

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2524

Project Name	Pap-Angren Railway (P146328)
Region	EUROPE AND CENTRAL ASIA
Country	Uzbekistan
Sector(s)	Railways (90%), Other domestic and international trade (10%)
Theme(s)	Trade facilitation and market access (100%)
Lending Instrument	Investment Project Financing
Project ID	P146328
Borrower(s)	Ministry of Finance
Implementing Agency	Uzbekistan Temir Yo'allari
Environmental Category	A-Full Assessment
Date PID Prepared/ Updated	03-Feb-2014
Date PID Approved/ Disclosed	05-Feb-2014
Estimated Date of Appraisal Completion	01-Aug-2014
Estimated Date of Board Approval	27-Jan-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Uzbekistan is a lower-middle income, resource rich country, strategically located in the heart of Central Asia. Uzbekistan is the most populated country in Central Asia with a population of about 3 million (2013), which accounts for about fifty percent of Central Asia's total.

Uzbekistan's GDP per capita is about US\$1,715 and the country has experienced stable economic progress since the mid-2000s. Uzbekistan's GDP growth has averaged 8 percent per year since 2004. Per capita income has more than doubled in real terms since then, and poverty declined from 27 percent of the population in 2000 to about 15 percent in 2012. Economic performance reflects buoyant domestic demand driven by supportive government policies and strong inflows of remittances, and is expected to continue in the near term. The Project is in the Uzbek part of the Ferghana Valley where economic growth has lagged the rest of the country.

Uzbekistan has export-led growth, the structure of which has dramatically changed over the last

twenty years as the economy has diversified. Exports have grown strongly and the share of non-commodity exports (e.g. cars, trucks, fertilizers, plastics, textile, and foodstuffs) has expanded from 10 percent of total exports in 1992 to 23 percent in 2012. The share of commodity exports (e.g. cotton-fiber, gold, natural gas, copper, uranium) has declined from 88 percent in 1992 to 67 percent in 2012. Trading partners have also been diversified away from Russia (from 55 percent of trade in 1992 to 29 percent in 2012) to other CIS countries (18 percent in 2012, of which Kazakhstan's share is 11 percent), China (12 percent), Korea (8 percent), EU (7 percent), Turkey (5 percent), and Afghanistan (4 percent). Imports have also grown rapidly and diversified from energy in the 90's to mainly capital and intermediary goods in 2012.

Sectoral and Institutional Context

The railway is the dominant mode for freight transport and has a large share of the long-distance passenger transport market in Uzbekistan. However, the internal connectivity of Uzbekistan has been affected by the dissolution of the Soviet Union. The Soviet rail network was driven by a Moscow-centered economy without regard to internal boundaries. Since the 1990s, national boundaries have created new barriers to trade flows and market access. Newly erected border crossings worsened internal connectivity as many of its rail and road routes cross into neighboring countries before crossing back into Uzbekistan. Similarly, neighboring countries depend on Uzbekistan transport network to transport its good and passengers (e.g. southern Uzbekistan provides transit for Tajikistan and Kyrgyzstan and northern Uzbekistan provides transit for Kazakhstan). Uzbekistan part of the Ferghana Valley is most affected by the lack of internal connectivity. The GDP per capita in 2012 of the three Uzbekistan provinces in the Ferghana Valley, (Ferghana, Andizhan, and Namangan) were below the average for Uzbekistan by 11 percent, 32 percent and 52 percent respectively.

The Ferghana Valley is connected to the rest of Uzbekistan by only two routes. They are (i) via rail and road through Tajikistan's Khujand province and (ii) via road through the Kamchik Pass, a steep highway through mountainous terrain built around 2000. The use of the 105 km rail connection through Tajikistan has declined significantly since the 1990s when around 10 million tons of freight (largely oil-related but including a range of other commodities) used the line. Currently less than one million tons of goods to and from Uzbekistan (and a smaller volume to and from Kyrgyzstan) uses the line. Most of the Uzbekistan traffic is imports (and some exports) of freight (such as some petroleum products) which is not suitable for road transport. The road through the Kamchik Pass is used for most freight transport and is the only means for movement of people in and out of the Uzbek part of the Valley, other than a very limited air service. Freight traffic such as petroleum moves by road over the pass between two terminals at Angren and Pap and thus has two road-rail transfers and associated storage terminals. All other freight is carried by road between Tashkent or the rail terminal at Angren and its final origin/destination in the Valley. Almost all passenger transport is by car or shared taxi as passenger buses have been forbidden to use the pass for road safety reasons. In 2012, an estimated 10,000 vehicles per day travelled across the pass, of which about 25% are trucks, carrying about seven million tons p.a. of freight. Importantly, the route is regularly closed because of snow in the winter and landslides in the spring.

The proposed Pap-Angren Rail Project will connect the Ferghana Valley to the rest of Uzbekistan. The rail line will connect the existing railhead at the end of the Angren branch with Pap, located on an existing rail line in the Valley. From Pap, there are existing connections to Kokand and Fergana to the west and to Namangan and Andijan to the east. The undertaking is expensive and has a US \$1.8 billion cost estimate. Nevertheless, the country aspires to develop this missing rail link because

improving the connectivity of the Ferghana Valley to the rest of the country is a high priority. The Project is challenging technically as it is new construction passing through mountainous terrain and includes a 19.6 km rail tunnel. The Government has initiated the construction and the new railway is expected to be operational in 2018. All ongoing works are financed by the Government. One kilometer of the main tunnel is excavated. Earthworks have also started although on a modest scale. The Project will contribute to needed logistic improvements and reduce the costs of goods coming from or going to the Uzbekistan part of Ferghana Valley. Currently, the cost of logistic activities in Uzbekistan is two times higher than in Europe. The double landlocked geography of the county only partly explains the high logistic costs – there is much room for improvement in terms of efficiency and service quality. For instance, for fertilizers, rail transport lacks reliability, the traffic is unbalanced with empty backhaul and the seasonal nature of the freight is not addressed - factors contributing to higher costs. As for the automotive sector, better logistics would reduce the capital tied up parts and inventory so the industry could move from supply-driven to demand-driven operations. The construction of the proposed rail line will fundamentally change the logistic activities in Uzbekistan through cost reductions (essential to commodity based exports) and improved reliability (essential to high value exports). The construction of the new line will also improve the connectivity of the Uzbek part of the Ferghana Valley's with Kazakhstan, China, Russia and Europe.

Relationship to CAS

The proposed project supports three main strategies in the Uzbekistan's CPS FY 2012-2015. One of the strategies is improving efficiency of infrastructure and, specifically, transport infrastructure. Currently, goods and products exported from the Ferghana Valley bear three times the normal transport costs. The rail transit via Tajikistan is unreliable and unaffordable for most SMEs. As the country intends to play a more important role as an international redistribution hub for manufactured products, the development of the new railway connection to the Valley, would improve logistical opportunities and enhance the transport capacity of the national rail network. The second CPS strategy is to support diversification by improving infrastructure to increase economic productivity and competitiveness, including in the agricultural sector. The proposed project would reduce transport time and costs so that Ferghana Valley products could be more readily exported, which would create incentive for time-sensitive, high-value and market-oriented agricultural and manufacturing outputs. Finally, through increased transport connectivity of the Ferghana Valley, the Project supports the facilitation of private sector-led diversification, a third CPS Pillar. By providing more opportunities for small and medium-sized enterprises (SMEs) to reach markets and retain a greater percentage of the delivered price of their goods, the Project is expected to boost private sector activity, particularly benefiting SMEs and small-scale farmers.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed Project Development Objective (PDO) is to reduce costs and provide connectivity between the Uzbek part of the Ferghana Valley and the rest of Uzbekistan thereby improving access and closing economic gap with the rest of Uzbekistan and international markets.

Key Results (From PCN)

- Reduce costs - measured by reduction of freight cost .
- Provide connectivity - measured by the completion of the Angren – Pap rail link.
- Improving access - measured by volume of traffic (tons, passengers) between the Uzbek part of the Ferghana Valley and main part of Uzbekistan (road and rail through Kamchik pass; rail through

Tajikistan)

-Closing economic gap - measured by rate of economic grow in the Valley one year after the rail is operational.

III. Preliminary Description

Concept Description

The proposed Project will support Uzbekistan Railways to build a single track rail link between Angren and Pap. The total length of the new infrastructure is 124km. It includes a 19.6 km rail tunnel through the Kamchik Pass. The proposed Project will be an Investment Project Financing of about \$200 million that would be made to the Ministry of Finance and on-lent to UTY. It would support such components as signaling, electrification, track maintenance equipment for the Angren – Pap railway line, technical assistance to UTY, technical assistance and small infrastructure investment for regional development. The disbursement profile for the Project will be back-end loaded with technical assistance and regional development activities to be completed in the first half of the Project and the rail related investments to be completed in the second half.

Component 1: Rail Investments

- Signaling and Communications (US\$ 50 million). The proposed loan would finance a microprocessor based train control system with fiber optic-based communications. The system would be controlled from UTY’s existing dispatching center in Tashkent. UTY will carry out the related civil works (buildings, cable ducts and cable laying).
- Track Maintenance Equipment (US\$ 70 million). The proposed loan would finance equipment such as tamping machines used for maintaining the track.
- Electrification (US\$ 54 million). The proposed loan would finance (a) turnkey construction of three traction substations including the SCADA system for optimizing energy use, and (b) materials such as cables for the catenary. UTY will construct the catenary structure and install the cabling.
- Track Materials (US\$ 23 million). The proposed loan would finance rails, sleepers, turnouts, switches and fastenings for construction of the track. The installation of the materials would be carried out by UTY.

Component 2 (US\$ 1 million): Technical Assistance for UTY including technical assistance for design, tunnel safety, technology on signaling and communication, study to explore private participation options.

Component 3 (US\$1 million): Technical assistance for Uzbek Ferghana Valley regional government to develop a Valley Transport Logistics Platform which would enhance the linkages of road and rail, with a clear aim of providing improved logistics with a special focus to assist agricultural producers and small businesses in the Valley to improve their export potential.

Component 4 (US\$ 1 million): Implementation Support.

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:	2000.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			1800.00
International Bank for Reconstruction and Development			200.00
Total			2000.00

VI. Contact point

World Bank

Contact: Jacques Bure
 Title: Lead Transport Specialist
 Tel: 473-7007
 Email: jbure@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Finance
 Contact: Rustam Azimov
 Title: Minister
 Tel: 998712337073
 Email: webmaster@cbu.uz

Implementing Agencies

Name: Uzbekistan Temir Yo'allari
 Contact: Achilbay Ramatov
 Title: Chair
 Tel: 998712379028
 Email: ferd@uzrailway.uz

VII. For more information contact:

The InfoShop

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The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>

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