

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

Report No.: PIDA12675

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 Transportation and Communications
Environmental Category	B-Partial Assessment
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Decision	

I. Project Context

Country Context

Macroeconomic Situation. The Republic of Belarus, a country with a population of about 9.468 million, is highly urbanized – 77 percent of the population lives in 203 cities and urban settlements and only 23 percent lives in 23,251 rural settlements in 2014. Most economic activity is managed and controlled by the state; the private sector accounts for just 22.6 percent of GDP . While the role of the state has been gradually reduced, state owned enterprises, which are supported by an extensive system of state support, still accounts for over half of output and two thirds of employment. Equally, the financial sector is dominated by state owned banks, which account for over 70 percent of bank assets and which channel a predominant share of financing to less productive parts of the economy, including through pervasive state directed lending programs. Despite some initial liberalization efforts, the government also continues to regulate prices for socially important goods and services, most importantly foodstuff and communication services.

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.

Absolute poverty in rural areas is twice as high as in urban areas, and large heterogeneity in poverty incidence is found among regions. While Belarus follows principles of equality and non-discrimination in its policies and has a basic legal framework in place, gender equality appears to be given lower priority compared to other social issues, and gender gaps persist in the areas of human capital and economic opportunities.

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

Transport in Macroeconomics. Contributing to about 6 percent of GDP in 2012, transport is an important economic sector in Belarus. It generates significant revenues from transit services, facilitates trade and transportation, and contributes to the country's balance of payments. In addition, the transport sector accounted for about 6 percent of total employment in Belarus in 2012, with the largest proportion of transport employment in roads (100,900 persons), followed by rail (69,100 persons).

The transport system. The transport system in Belarus is dominated by the rail and road systems. The Belarusian Railways, a state-owned company under the authority of the Ministry of Transport and Communications (MoTC) operates a rail network of 5,500 km. The rail transport accounts for the bulk of freight transport (about 66 percent in 2013 excluding pipeline transport) and a sizable but declining portion of the passenger traffic. Passenger rail transport – particularly for transit journeys between Russia and Kaliningrad – struggles to compete with air travel because of long journey times, while rail freight transport suffers from long loading and unloading times. Belarus has around 86,660 kilometers of roads, including 75,030 kilometers of hard-surface pavement and generally in good condition, particularly for the Republican road network. Belarus' road sector is quite strategic and still accounts for about 34 percent of freight and the majority of passenger traffic in the country. 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.

Road infrastructure development. 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 equipped with high standard safety equipment including central/side crash barriers and road lighting, the introduction of which is substantially reducing the incidence of fatalities on vehicle accidents. There are two Trans-European international corridors passing through Belarus which are Corridor II (Berlin – Warsaw – Minsk - Moscow) which is the M1 road in Belarus and Corridor IX (Black Sea – Kiev – Minsk - Baltic countries) which includes the M5. A section of the M5 was improved under the first World Bank funded project, the Road Upgrading and Modernization Project (RUMP).

In addition to these formally defined international corridors there are also a number of other major transit corridors linking Europe to/from Russia, Central Asia and China. The busiest of these is the M6 which is the road to be upgraded to category I standard under this project. The M6 has a total length of 280 km in Belarus and connects Minsk with Grodno and then to Kuznica at the border with Poland. On the Polish side the road connects through Bialystok to Warsaw and about 110 of 250 km have already been improved to expressway standard and there are plans to improve 90 km further by 2017 and the remainder by 2019 partly with funding from the EU. This corridor is one of the priority corridors identified under the Eastern Partnership program of the EU.

Regional development and logistics. Belarus has a generally advantageous geographic position, and physical infrastructure, that provides speed and flexibility to modern producers in transporting perishables and high-value goods between Europe to/from Russia. Despite unfavorable macroeconomic conditions, Belarus has been a net exporter of services in practically all modes of transport, and total freight traffic volumes increased slightly in 2012 to about 70.5 billion ton-km. Even though Russia is still the dominant trade partner for Belarus (35 percent of exports, 60 percent of imports), trade between the Customs Unions (CU) and the world grew faster than trade among the three CU members (Belarus, Russia and Kazakhstan). However, the potential of Belarus as a transit and trade hub is presently far from fully exploited and 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 in part due to complex and lengthy customs procedures at border crossing points. The improved road infrastructure referenced above will only be fully effective if more is done to facilitate the movement of trucks across the border in a timely manner. This project will work to address border crossing delays on the M6 corridor.

Customs and border management. In an attempt to simplify procedures and facilitate trade at border crossing points (BCPs), the GoB is currently implementing a reform, which will result in reducing the number of agencies at the border to only two, namely State Customs Committee (SCC) and State Border Committee (SBC). The SCC will be responsible for all government regulatory responsibilities (transport, sanitary, veterinary, and phytosanitary inspections) and the SBC will be in charge of security (including immigration controls). The SCC has already commenced administering MoTC technical regulations (weight control). Delays at the border posts with Poland, which naturally link to the M6 transit corridor, are to be reduced under the GoB reforms supported by the border management component of this project, which will facilitate a reduction in rates of physical interventions. The BCP at Bruzgi currently has a throughput capacity of 5,000 vehicles per day, including 700 trucks. In 2013 the daily average number of truck movements through Bruzgi was 815, to meet expected demand, customs estimates that capacity may have to be increased to 1,700 per day. In some instances it may takes trucks in excess of 24 hours to complete border clearance procedures, including waiting and queuing time. While such delays cannot always

be directly attributed to customs or other border management agency procedures, border management is contributing to these delays through inefficient procedures as well as lack of adequate infrastructure. Implementation of the 'two agency' policy will help address some of these issues.

The three members of Customs Union are planning to sign an establishment agreement to move from the Customs Union to a more integrated Eurasian Common Economic Space (CES). The Customs Union came into effect on January 1, 2010 while the CES is to become active on January 1, 2015. It is expected that post CES creation, there will be a lot of economic and policy adjustments to be made that will have an influence on logistics in border crossings. Indeed, the Common Economic Space (CES) negotiations package currently includes trade policy, technical regulations, natural monopolies, and cooperation in the field of transport, energy, industry, and agriculture, as well as currency policies.

Road sector reform. Belarus has a good capacity to plan, manage and maintain its road infrastructure, with a very good track record over the past decades. The state operates several enterprises for road design, planning, research, standards, maintenance, and construction. The condition of the road network is generally good, which is due in large part to the adequate allocation of resources for road maintenance over the past decades.

The road sector has undergone some reform over the last few years and as part of the improvement of state management system, 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 the MoTC. The new structure provides a road organization ('Avtodor') in each Oblast to perform the project and road owner functions. A new organization called BELAVTODOR Holding Management Company Republican Unitary Enterprise (RUE) was founded in July 2013, 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 future, the government could be in a position to consider that some Oblast Avtodor functions related to maintenance could be separated.

Sustainable sector finance. Following a number of years of declining sector revenues the government has 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. 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 the 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 international private operator. The system has been operational since 2014, now covers 1,191 km and will be expanded to cover all

major road corridors including the M6 corridor, the modernization of which will be financed under this project. Estimated revenues to the budget for 2014 are 550 billion rubles (US\$55 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.

Road safety. The Government of Belarus has been making continued efforts to improve road safety in the nation. Since 2006, traffic accidents have been decreasing stably, especially in terms of fatalities and severe injuries. Recent statistics show a 30 percent decrease of severe injuries despite a triple increase of automobile ownership since 1992. Belarus in general, is in the middle range of road safety among European countries, due to its relatively higher fatalities compared with other countries in Europe. In the current “Roads of Belarus” program till 2015, it was aimed to reduce traffic fatalities by 100 every year, which is the so called “-100” program. For the new strategy from 2015 till 2019, the goal is to fully eliminate traffic fatalities on main roads (mostly Category 1 roads and some Category 2 roads). However, a main challenge regarding road safety remains 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 includes high specification safety equipment. The main issue now is with vulnerable road users including pedestrians and two wheelers, where according to the analysis conducted by BELAVTODOR, 15 percent of road accidents are related to cyclists and pedestrians. A particular concern are the bus stops, which are most times isolated and not equipped with lights at night, and therefore a source of insecurity, mainly for women. There is also a major concern on pedestrian crossings at bus stops locations. The number of road accidents involving a vehicle and a pedestrian in the M6 corridor amounted to 15 in 2012 and to 21 in 2013. In order to decrease the number of accidents involving pedestrians, proper measures to protect pedestrians will be provided in this project. In addition, the establishment of the Traffic and Road Safety Coordination Center in this project will improve communications with emergency services and help reduce response times and reduce traffic fatalities.

Road network management and user services. The overall management of the road network is given high priority in Belarus to sustain a safe high quality road system. The MoT employs a number of Intelligent Transport Systems (ITS) to monitor the road network and provide limited feedback to users. These systems include e-tolling, temperature monitors, network cameras and enforcement cameras. The ongoing Project (P118375) is also financing the installation of a weigh-in-motion (WIM) system, which will be integrated with the e-tolling system. The WIM will also provide some modest revenues through fining overloaded trucks but more importantly will protect the road network from excessive deterioration. The design institute uses HDM-4 for network planning and periodically prepares a prioritized “Roads of Belarus” program. This project will support the further development of these systems through a Traffic and Road Safety Coordination Center that will give greater attention to providing user information, linking to emergency services and managing winter maintenance activities. This project will also support the mobilization of private funds to develop road side services in Belarus which are essential for road safety and overall user comfort. The road side services are also seen as key way to promote Small Medium Enterprises (SMEs) and employment in the more rural areas.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Component 1: Improvement of M6 Transit Corridor

Comments (optional)**Component Name**

Component 2: Road Safety and Network Management

Comments (optional)**Component Name**

Component 3: Border Management Enhancement

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

Total Project Cost:	270.00	Total Bank Financing:	250.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			20.00
International Bank for Reconstruction and Development			250.00
Total			270.00

V. Implementation

The project will be implemented over a five-year period by MoTC, which is the national authority in charge of road construction and maintenance in Belarus and will have the overall responsibility for project coordination and monitoring of implementation progress. MoTC has formally delegated the responsibility for managing the day-to-day preparation and implementation of the proposed project to the Republican Unitary Enterprise MINSKAVTODOR-Center (MA-C). MA-C is a unit of MoTC in charge of the management and maintenance of the Republican road network.

Within MA-C, a Project Implementation Team (PIT) was created in 2009 for the on-going Road Upgrading and Modernization Project (P118375), which consists of experienced engineering, procurement and financial management staff. The PIT will be augmented by staff from GRODNOAVTODOR (responsible for the region where much of the proposed road is located). Through the on-going project the team at MA-C has developed good expertise in procurement, financial management and environmental issues. The PIT has less experience with social issues and the team from GRODNOAVTODOR has not worked with the Bank before. For project preparation stages (road design, feasibility studies, environmental and social assessments, etc.) the MA-C will collaborate with the Road Design Institute (BELGIPRODOR) whose performance has also been good. State Enterprise BeldorNII will also be involved in monitoring the adherence to environmental safeguards requirements.

MA-C will also be responsible for the implementation of the border management enhancement component although, through agreement, the day to day management of the component will be done

by the State Customs Committee (SCC) of Belarus and its Grodno Regional Customs Agency. Both the SCC and the Grodno Regional Customs Agency would assign coordinators (project managers) responsible for project implementation to work closely with the MoTC and MA-C. The customs agencies would be responsible for the overall design and implementation quality of this component. They would prepare terms of reference for design documents (or approving design documents when they are available), ensuring appropriate technical supervision of the contracts, accepting payment orders, and submitting adequate documentation to the MA-C so that it can prepare and sign disbursement applications. The customs agencies would prepare bidding documents for the customs component, identify personnel to sit on procurement committees and jointly sign with MA-C any contract documents.

The Bank will continue supporting MA-C, and GRODNOAVTODOR and the SCC in particular, in the necessary training on the use of World Bank guidelines and procedures for procurement, financial management and environmental/social safeguards management. Before and after project effectiveness, the PIT staff will receive targeted training on land acquisition and resettlement, areas where PIT is not very experienced with.

The MA-C will thus be the implementation agency for components 1 and 2, and the overall project implementation coordinator in cooperation with the SCC and MoTC.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
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)

VII. Contact point

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