PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA12008

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)	Republic of Uzbekistan
Implementing Agency	Uzbekistan Temir Yo'allari, UzEnergo
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	10-Sep-2014
Date PID Approved/Disclosed	18-Sep-2014
Estimated Date of Appraisal Completion	01-Oct-2014
Estimated Date of Board Approval	27-Jan-2015
Decision	

I. Project Context

Country Context

Uzbekistan is a lower-middle income, resource rich country, strategically located at the heart of Central Asia. It is the most populated country in Central Asia with about 30 million (2013) of total population. Uzbekistan borders four other Central Asian countries as well as Afghanistan.

The current GDP per capita of about US$1,900 (2013) is modest when compared to the average for Europe and Central Asia countries of US$6,640. But the Uzbek economy grew strongly over the past decade, averaging 8 percent annually. Terms of trade are favorable, particularly for the country's key export commodities (copper, gold, natural gas, and cotton) and exposure to international financial markets remains limited.

Uzbekistan's economy has experienced export led growth, the structure of which has dramatically changed over the last 20 years as the economy has diversified. Exports grew strongly and the share of non-commodity exports (e.g. cars, trucks, fertilizers, plastics, textile, and foodstuffs) has expanded from 10 percent in total exports in 1992 to 23 percent in 2012. The share of commodity exports (e.g. cotton-fiber, gold, natural gas, copper, uranium) 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 Commonwealth of Independent States (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 also grew rapidly reflecting a growing domestic demand. The import structure has been diversified from energy and food in the 1990's to mainly capital and intermediary goods in 2012.

Economic growth has reduced the nationally defined poverty rate from 27 percent of the population in 2000 to 14.5 percent of the population in 2013, and is on track to continue falling to 13.7 by 2015. One of the state cross-cutting development policy goals and priorities is equitable sharing of the benefits of overall growth by the entire population. It is pertinent to the shared growth agenda, as well as the poverty alleviation agenda, of the World Bank Group. Along the line of these goals, the authorities' development programs are focused on disadvantaged regions, mainly Karakalpakstan region in the West and the Ferghana Valley areas in the East.

Uzbekistan has a stable, highly centralized government with governance challenges. The high public spending on infrastructure, public services and regular increases in salaries and social allowances helped Uzbekistan to sustain social and political stability and promote industrial development. But the heavy footprint of the state in the economy has been accompanied by inefficiencies in large state-owned enterprises, agriculture, energy and other resource use. Public accountability remains fragile and voice and participation in economic and social policy dialogue is limited. The government has taken steps to increase transparency, including the publication of the IMF's 2012 Article IV report and of the consolidated general government operations for 2011 and 2012 in the IMF's Government Finance Statistics Yearbook. Despite this progress, limited availability of key economic, financial, and social data continue to hamper economic analysis and policy advice.

To become an upper middle-income country, Uzbekistan needs to transition from a factor-driven economy to an efficiency-driven economy. Economic growth in the medium terms is expected to average 6 to 7 percent per annum. High rates of growth will only materialize if structural reforms are implemented. Critical elements of transformation are to continue increasing the efficiency, in particular for infrastructure in energy, water and transport to reduce external costs. For instance, Uzbekistan needs to improve its trade logistics (the country is ranked 117 out of 160 in the Logistics Performance Index 2014). It has to address its disadvantages as a double land-locked country as well as improve domestic trade connections.

Sectoral and institutional Context

The connectivity of Uzbekistan's territory has been affected by the dissolution of the Soviet Union. The Uzbek part of the Ferghana Valley is isolated from the rest of the country, which impedes its economic growth. The transport links between the Valley and Tashkent are tenuous: (i) via rail through Tajikistan's Khujand , and (ii) via road through the Kamchik Pass, a 4-lane highway through mountainous terrain. There is also a very limited air service. The most direct route between these two regions is through Tajikistan's Khujand. A number of issues including border controls and tariffs eroded significantly the traffic along this rail link over the last decade. As for the Kamchik pass, it is used by freight cargo for exporting cars, petroleum and chemical products, agricultural and other goods and for importing capital and intermediary goods such as machinery and equipment, chemicals, metals, oil products, to the valley. The Kamchik pass is the only means for movement of people in and out of the Valley using private cars or taxies . It is not reliable as it regularly closes because of snow in the winter and landslides in the spring. Despite a vast industrial, agricultural and petrochemical potential, the three Uzbekistan provinces in the Ferghana Valley, i.e. Ferghana, Andizhan, and Namangan had 2012 GDP per capita below average in Uzbekistan by respectively 11 percent, 32 percent and 52 percent.

The railway network is an important asset of the country. It is a dense network compared to those of other countries in the region. It was part of the unified railway network of the former Soviet Union until 1994. Uzbekistan's rail system is managed and operated by the state-owned joint stock company, "Uzbekistan Temir Yo'llari" (Uzbekistan Railways or UTY). Railways have a strong position in the transportation market in Uzbekistan. UTY operates transport services for freight and passengers and is in charge of infrastructure development and maintenance. UTY has retained its technical and operating expertize. The company is profitable and it does not receive operating subsidies from the state. It is able to finance all investments necessary to preserve the current infrastructure and modernize the rolling stock. It also finances a significant portion of the modernization of the railway corridors.

UTY is predominantly a freight company. More than 50 percent of the freight traffic is international (import, export, and transit). The structure of the rail freight market changed in the last few years. According to 2011 data, transit traffic had the greatest growth totaling 18.6 percent compared to 2007 and represents an important component for developing a sustainable rail transportation sector. But rail freight transport is losing market share to road transport. While the volume of freight transported by rail in 2010 increased by about 24 percent compared to the volume in 2005, railway market share has decreased from 54 to 47 percent compared with road transport.

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UTY is also an important player in providing passenger services. Railways provides environmentally friendly and safe mode of transportation compared to roads. The structure of the transport market in Uzbekistan offers a good opportunity of promoting railway transportation as a mode of transport that is environmentally friendlier than others. Encouraging the railway transport sector to continue to handle a significant share of transport demand will help Uzbekistan to reduce transportation-related greenhouse gases (GHG) and CO_2 emissions, in particular through continued modernization of railway rolling stocks and electrification of the network. While rail is still the dominant transport mode for public passenger intercity services, it is expected to continue to lose passenger share to roads in the future, and therefore UTY should be selective in its investment related to passenger services.

UTY needs to maintain its market share in freight transport to ensure long term financial viability. Competition from road haulage is increasing and UTY is likely to lose market share on freight transport, as it happened in all other countries in the last 50 years. UTY needs to maintain a freight services market share of at least 30 percent to remain profitable. Also, to stay competitive, UTY needs to develop a vision for the future and a medium to long term plan for modernization, and to evolve from an infrastructure-focused public company to more of a service provider with a focus on logistics and integrator of rail services with other transport modes.

II. Proposed Development Objectives

The proposed project development objectives are to reduce transport costs and to increase transport capacity through the construction of a reliable rail link between the Uzbek part of the Ferghana Valley and the rest of Uzbekistan.

III. Project Description

Component Name

Rail Main Infrastructure

Comments (optional)

The financing comes from UTY own funds, the State budget and a China Exim Bank loan in the amount of US$350 million. The component will finance construction of the new railway line main infrastructure including ballast, rail, bridges and a 19.2 km long tunnel.

Component Name

Rail Electrification, Signaling, Track Maintenance and Railway Video Surveillance System

Comments (optional)

The source of financing includes US$152 million IBRD loan.
This component will finance four investments to equip and maintain the new railway line as follows:
• Signaling (est. cost US$46 million). The component will finance a microprocessor based train control system with fiber optic-based communications. UTY will carry out the related civil works.
• Electrification (est. cost US$30 million). The component will finance construction of 3 traction substations and a SCADA system for optimizing energy use. UTY will construct the catenary structure and install the cabling.
• Track Maintenance Equipment (est. cost US$36 million).
• Railway video surveillance and broadcasting system (est. cost US$20 million).
•Contingency (est. cost US$20 million).

Component Name

Power Distribution Line

Comments (optional)

The source of financing includes US$35 million IBRD loan.
This component will finance three investments to bring energy to the new railway line as follows:
• Dismantling of Overhead Power Lines (est. cost US$2.6 million). The component will finance the removal ofpower distribution lines in Tashkent and Namangan regions.
• Equipment for Installation of New Power Lines (est. cost US$13.3 million). The component finances construction concrete structures for power lines, respective materials and equipment.
• Construction Works and Commissioning of New Power Lines (est. cost US$17.6 million). It includes reconstruction of substation Obi-hayot and construction of power distribution to three traction substations.
• Other capital costs (est. cost US 1.5 million).

Component Name

Technical Assistance to UTY for railway construction and long-term plan

Comments (optional)

This component out of the IBRD loan proceedings will finance technical assistance to be provided to UTY. It will provide UTY with options on how to better meet current and future transportation needs, maintain its market share in freight and passenger transportation and increase efficiency of its operations during the period of 20-25 years.

Component Name

Technical Assistance to UTY for improving railway logistics in the Ferghana Valley and Angren region

Comments (optional)

This component out of the IBRD loan proceedings will finance technical assistance to be provided to UTY. It will support UTY in introducing sound logistics arrangements to allow the Pap-Angren railway link to reach its full operational potential.

Component Name

Implementation support

Comments (optional)

This component out of the IBRD loan proceedings will finance implementation support to UTY and UZE.

IV. Financing *(in USD Million)*

Total Project Cost:	1709.13	Total Bank Financing:	195.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
Borrower	1164.13
International Bank for Reconstruction and Development	195.00
China Export Import Bank	350.00
Total	1709.13

V. Implementation

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✗	
Natural Habitats OP/BP 4.04		✗
Forests OP/BP 4.36		✗
Pest Management OP 4.09		✗
Physical Cultural Resources OP/BP 4.11	✗	
Indigenous Peoples OP/BP 4.10		✗
Involuntary Resettlement OP/BP 4.12	✗	
Safety of Dams OP/BP 4.37		✗
Projects on International Waterways OP/BP 7.50		✗
Projects in Disputed Areas OP/BP 7.60		✗

Comments (optional)

VII. Contact point

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