1. Country and Sector Background

1. Strong reforms following the Rose Revolution in 2003 led to rapid annual economic growth in excess of nine percent from 2004 through mid-2008. In these few years Georgia has implemented far reaching strategic reforms and development initiatives with impressive results, including tackling wide spread corruption. Improvements in revenue collection has also enabled the Government to address decades of neglect of basic infrastructure.

2. The conflict of August 2008 in Georgia and the global economic crisis resulted in a number of major shocks to growth and stability. The Government responded swiftly to address the impact of the August conflict and the global economic crisis by implementing counter-cyclical fiscal and monetary measures, safeguarding the stability of the banking sector, addressing the needs of Internally Displaced Persons (IDPs) and others affected by the conflict, quickly repairing and rehabilitating damaged infrastructure, as well as seeking and obtaining international support.

3. Georgia’s transport system historically was a key link in the historic “Silk Road”, which the current Transport Corridor Europe-Caucasus-Asia (TRACECA) initiative seeks to emulate. Both in terms of geographical location and existing infrastructure, Georgia is well placed to absorb growing transport demands. It is located on the shortest route between Europe and Azerbaijan, Armenia and the Central Asian Republics through its Black Sea ports. The TRACECA corridor includes roads, railways, pipeline infrastructure and shipping routes. In
Georgia, further investment in physical and, more importantly, institutional infrastructure is needed to ensure that the potential of the location is realized. The Government recognizes that in order to materialize this potential, significant investments are required to rehabilitate and modernize an aging infrastructure with years of maintenance neglect, including rail, road and port infrastructure.

4. The East-West Highway is the major road by its location. It carries over 60 percent of the total foreign trade that uses the road network in Georgia. Transit on this corridor is associated with flows connecting Europe, America, Africa and Mediterranean trade with Caucasian and Central Asia regions.

2. Objectives

5. The project development objectives are:

(i) To contribute to the gradual reduction of road transport costs and improve access, ease of transit, and road safety along the central part of Georgia’s East-West corridor; and,

(ii) To strengthen the capacity of the Roads Department and related government entities to plan and manage better the road network and to implement a traffic safety pilot project.

3. Rationale for Bank Involvement

6. The Bank has been actively involved in the transport sector in Georgia since 1995 and has made substantial contributions to the road infrastructure development. The proposed loan will continue the Bank’s support of the Government’s priority of improving its major East-West transit corridor: the E60 Highway. Since 2004 the Government has requested the Bank’s assistance as the leading development partner in this effort. The Bank supported program of upgrading of this highway started in 2006 with the US$19 million First East-West Highway Improvement Project (FEWHIP) which also introduced a road traffic safety program. In 2007 the Bank also financed US$35 million Second East-West Highway Improvement Project (SEWHIP), with the SEWHIP Additional Financing in amount of US$20 million in 2008. These two projects financed the two most congested consecutive road sections (37 km total) and upgraded the E60 East-West Highway from two lanes to four lanes. The SEWHIP also further strengthened the road safety activities, with the adoption of a National Road Safety strategy as a pre-requisite for the additional financing. The proposed Third East-West Highway Improvement Project (TEWHIP) would upgrade the next consecutive section of the E60 East-West Highway.

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1 The first IDA engagement in transport was through US$12 million Transport Rehabilitation Project (FY96-99) 50% of which financed most critical and urgent road rehabilitation. The following IDA financed Roads Project (FY 00-06) financed basic repair of sections on the main network. The ongoing Secondary and Local Roads Project (SLRP) (FY 2004-2011), with US$20 million IDA financing and US$70 million IBRD additional financing, aims at improving lifeline road network in the regions and lay ground work for increased productivity in the future.
4. Description

**Component A: Sveneti-Ruisi Road Link – US$180.8 MILLION INCLUDING CONTINGENCIES (US$144.3 MILLION BANK FINANCING)**

7. This component will upgrade the existing E60 East-West Highway from Sveneti to Ruisi to a dual carriageway road. The activities include: (i) partial rehabilitation of the existing road; (ii) realignment and construction of new carriageways; (iii) surface drainage, culverts and underpasses; (iv) bridges, including road approaches, particularly an 877 m long bridge over the Liakhvi River and an existing railway line; (v) two 800 m long tunnels; (vi) safety barriers, road signs and marking; and, (vii) demolition of existing structures and relocation of various utilities. This component includes construction supervision and design services for future investments.

**Component B: Institutional Strengthening - US$2.7 MILLION INCLUDING CONTINGENCIES (US$2.2 MILLION BANK FINANCING)**

8. The institutional strengthening component builds upon activities from the earlier projects, with a particular emphasis on road safety and improving the management of the road network. The specific activities to be undertaken are: (i) Strengthening the capacity of the Roads Department: The project will aim to improve the operational effectiveness of the RD through: (a) a functional analysis to establish the appropriate organizational structure for the RD to meet its current and anticipated future needs; (b) improving the capacity of the RD to plan, design, manage and maintain the road network, through provision of training and technical assistance, and procurement of necessary equipment; and (c) strengthening RD capacity in environmental monitoring, through technical assistance and procurement of equipment; (ii) Framework for E60 Performance Based Contracts (PBC) Road Maintenance: This activity will develop a comprehensive framework for the introduction of PBC in Georgia. The introduction and pilot testing would not be done as part of this project; (iii) Road Safety: The activity will improve road safety along the entire E60 East-West Highway corridor. It will pilot test a mult-sectoral corridor approach to road safety, wherein a corridor road safety management plan will be prepared and implemented to cover engineering, enforcement, emergency response and publicity campaigns; and, (iv) Strengthening of the Technical University through Provision of Training and Equipment: This activity will continue the work started under the FEWHIP to strength the curriculum and training at the Technical University. It will include provision of training for lecturers, including twinning with overseas universities, as well as provision of teaching and technical equipment.

**Component C: Project Implementation – US$0.6 MILLION (US$0.5 MILLION BANK FINANCING)**

9. The project implementation component includes activities related to: (i) consultant services for the Roads Department and Transport Reform and Rehabilitation Center (TRRC); (ii) TRRC incremental operating costs; and, (iii) project financial audits.
5. Financing
Source: ($m.)
Borrower 37.1
International Bank for Reconstruction and Development 147.0
Total 184.1

6. Implementation

10. The Project will be implemented by the Roads Department of the Ministry of Regional Development and Infrastructure (RD), which has been an implementing organization for all previous Bank financed transport projects. For financial management the RD will be supported by the Transport Reform and Rehabilitation Center (TRRC). The TRRC was established in 1995 to assist in implementation of the Bank-financed transport projects, handling financial management, procurement and other support functions. For this project, the RD will create a “Foreign Projects Unit” (FPU) to be responsible for procurement, monitoring and reporting, technical audits, and other implementation matters. It will be used for all IFI financed projects. The FPU will use the same procurement staff who worked on previous projects as members of TRRC. There will be a Project Implementation Agreement signed between RD and TRRC clearly defining roles and responsibilities, as well as an Operations Manual.

7. Sustainability

11. Project sustainability will largely depend on: (i) continued availability of resources for new investments for upgrading East-West corridor; (ii) government commitment and action for addressing traffic safety issues; and, (iii) availability of funds for road maintenance.

12. The first concern is addressed by the high priority the government has placed in developing Georgia’s road sector in overall and in particular its main East-West corridor. Increased commitment of the government to improving road safety has been observed with the government taking some key actions. The government has increased maintenance expenditure from GEL 24.5 million in 2000 to GEL 221 million in 2008. It is therefore considered that the likelihood of sustainability is high.

8. Lessons Learned from Past Operations in the Country/Sector

13. A number of lessons learned on previous projects were considered in the project design:

14. (i) Financing of Designs. To ensure rapid implementation of investment projects, the previous projects included funding for the preparation of feasibility studies and detailed designs; (ii) Technical Supervision. The project design calls for the hiring of a ‘Technical Auditing’ team, who will bring the requisite technical skills to enable the RD to properly manage the project, especially with regard to tunnel issues; and, a ‘Technical Advisory Panel’ comprised of tunnel geological, construction and electrical/mechanical specialists on call; (iii) Review of Detailed Designs. A key activity of the supervision consultant, with inputs from the Technical Auditing team, will be an early review of the designs to identify any major deficiencies or problems; (iv) Design of Traffic Safety Activity. The road safety activities have been designed based on previous experiences and are focusing on a multi-sectoral corridor approach; and, (v) Roles and
Responsibilities of TRRC and RD. TRRC will only be responsible for financial management issues with RD taking full responsibility for procurement and reporting.

9. Safeguard Policies (including public consultation)

<table>
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<th>Safeguard Policies Triggered by the Project</th>
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<td>Environmental Assessment (OP/BP 4.01)</td>
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<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
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<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
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<td>[X]</td>
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10. List of Factual Technical Documents

- Environmental Impact Assessment Upgrading of the Sveneti-Ruisi Section (km 80-km 95) of the East-West Highway
- Executive Summary to Draft EIA
- Resettlement Action Plan Upgrading of the Sveneti-Ruisi Section (km 80-km 95) of the East-West Highway
- Resettlement Policy Framework

11. Contact point

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas