

SECTOR ASSESSMENT (SUMMARY): TRANSPORT

Sector Road Map

1. Sector Performance, Problems, and Opportunities

1. Georgia’s transport system—composed of road and rail networks, sea and air routes, and pipelines—interconnects its provinces, cities, towns, as well as connecting Georgia with neighboring countries. To improve these connections and to benefit from an efficient system for international travel and trade between Central Asia and Europe, Georgia has successfully implemented a series of transportation and logistics reforms and interventions since 2005.¹

2. The country has modernized its transport infrastructure, improved border clearance procedures, and liberalized the provision of services in several key sectors to ensure better international connectivity with global markets. This has helped to draw private investment into aviation, maritime services, road transport, and pipelines. Georgian Railways underwent a substantial restructuring of its business model, wherein the freight business unit operates at a profit and is commercially based, leaving the road network as the only public sector physical asset owned and operated in a traditional manner.

3. During 2005–2011, freight handling at ports grew by 10% a year, but freight handling (expressed in tonnage) subsequently decreased during 2013–2017 at an average of 15% per year as a result of a decline in oil and gas transit from Azerbaijan by rail. Freight handling at ports (in terms of number of containers) grew by 16% during 2016–2017. Freight transport by roads increased 15% per year during 2005–2011, but annual growth subsequently slowed to 1%. Air freight is increasing but accounts for a very small percentage of total freight volume. Passenger movements at Georgia airports increased from 1.8 million in 2013 to 4.1 million in 2017, and Tbilisi international airport was expanded in 2017 to meet growing demand.

4. Georgia’s road network totals about 22,000 kilometers (km)—including 1,600 km of international, 5,300 km of secondary, and 15,000 km of local roads—and is the most significant component of the transport system. There are two major international corridors: (i) the East–West Corridor, which extends about 480 km, from the Red Bridge at the Azerbaijan border to Sarpi at the Turkish border; and (ii) the North–South Corridor, which extends 220 km from Kazbegi at the Russian border to Sadakhlo at Armenian border.

5. The railway network is about 1,600 km in length and almost fully electrified. It connects to railway networks in Azerbaijan and Armenia, and accesses the Black Sea ports of Poti, Batumi, and Kulevi. The main rail cargo artery is the East–West Corridor, and freight consists mostly of oil and gas products. Container traffic is still very limited. It is estimated that approximately 50% of the rail traffic is transit freight.

6. Both Poti Port and Batumi Ports are owned and operated by the private sector. Poti Port has draft limitations (maximum of 9 meters) and is only served by container feeder vessels, with a maximum capacity of 1,500 twenty-foot equivalent units.² In addition, Poti and Batumi Ports are located adjacent to dense urban development, which limits expansion. Given the constraints

¹ This summary is based on (i) ADB. 2014. [Country Partnership Strategy: Georgia, 2014–2018](#). Manila; (ii) ADB. 2016. [Georgia: Support for Transportation Policy](#). Consultant’s report. Manila (TA 8682-GEO); and (iii) ADB. 2014. [Georgia Transport Sector Assessment, Strategy, and Road Map](#). Manila.

² The draft determines the minimum depth of water a ship or boat can safely navigate.

faced by Poti and Batumi, Georgia's government decided to construct a deep-sea port (maximum of 16 meters draft) at Anaklia to allow Panamax-type vessels.³ Construction has already commenced, and the port is being developed by private investors. This is a build-operate-transfer project, but financial closure has not yet been fully secured. The first expansion phase will increase port capacity to 8 million tons, including 600,000 twenty-foot equivalent units. The new port will significantly improve Georgia's potential as a transit country.

7. Improving the quality of the road network is the largest challenge facing Georgia's transport sector. Completing the upgrading of the East–West Highway to international motorway standards is a high priority for the government. Georgia was admitted to the Central Asia Regional Economic Cooperation program in 2016, and the East–West highway is now an integral part of the six key Central Asia Regional Economic Cooperation program corridors that provide the shortest transit link connecting Central Asia with Europe and East Asia. Advance procurement actions for improvement of key sections of the North–South Corridor are ongoing.

8. While most of Georgia's international roads (85%) are in good or fair condition, some 40% of the secondary roads and 60% of the local roads are in poor condition. Many secondary and local roads link major agricultural hubs and tourist attractions. Given the significant regional disparities in Georgia, improving the road network collector and feeder links is essential to prevent further isolation of rural communities, strengthen domestic trade, and expand opportunities for more inclusive growth.

9. Completing the North–South Corridor is preliminarily estimated to cost about \$560 million. The investments are being financed by the Asian Development Bank (ADB) and European Bank for Reconstruction and Development through sovereign loans, resulting in an increase in public debt. Public debt equaled 45% of gross domestic product (GDP) in 2017; it remains sustainable,⁴ but the government aims to decrease public debt to 43% of GDP by 2022. The government is considering introducing public–private partnership schemes into the road sector to alleviate public debt concerns.

2. Government's Sector Strategy

10. The government aims to make Georgia an effective and efficient transit hub connecting Europe and Asia. Most of international road corridors are targeted to be substantially complete by 2022. The first phase of the Anaklia port expansion is scheduled for completion by 2022, and Georgian Railway's capacity expansion is expected to be completed by 2020. Customs processes have been greatly accelerated with the use of electronic submissions, but improvements could be made in transit control—e.g., by implementing an e-TIR transit system, as is used in Europe.⁵ The key to this strategy is to improve infrastructure and logistics services, develop the supply chain and cross border management, and reduce restrictions on corridor development. Road network development is a top priority. The Roads Department is currently implementing a very ambitious program to address this challenge that will upgrade road corridors to international standards; feasibility studies, detailed design and construction are underway on all major international corridors.

³ Panamax is a term used to define the size limit for ships travelling through the Panama Canal (capacity is generally 5,000 twenty-foot equivalent unit).

⁴ The World Bank Group. *Georgia Country Economic Update February 2018*. Washington D.C.

⁵ TIR—Transports Internationaux Routiers" (International Road Transport)—is an international customs transit system with a facility to move goods in sealed vehicles or containers from a departure country to destination country without requiring border checks at intermediate borders.

3. ADB Sector Experience and Assistance Program

11. **ADB's transport sector support.** ADB has supported government's international road development program by providing a \$500 million Road Corridor Investment Program multitranche facility (MFF) to improve subregional roads and build the Roads Department's capacity to manage road assets and improve road safety.⁶ A 12 km section of the Kobuleti bypass (34 km in total) was funded by the MFF; it opened in 2013, and remainder was operational (as of June 2018). The MFF experienced implementation delays because of protracted land acquisition issues resulting from unregistered land, and a major cost underestimation during the feasibility study.

12. In 2017, ADB approved a \$114 million loan to finance (i) the construction of the 14-km Batumi bypass, as a continuation to the Kobuleti bypass; and (ii) routine and periodic maintenance using performance-based maintenance contracts of about 200 km of international and secondary roads.⁷ The Asian Infrastructure Investment Bank is cofinancing the project with \$114 million of financing. In addition, ADB (i) is financing the design for Batumi–Sarpi road under the Road Corridor Investment Program MFF, with completion expected by the end of 2019;⁸ (ii) approved, in 2017, an \$80 million loan to finance rehabilitation of the secondary road between Dzirula and Chumateleti, connecting the town of Kharagauli to the East–West Highway;⁹ and (iii) approved, in 2018, a \$300 million loan to finance the rehabilitation of the F2 section (Khevi–Ubisa) of the East–West Highway.¹⁰

13. **ADB sector strategy.** ADB will continue to support the government's efforts to develop an efficient, reliable, safe, and sustainable transport system. ADB will finance improvements to international and national road links to enhance Georgia's competitiveness and improve internal connectivity. ADB-financed technical assistance will complete support to improve the physical transport network by strengthening sector policy and institutional capacities. ADB will support remaining improvement works on the East–West Highway and improvements to the North–South Corridor. To enhance internal connectivity and contribute to inclusive growth, ADB will also assist in linking international roads to local regional centers through secondary road improvements. This will increase the opportunities for domestic and international trade and maximize the impact on women's livelihoods and access to services. Priority will be accorded to areas where better connectivity is critical to unlock the growth potential of lagging areas.

14. **Transport policy.** ADB has provided technical assistance to support the government in preparation of transportation policy (footnote 1[ii]). The policy will support the overall goal of strengthening the government's role in areas related to economic and social development. The objective of the policy is to help the government ensure that the (i) coverage and capacity of transport infrastructure is sufficient to meet the demand; (ii) quality and efficiency of transport services is being improved to increase the country's competitiveness; (iii) value addition from infrastructure and transport services for transit cargo is maximized; and (iv) safety and security of

⁶ ADB. 2009. [Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to Georgia for the Road Corridor Investment Program](#). Manila.

⁷ ADB. 2017. [Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the Batumi Bypass Road Project](#). Manila.

⁸ Footnote 6.

⁹ ADB. 2017. [Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the Secondary Road Improvement Project](#). Manila.

¹⁰ ADB. 2018. [Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the East–West Highway \(Khevi–Ubisa Section\) Improvement Project](#). Manila.

transport services and infrastructure is maintained at an acceptable level, and environmental impacts are minimized.

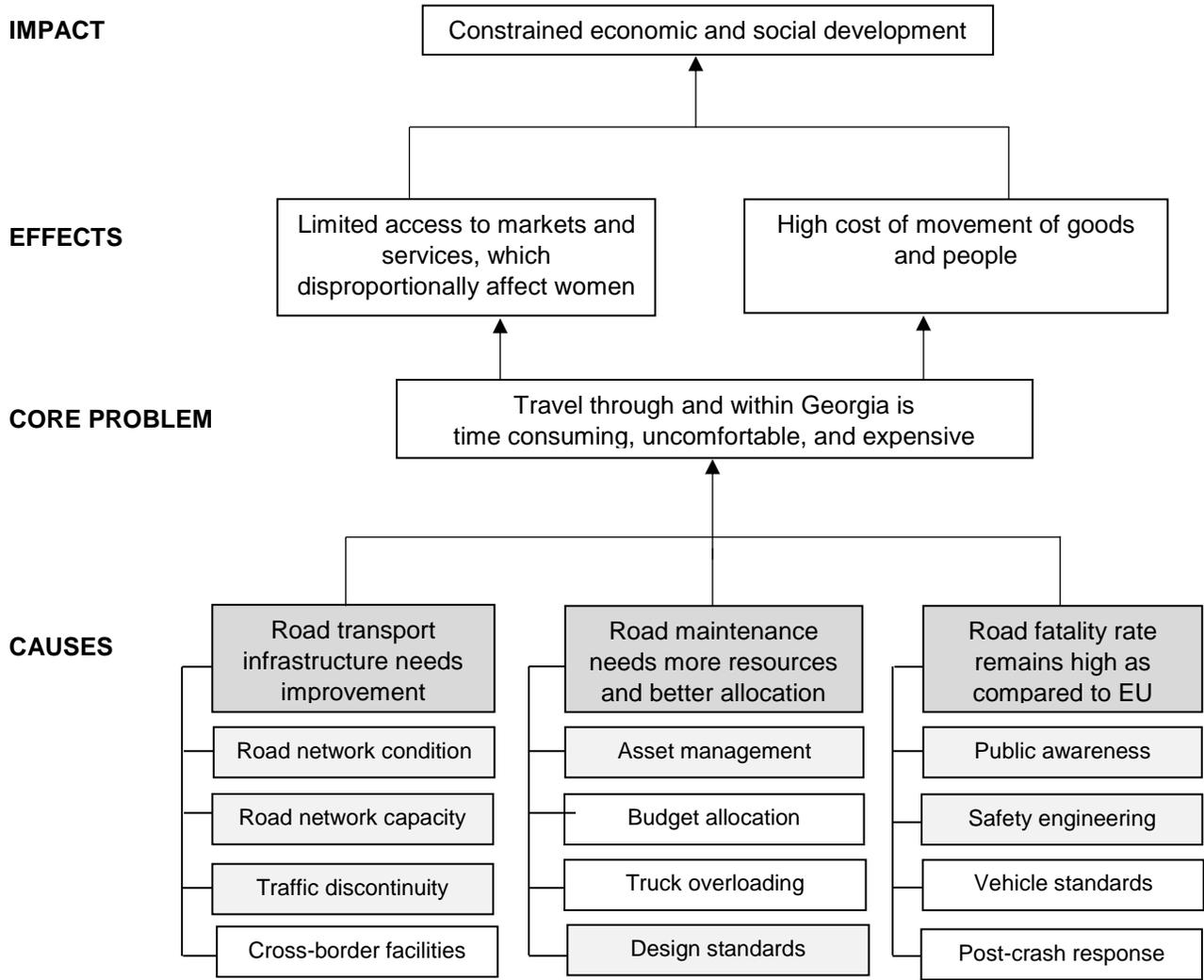
15. **Sustainability of roads.** The Road Department carries out annual road condition surveys for the international and secondary road networks. The 2018 surveys revealed that over 85% of international roads and 60% of secondary roads are in good or fair condition. Road maintenance expenditure—including rehabilitation, and periodic and routine maintenance—totaled about \$149 million equivalent in 2018, which compares favorably with other countries in the region.¹¹ The government has made continued efforts to improve road maintenance planning, budgeting, and efficiency through the development of a road asset management system, the piloting of performance-based maintenance (PBM) contracts, and the assessment of tolling options. The road asset management system informs a 5-year rolling planning and programming process. The Roads Department contracts all construction and maintenance activities to the private sector through open competitive bidding. One PBM contract is under implementation (Kakheti region) and two other PBM contracts are being prepared under ADB and World Bank financing. The government recently sought assistance from development partners to implement e-tolling on priority highway sections, including the project road.

16. **Road safety.** The road safety situation is improving, with some promising recent developments. The road traffic fatality rate declined from 16.8 fatalities per 100,000 people in 2010 to 15.3 fatalities per 100,000 people in 2016, but road safety remains a concern, and compares unfavorably with European Union countries (2016 road traffic fatality rates were 5.5 in France and 4.1 in Germany).¹² In 2015, the government enacted the revised Law on Road Traffic that included road safety-related amendments. The government approved a National Road Safety Strategy in 2016, and an interagency Road Safety Commission was subsequently established. Road safety investment planning and performance-tracking systems are being developed following the International Road Assessment Program's approaches and methodologies. Systematic road safety audits and public-awareness campaigns are needed to support the government's efforts to reduce road traffic injuries and fatalities.

¹¹ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

¹² World Health Organization. 2018. *Global Status Report on Road Safety*. Geneva.

PROBLEM TREE FOR TRANSPORT SECTOR



Tackled through the proposed project.



Supported by the ADB (on-going operations), the European Bank for Reconstruction and Development, the European Investment Bank, and the World Bank.