1. Name of the Project

Country: Georgia  
Project: East-West Highway Improvement Project  
Loan Agreement: December 16, 2009  
Loan Amount: 17,722 million Yen  
Borrower: Georgia

2. Background and Necessity of the Project

(1) Current State and Issues of the Transportation Sector in Georgia

In addition to railways, roads and other forms of land transport, Georgia’s transportation sector consists of marine transport centered on the Port of Poti, the Port of Batumi and the Port of Supsa along the Black Sea, and air transport, with two airports. Land transport forms the core of Georgia’s transportation system, and is expected to steadily expand in the future.

However, the supply of funding from the central government of the former Soviet Union came to a halt with its collapse, and Georgia has found it difficult to raise its own money to finance roads. This has meant that its roads have been left with almost no maintenance work performed. In particular, the East-West Highway is part of the crucial international transportation network linking the Black Sea and the Caspian Sea, as well as Europe and Asia. The highway covers ground that is a vital part of the transportation network for the Silk Road, but the poor state of infrastructure hinders the transport of both goods and people throughout the region. The World Bank and other organizations have already provided assistance in the capital of Tbilisi, but there are unimproved areas due to the overall capital shortage, and the highway is unable to adequately fulfill its function as a part of the international corridor.

Moreover, infrastructure in Georgia was destroyed during the armed clash with Russia that erupted in South Ossetia in August 2008, and devastation in the area around the conflict region worsened. Repairing and upgrading the trunk roads is also urgent in terms of post-war rehabilitation of these regions.

(2) Development Policies for the Transportation Sector in Georgia and the Priority of the Project

The medium-term development plan, “The Basic Data and Directions 2008-2011” (BDD), established by Georgia’s government emphasizes nation-building in Georgia in a way that maximizes the potential of its geopolitical advantages.

(3) Japan and JICA’s Policy and Operations in the Transportation Sector

Japan has expressed its intention of working to improve the investment environment, for example by improving the transportation of goods in the GUAM region (Georgia, Ukraine, Azerbaijan and Moldova). Furthermore, at the Georgia Donors’ Conference held in Brussels in October 2008 after the conflict, Japan announced it would provide up to 200 million US dollars for Georgia, including Japanese ODA loan for the improvement of infrastructure in Georgia. This project is in response to the Japanese government’s aforementioned policies.
Under the Japanese government’s policies, JICA has designated improvement of infrastructure as one of its aid policies. Transportation sector is a particularly key area in addressing the global and regional issues. Accordingly, this project is consistent with these policies.

(4) Other Donors’ Activity

As described below, the World Bank and other organizations have provided assistance for repairs of the East-West Highway.

World Bank’s East-West Highway Improvement Project

First Phase (Agaiani-Igoeti section)
Second Phase (Igoeti-Sveneti section)
Third Phase (Sveneti-Ruisi section)

Asian Development Bank’s Road Corridor Investment Program (Ajara Bypass)

(5) Necessity of the Project

This project would upgrade the major sections of the East-West Highway, which is one of the most highly prioritized issues in Georgia’s medium-term development plan, BDD, and is very necessary.

Moreover, to assist with post-war rehabilitation, this project is also extremely necessary because there is a great need for repairs to the East-West Highway linking major hubs within Georgia.

3. Project Description

(1) Project Objective(s)

The East-West Highway Improvement Project will contribute to the economic development and post-war rehabilitation of Georgia by strengthening the transportation capacity with the construction and repair of roads and bridges between Zestafoni and Samtredia on the East-West Highway.

(2) Project Site/Target Area

Section between Zestafoni, Kutaisi and Samtredia

(3) Project Component(s)

1) Civil engineering work

New roads will be built and existing roads repaired along the section of road between Zestafoni, Kutaisi and Samtredia, which makes up the main section of the East-West Highway.

a) Nakhshirghele-Chognari (repairs to existing two-lane road, approximately 5.2km in length)

b) Kutaisi bypass (construction of new bypass approximately 2.4km in length, including bridges)

c) Kutaisi-Samtredia (construction of new two-lane road, including bridges)

2) Consulting services

Basic design, bidding assistance, detailed design assistance, supervision of works, human resource development, preparation of resettlement assistance program (RAP), monitoring support, etc.
(4) Estimated Project Cost (Loan Amount)
   21,911 million Yen (Loan Amount: 17,722 million Yen)

(5) Schedule
   December 2009 – September 2013 (total of 46 months); project will be deemed complete when the facilities begin providing services (September 2013).

(6) Project Implementation Structure
   1) Borrower: Georgia
   2) Executing Agency: Roads Department of the Ministry of Regional Development and Infrastructure of Georgia
   3) Operation and Maintenance System: Roads Department of the Ministry of Regional Development and Infrastructure of Georgia

(7) Environmental and Social Consideration/Poverty Reduction/Social Development
   1) Environmental and Social Consideration
      a) Category: A
      b) Reason for Categorization: This project corresponds to the road sector specified in the JICA Guidelines for Confirmation of Environmental and Social Considerations (established in April 2002), so it corresponds to Category A.
      c) Environmental Permit: Georgian laws require that an Environmental Impact Assessment (EIA) report be prepared and the Ministry of Environment Protection and Natural Resources give permit on environmental impact after the completion of detailed design. A draft EIA was completed and the Roads Department has done public hearing and information disclosure.
      d) Anti-Pollution Measures: Measures to air pollution and noise, such as planting grass and erecting sound barriers as necessary, will be considered. Appropriate mitigation measures will be carried out during construction, in accordance with the environmental monitoring plan.
      e) Natural Environment: The regions covered by the project are not in regions with national parks, etc., or neighboring regions that would be vulnerable to any impact, and any negative impact on the natural environment is expected to be minimal.
      f) Social Environment: The project is expected to require acquisition of 197,172m² of land, and five households to relocate. A Resettlement Policy Framework (RPF) has been prepared, and the Resettlement Action plan (RAP) will be prepared during detailed design stage. The RPF stipulates that, without regard to legal status of property, Georgia’s government will offer compensation for loss of assets and income.
      g) Other / Monitoring: Air pollution and noise will be monitored in this project in accordance with the environmental monitoring plan under the supervision of the Roads Department during construction and operations.
   2) Promotion of Poverty Reduction: Poverty is a serious problem in outlying regions in Georgia, but this project is expected to reduce poverty by improving the roads to increase access from outlying regions to the capital or foreign countries.
3) Promotion of Social Development (e.g. Gender Perspective, Measure for Infectious Diseases Including HIV/AIDS, Participatory Development, Consideration for the Person with Disability etc.): None in particular

(8) Collaboration with Other Donors: The World Bank provides assistance to improve the road between Agaiani - Igoeti (complete), Igoeti - Sveneti (in progress) and Sveneti - Ruisi (in progress). Asian Development Bank is providing assistance to the bypass from Poti to Sarpi along the Black Sea coast, and that project is in the form of parallel cofinancing with the East-West Highway Improvement Project of JICA.

(9) Other Important Issues: None in particular

4. Targeted Outcomes

(1) Performance Indicators (Operation and Effect Indicator)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual average daily traffic volume (vehicles/day)</td>
<td>7,862</td>
<td>14,346</td>
</tr>
<tr>
<td>Time required (minutes/vehicle)</td>
<td>41.2</td>
<td>33.3</td>
</tr>
<tr>
<td>Travel costs (US dollars/year)</td>
<td>18.45 million dollars</td>
<td>15.55 million dollars</td>
</tr>
</tbody>
</table>

(2) Internal Rate of Return

Based on the conditions indicated below, this project’s Economic Internal Rate of Return (EIRR) is 15.9%. The Financial Internal Rate of Return (FIRR) is not calculated as the project does not generate financial revenue such as revenue from fees.

【EIRR】
Cost: Business costs (excluding taxes), operation and maintenance costs
Benefit: Reduction in total travel time for car users and reduction in fuel consumption
Project Life: 25 years

5. External Factors and Risk Control

None in particular

6. Lessons Learned from Past Projects

There have been cases in road projects in other countries in which delays in construction of the sections out of the target area of Japanese ODA loan have impeded the realization of the project’s effect. In cases in which external conditions determine whether the project will be effective or not, studies and reviews should be adequately carried out in advance, and the project’s substance should be considered in light of the feasibility of its implementation. As described above, the World Bank and Asian Development Bank are currently working on sections of the East-West Highway, and JICA plan to share information regarding project implementation with the World Bank and Asian Development Bank.
7. Plan for Future Evaluation

(1) Indicators to be Used
   1) Annual average daily traffic volume (vehicles/day)
   2) Reduction in time required (minutes/vehicle)
   3) Savings in travel costs (US dollars/year)
   4) EIRR

(2) Timing
Two years after project completion