 and through 2012 led to some macroeconomic stability being restored during 2013 but inflation remained stubbornly high at 16.5 percent and real GDP growth slowed to 0.9 percent down from 1.7 percent in 2012.

Over the past decade, rapid economic growth translated into remarkable progress in poverty reduction, although the recent crisis was associated with a modest poverty increase. The absolute poverty rate (national poverty line) declined from 30 percent in 2002 to about 6.3 percent in 2012. The country has also been one of the most successful countries in the region in sharing growth with the lowest 40 percent. In the 2006-2011 period mean income growth averaged 6.4 percent, while growth of the lowest 40 percent averaged 9.1 percent, this translates into this group of the population holding 23.4 percent of total income in 2012.

Nevertheless, the macroeconomic crises of the past years have revealed deep structural constraints in Belarus' state-centered economic policy model. Given the dominance of state-owned enterprises, the private sector and especially small and medium-sized enterprises remain marginalized. The economy continues to depend on energy- and resource-intensive exports. At the same time, productivity growth in non-energy sectors has been stagnating, especially in the state-owned sector.

Sectoral and Institutional Context

Belarus' road sector is quite strategic and still accounts for about 30% of freight and 45% of passenger traffic. The country has a network of 85,000 kilometers of roads (including main and republican roads of about 15,000 km and a local road network of about 70,000 km) of which around 90 percent are paved. In general the main and republican roads are in good to fair condition but the local roads need additional attention. In relative terms, freight traffic volumes by road are increasing by 3 percent each year. Relative to total passenger traffic volumes, which have decreased significantly since 2000. Aviation and inland waterway transport remain insignificant with respect to passenger and freight traffic volumes, despite the fact that aviation has seen some growth in the passenger market.

In terms of road infrastructure, the main challenge is the need to increase capacity in a safe manner on certain transport routes and corridors. Key road corridors are now being upgraded to a Category 1 standard which consists of four lanes, paved shoulders and controlled access. These roads are now being equipped with high standard safety equipment including central / side crash barriers and road lighting, the introduction of which is reducing the incidence of fatal vehicle on vehicle accidents. The main issue now is with vulnerable road users including pedestrians and two wheelers, a particular concern is the at-grade pedestrian crossings which will be a major focus of the design effort under the proposed new project.

Belarus plays an important role as a transit country for international freight flows, both between East and West, but also between North and South. However, in this context, trade facilitation and transportation remains a major challenge particularly when trade flows have been disrupted by the global economic and financial crisis. Nonetheless, the potential of Belarus as a transit and trade hub is presently far from fully exploited. The Government of Belarus has indicated its interest to take actions to further exploit this potential by modernizing different modes of transport, integrating them better, and thereby allowing Belarus to compete with alternative east-west and north-south routes (e.g. between the Baltic countries and Ukraine, including Black Sea ports). In order to tap into this potential it would be essential for Belarus to continue investing in trade-supporting infrastructure, to generate fiscal stimulus in the short term and to support improved competitiveness in the long term. The overall performance of the Belarus logistics sector has been slipping relative to its regional competitors. In 2008 it ranked 74th in the logistics performance index but has since dropped to 91st. A logistics development program is under implementation until 2015 but there are

important logistic opportunities. For instance, there are severe delays at the border posts with Poland which naturally link to the M-6 transit corridor (to be improved as part of this project).

In terms of international trade, Belarus serves as a transit transport corridor between the European Union (EU) and Russia and potentially between the EU and Asia, via the Trans-Siberian Railway and through Central Asia. Russia is the dominant trade partner for Belarus, and the newly established Customs Union of Belarus, Russia and Kazakhstan is expected to open new opportunities for regional trade. Europe is the second most important trading region with 21.6 percent of imports and 43.9 percent of exports in 2008. The main EU export destinations after Netherlands are Latvia and Poland. The main EU countries of origin for imports are Germany, Poland and Italy.

The M-6 international transit corridor, to be improved under this project, is an important road to support this trade and provides one of the priority corridors identified under the Eastern Partnership program of the EU. Traffic volumes average 8,500 vehicles per day with about 35 percent being heavy vehicles. The corridor is used by truckers between Europe to/from Russia, Central Asia and China. The total length of the M-6 in Belarus is 280 km and connects Kiev with Grodno and then to Kuznica at the border with Poland. On the Polish side the road connects through Bialystok to Warsaw a distance of 250 km. On the Polish side of the border about 110 kms have already been improved to expressway standard and there are plans to improve 90 kms of the remaining section by 2017 and the remainder by 2019 partly with funding from the EU. To make the corridor fully effective more has to be done to facilitate movement across the border and at peak times it can take many days for the trucks to pass the border. The Belarussian authorities have already taken some measures to address the issue but the changes are still to be fully realized on the ground.

The sector has undergone some reform over the last few years and as part of the improvement of the system of state management there has been some optimization of the institutional structure at the Ministry of Transport and Communications (MoTC) of Belarus. Until recently the roads agency, BELAVTODOR, had responsibility for planning, implementation and management of the network and “owned” the country’s contractors and consultants. As part of the reform BELAVTODOR has now been liquidated and replaced by the Head Directorate of the Road Network which is a structural unit responsible for network management, at MoTC. The structure includes a well defined road capacity in each Oblast (i.e., Oblast Avtodor). From July 2013 a new company has been created called the BELAVTODOR Holding Management Company which is a Republican Unitary Enterprise which comprises 19 independently managed road and bridge contractors of Belarus (i.e., large and small size construction companies). It is hoped that this framework will eventually make the contracting industry in Belarus more competitive and capable of competing internationally for works. In the short term it has created an independent governance structure for the contractors which make them eligible for Bank financed projects. In the future Government could be in a position to consider that some Oblast Avtodor functions related to maintenance could be separated.

The Government has also undertaken important steps towards sustainable sector finance and has introduced substantial increases in sector revenues and budget allocations for the road sector starting in 2014. The Republican budget will allocate about 4.7 trillion rubles (US\$470 m) per year, for construction, reconstruction and repair. This is an increase of the budget by 30 percent from the previous year. An important development is the promulgation of a new vehicle tax from January 2014 which will be collected during the annual technical inspection of motor vehicles. The new fee is expected to finance only capital expenditures including for instance financing for the upgrading

of road corridors such as M6. The Government expects to collect some 1.6 trillion rubles (US\$160 million) from this new fee in 2014, out of which half will be for capital expenditures in Republican roads and half for capital expenditures on local roads.

Another significant development is the introduction of the e-tolling system which has now been deployed in selected roads in the country under concession to an Austrian operator. The system has been operational since August 2013, now covers 933 km and will be expanded to cover all international corridors including the M6 corridor to be financed under this project (starting this year along a 50 km stretch near Grodno). Estimated revenues to the budget for 2014 are 1 trillion rubles (US\$100 million). Other sources of revenue include minor revenues from fuel excise tax, axle load fees and transit cargo accounting for a further 300 billion rubles (US\$30 million) per year.

Relationship to CAS

In the next four years, the World Bank Group's assistance to Belarus will be concentrated on: (i) Increasing competitiveness of the economy by supporting structural reforms, including reducing the role of the state, transforming the state-owned enterprises sector, and promoting private and financial sector development and integration into the global economy; and (ii) Improving quality and efficiency of public infrastructure services, use of agricultural and forestry resources and increasing global public goods benefits. The proposed project will support both elements of this strategy through continuing the engagement with the Ministry of Transport on their structural reforms and supporting the transformation of the contracting industry to a more market orientation. The improvement of the road will support in the provision of high quality and efficient public infrastructure. The proposed operation will also continue the dialogue from the on-going Road Upgrading and Modernization Project which has already facilitated some of the structural reforms in the transport sector.

The project's contribution to reduction of poverty and increase in shared prosperity is expected to be significant and efforts will be made to assess it during preparation and implementation. The project impacts on income will be through (i) an expected reduction in vehicle operating costs, travel times and accident rates on the roads to be rehabilitated, and (ii) the envisaged works will lead to important social and economic outcomes in the regions where project roads are located. During the construction phase the Project will create temporary jobs during project implementation, and once works are completed, the Project will improve access to markets.

The transit corridor improvements are expected to increase economic activity and reduce travel time to and from the main population centers in the Grodno Oblast and Minsk. Lower transport costs in the Grodno Oblast will enable retailers and traders of agricultural products to increase the share of traded agricultural production at a better price for producers. Finally, in the medium to longer term, better road infrastructure could ultimately translate into increased productive investments in beneficiary communities and employment opportunities for residents, which would improve household income and consumption, and decrease poverty rates.

During project preparation and implementation an important effort will be made to design practical survey instruments (to be part of project implementation) to compare the improved transit corridor of impact with a control corridor without interventions. The idea will be to assess income benefits at the Oblast and community level. The instruments designed to analyze these changes will have to consider the limitation that effects from a large project tend to be long-run in nature.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective is to improve transport connectivity and safety for domestic and international road users on selected sections of the M6 road.

Key Results (From PCN)

The indicators to measure successful achievement of the Project Development Objective are as follows:

- (i) Reduction in travel time between Minsk and Grodno;
- (ii) Reduction in traffic fatalities between Minsk and Grodno;
- (iii) Reduction in average time for a truck to cross border at Grodno
- (iv) Project beneficiaries (out of which female percentage)

III. Preliminary Description

Concept Description

Component 1: Improvement of the M6 transit corridor. This Component provides for the reconstruction and upgrading of a section of the M6 road, from a two-lane to a four-lane road. The road would be designed for the European standard axle load of 11.5 tons and also include two-level interchanges and road safety features according to European standards. A full road safety audit will be undertaken to ensure that designs address the high risk parts of the corridor. The section to be upgraded is located on a 153 km section between Minsk and Grodno. The road improvement would meet two strategic objectives for the government by: (i) linking Minsk to Grodno as part of their national strategy of connecting all six Oblast centers to high standard roads; and (ii) to developing international transit corridors to promote cross border trade. The M-6 links Minsk to Grodno and also to the Polish border. Following improvement the road would be tolled. The route carries a substantial proportion of transit traffic with volumes ranging from 8-10,000 vehicles per day of which 35 percent are trucks. Based on preliminary estimates the cost for the US\$153 km section is US\$413 million (excluding VAT) and the Bank would finance approximately US\$200 million (75 km) of that cost. Through counterpart finance the Government would finance VAT, design, supervision and audit costs. The remainder of the section will be financed through the Government budget as part of a separate financing program.

Component 2: Modernization of sector institutions, Logistics and Impact Analysis. This Component of the project will finance technical assistance activities in three main areas:

- (i) studies to support the on-going reform of the roads sector and the move to commercialize key economic entities such as the contractors and consultants. It will also support MoTC in developing its strategic capability to plan and manage developments in the transport sector.
- (ii) activities to improve the logistics performance of the country to reverse the current slide compared to its regional competitors. This will include activities related to customs related to physical and procedural improvements at the border posts on the M6 Corridor. .
- (iii) studies to determine the impact of the M-6 transit corridor and similar investments in the country on regional development and the income impacts on various population groups including the bottom 40 percent. Main activities would include the design, data collection and analysis of relevant data, conducting an assessment of potential poverty and social impacts in the corridor with recommendations for enhancement.

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. Financing (in USD Million)

Total Project Cost:	300.00	Total Bank Financing:	250.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			50.00
International Bank for Reconstruction and Development			250.00
Total			300.00

VI. Contact point**World Bank**

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